

**Registered number: 1000772**

**PGL PENSION SCHEME  
REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 30 JUNE 2018**

Risk. Reinsurance. Human Resources.



# PGL PENSION SCHEME

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### TRUSTEE AND ITS ADVISERS YEAR ENDED 30 JUNE 2018

<b>Trustee</b>	PGL Pension Trustee Limited
<b>Company appointed Directors</b>	Keith Jones (Chairman) K Greenfield (Resigned 1 January 2018) S Jefford G Felston (Appointed 1 January 2018)
<b>Member nominated Directors</b>	S Harris T McIntosh A Roffey-Jones C Dennis
<b>Principal Employers</b>	Pearl Group Holdings (No.1.) Limited Pearl Group Management Services Limited
<b>Secretary to the Trustee</b>	J Flinders Aon Hewitt Limited
<b>Actuary</b>	AS McKinnon (FIA) (resigned 23 May 2018) P Crocker (FIA) (appointed 24 May 2018) Aon Hewitt Limited
<b>Administrator</b>	Aon Hewitt Limited
<b>Independent Auditor</b>	PricewaterhouseCoopers LLP
<b>Banker</b>	Barclays Bank plc
<b>Investment Adviser</b>	Aon Hewitt Limited
<b>Defined Benefit Section Investment Managers</b>	Blackstone Alternative Asset Management L.P. Innisfree Limited (Removed 27 June 2018) Insight Investment Funds Management Phoenix Life Limited
<b>Defined Contribution Section Investment Managers</b>	Hewitt Risk Management Services Limited
<b>Custodian</b>	JP Morgan Bank NA
<b>AVC Providers</b>	Phoenix Life Limited Phoenix Mutual
<b>Annuity Provider</b>	Alba Life Phoenix Life Limited
<b>Legal Adviser</b>	Gowling WLG
<b>Contact address</b>	The PGL Pension Scheme Administrator Aon Hewitt Limited Colmore Gate 2 Colmore Row Birmingham B3 2QD pgladmin@aonhewitt.com Phone: 0121 262 5000

# PGL PENSION SCHEME

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## TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

### Introduction

The Trustee of PGL Pension Scheme (the 'Scheme') is pleased to present the annual report together with the audited financial statements for the year ended 30 June 2018.

### Scheme constitution and management

The Scheme is a hybrid Scheme comprising of Defined Benefit (DB) and Defined Contribution (DC) sections. The Scheme is governed by a consolidated Trust Deed dated 26 March 2009 and is administered by Aon Hewitt Limited in accordance with the establishing document and rules solely for the benefit of its members and other beneficiaries.

The Trustee's name is included on page 1.

Members of the Final Salary Section were contracted out of the State Second Pension (S2P) under a certificate issued by the HM Revenue & Customs National Insurance Contributions Office. The Final Salary Section closed to future accrual on 30 June 2011.

The Trustee of the Scheme is PGL Pension Trustee Limited. This Company was incorporated on 12 June 2009 and the Memorandum and Articles of Association for the Company are dated 2 June 2009.

In accordance with the Trust Deed and Rules the power of appointment or removal of Trustee Directors, excluding Member-nominated Trustee Directors, rests with the Principal Employers, Pearl Group Holdings (No.1.) Limited and Pearl Group Management Services Limited (thereafter known as the Company). However, the Trustee has an agreement with the Company which requires that the structure of the Board, in terms of the split between Member, Independent and Company nominated Trustee Directors, will remain the same and that any appointments to the Board will require the agreement of the Trustee Directors.

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

Member-nominated Trustee Directors must be either active members or pensioners of the Scheme. When nominations are received they will be reviewed by a Review Panel which consists of three current Trustee Directors (including the Chairman and one Member-nominated Trustee Director). The Review Panel will ensure that nominees will be suitable candidates for the role of Trustee Director.

If three or fewer candidates are nominated, they will automatically become Member-nominated Trustee Directors provided the Review Panel deems them to be suitable for the role of Trustee Director. If four or more candidates are nominated, the Panel will select candidates where appropriate, for instance if three candidates are clearly significantly better suited to the role than the fourth. Where, however, there is no clear distinction between the candidates, a ballot may be held. Member-nominated Trustee Directors can resign from office at any time.

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

### Trustee meetings

The Trustee Board met formally five times during the year (2017: five) to consider the business of the Scheme.

## PGL PENSION SCHEME

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### **The Principal Employer**

The Principal Employers of the Scheme are Pearl Group Holdings (No.1.) Limited and Pearl Group Management Services Limited, 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

The Scheme is provided for all eligible employees of the Principal Employers.

#### **Scheme changes**

Investments held with Innisfree Limited were disposed of over a period concluding on 27 June 2018 and reinvested with Insight Investment Funds Management.

From 1 January 2018 a new Participating Employer, SunLife Limited was incorporated within the Scheme. Employees of this Company were provided with benefits in line with the AXA DC category. No DB benefits were transferred into the Scheme as a consequence of the inclusion of this Participating Employer.

During the year, the Employers reviewed the minimum level of DC members' contributions required to comply with changes to Auto Enrolment legislation.

- New employees of Pearl Group Management Services Limited are now required to pay a minimum of 1% pensionable salary with effect from 1 April 2018. Existing 'Post-2006' DC category members, who were previously paying 0% pensionable salary, are now required to pay at least 1% pensionable salary.
- New employees of SunLife Limited under age 35 are no longer able to choose the lowest rate of salary sacrifice, i.e. 1% of pensionable salary. Existing 'AXA' DC category members, who were previously paying 1% of pensionable salary, are now required to pay at least 1.5%

#### **Change of Actuary**

During the year AS McKinnon from Aon Hewitt resigned his position as Scheme Actuary. In his statement on leaving office he noted no circumstances connected with his resignation which in his opinion, significantly affected the Interests of the members or prospective members of, or beneficiaries under, the Scheme. His colleague P Crocker was subsequently appointed as Scheme Actuary in his place.

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

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

## PGL PENSION SCHEME

### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Membership

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

#### DB section

	Active 2018	Pensioners 2018	Members with deferred benefits 2018	Total 2018
Members at the start of the year	-	5,024	4,548	9,572
Adjustments to members	-	10	(10)	-
New spouses and dependants	-	37	-	37
Retirements	-	88	(88)	-
Deaths	-	(110)	(5)	(115)
Trivial commutations	-	(4)	(1)	(5)
Transfers out	-	-	(145)	(145)
<b>Total DB members at the end of the year</b>	<b>-</b>	<b>5,045</b>	<b>4,299</b>	<b>9,344</b>

#### DC section

	Active 2018	Pensioners 2018	Members with deferred benefits 2018	Total 2018
Members at the start of the year	1,241	-	2,495	3,736
Adjustments to members	(9)	-	8	(1)
New entrants in the year	146	-	-	146
Deaths	-	-	(2)	(2)
Transfers out	-	-	(94)	(94)
Leavers – with deferred benefits	(445)	-	445	-
Leavers – with no further liabilities	-	-	(21)	(21)
Trivial commutations	-	-	(13)	(13)
<b>Total DC members at the end of the year</b>	<b>933</b>	<b>-</b>	<b>2,818</b>	<b>3,751</b>
<b>Total members at the end of the year</b>	<b>933</b>	<b>5,045</b>	<b>7,117</b>	<b>13,095</b>

Pensioners include 4,292 Project Falcon annuitants and 113 annuitants historically secured by Alba Life. Pensioners also include 535 individuals receiving a pension upon the death of their spouse who was a member of the Scheme and 217 child and dependant beneficiaries in receipt of a pension.

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

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

## PGL PENSION SCHEME

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Pension increases

The Scheme guarantees to increase deferred pensions in excess of the GMP in line with the Consumer Prices Index up to a maximum of 5% per annum (reduced to 2.5% per annum for service after 5 April 2009).

In addition, the Guaranteed Minimum Pension whether in deferment or payment is increased as required by legislation on 1 April each year.

Following the merger of the Britannic Group Pension Scheme and the Britannia Life Group Retirement and Death Benefit Scheme (BLGRDBS) on 1 January 2001, the Scheme has two types of pension increases for pensions in payment: Britannic style increases and Britannia style increases. The Britannia style increase applies to those members who transferred across from the BLGRDBS as deferred members, pensioners and active members who opted to keep their previous increases. The Britannic style increase applies to all other DB members, except for Phoenix members, as noted below.

The Britannia style increase is such that pensions in payment accrued before 6 April 1997 receive increases of 3% per annum, pension accrued between 6 April 1997 and 31 December 2000 (inclusive) increases in line with the Retail Prices Index but subject to a minimum increase of 3% per annum and a maximum increase of 5% per annum, and pension accrued after 31 December 2000 increases in line with the Retail Prices Index up to a maximum of 5% per annum.

The Britannic style increase is such that pensions in payment in excess of GMP increase in line with the Retail Prices Index up to a maximum of 7.5% per annum for service accrued before 1 January 2001, and up to a maximum of 5% per annum for service accrued after 31 December 2000. In addition, GMP in payment is increased as required by legislation on 1 April.

Following the merger of the Britannic Group Pension Scheme and the Phoenix Life Group Pension Scheme in July 2006, a further category of pension increase was introduced.

The Phoenix style increase is such that pensions in payment accrued after 6 April 1997 receive increases of 5% per annum or RPI (fixed at the preceding October), if less. The Guaranteed Minimum Pension (GMP) accrued between 6 April 1988 and 6 April 1997 receives increases of 3% per annum or CPI, if less. For the remainder of this pension, the Company and Trustee agreed to change the terms applying to this part of members' pensions. The previous discretionary increase terms are replaced by a guaranteed increase, for this part. With effect from 1 January 2017, this increase is in line with the rate of increase in the UK Consumer Price Index (CPI), subject to a maximum annual increase of 5% p.a.

Members in receipt of a pension for less than twelve months received a pro-rata increase according to the month of retirement.

Members who have accepted a Pension Increase Exercise offer do not receive any increases to their excess pension in respect of service prior to 6 April 1997.

The following increases were awarded over the year 1 July 2017 to 30 June 2018:

#### **Britannia Style increase (for leavers prior to 1 January 2001):**

Pension accrued before 5 April 1997	3.0% on 1 January 2018
Pension accrued after 6 April 1997	3.9% on 1 January 2018

#### **Britannia Style increase (for leavers after 1 January 2001):**

Pension accrued before 5 April 1997	3.0% on 1 September 2017
Pension accrued between 6 April 1997 and 31 December 2000	3.7% on 1 September 2017
Pension accrued after 1 January 2001	3.7% on 1 September 2017

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Pension increases (continued)

##### **Britannic Style increase:**

GMP accrued before 5 April 1988

GMP accrued after 6 April 1988

Excess over GMP

nil on 1 April 2017

1.0% on 1 April 2017

3.7% on pension earned prior to 1 January 2001 and 3.7% on pension earned after 31 December 2000 with effect from 1 September 2017

##### **Phoenix Style increase:**

GMP accrued before 5 April 1988

GMP accrued after 6 April 1988

Pension in excess of GMP accrued before 6 April 1997

Pension accrued after 6 April 1997

nil on 1 April 2018

1.0% on 1 January 2018

3.0% on 1 January 2018

3.9% on 1 January 2018

There were no discretionary pension increases in the year.

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

#### **Contributions**

Contributions received from members and Participating Employers were in accordance with the Schedules of Contributions certified by the Scheme actuary on 30 June 2016 and 27 November 2017.

During the year only members who were previously in the Defined Contribution categories of the Phoenix Life Group Pension Scheme paid contributions to the Scheme. These contribution rates are dependent on the section of membership, and on the history of membership.

Other Defined Contribution members could, however, elect that a percentage of their basic salary be nominated as a salary sacrifice to be paid into the Scheme. The Company paid contributions to the Scheme on behalf of these Defined Contribution members. For example, for members who joined after 1 July 2006 (and who are not members of either the RMS Glasgow, ex-Axial, ex-Phoenix DC or 2011 DC categories) the rates of Company contribution are between 5% and 10% dependent on the elections made by those members.

On 1 July 2011 a new category of DC member, referred to as the "2011 Defined Contribution category", was introduced to the Scheme. The members of this category are not required to pay contributions but can elect that a percentage of their basic salary be nominated as a salary sacrifice.

The Company contributes for members of the 2011 DC category at a core contribution rate of 12% of Pensionable Salary, plus an additional matching contribution related to the level of salary sacrifice elected by the member.

Deficit contributions were paid by the Employers of £2,500,000 to 30 June 2018. These contributions were in accordance with the Schedule of Contributions certified by the Scheme Actuary on 27 November 2017.



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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### **Transfer values**

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

The transfer value of the Scheme member's benefits includes no allowance for any discretionary benefits which might be awarded in the future.

Transfers into the Scheme are allowed for the DC section provided that they do not include any amounts that related to contracting out / protected rights. DB transfers in to the Scheme are not allowed except for AVC transfers.

#### **DB Section:**

The Trustee is responsible for setting the economic, financial and demographic assumptions to be used in calculating transfer values, having taken the advice of the Scheme Actuary. The basis used for transfer value calculations does not include discretionary benefits.

#### **DC Section:**

Transfer values are paid equal to the market value of the member's investments at the date of transfer. No discretionary payments have been made during the year.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Report on Actuarial liabilities

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

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

The most recent full Actuarial Valuation of the Scheme was carried out as at 30 June 2015. An approximate update of the funding position was carried out and presented in the Annual Actuarial Report as at 30 June 2017. The results of these updates are detailed below:

	30 June 2015	30 June 2017
The value of technical provisions were:	£1,822.3M	£2,010.6M
The value of assets were:	£1,986.5M	£2,216.3M
Funding level	109.0%	110.2%

The value of the assets has increased since the valuation date due to positive investment returns and contributions paid by the Company. This has led to an improvement of the funding position of the Scheme.

#### Discontinuous Value

The Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") and equivalent information on this basis is provided below:

	30 June 2015
The value of solvency liabilities were:	£2,173.1M
The value of assets available to meet solvency liabilities were:	£1,988.3M
Funding level	91.5%

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.

Discount interest rate: the fixed interest gilt yield curve at the valuation date plus 0.3% p.a., rounded to the nearest 0.01% p.a.

Future retail price inflation: Retail Price Index yield curve derived from the gilt market at the valuation date.

Future consumer price inflation: derived at the valuation date by deducting 0.5% p.a. from the RPI inflation assumption.

Pension increases: derived from the RPI or CPI price inflation assumption allowing for the maximum and minimum annual increases using term dependent best estimates of future inflation volatility.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Report on Actuarial Liabilities (continued)

Mortality: for the period in retirement, standard tables S2PMA with a scaling factor of 90% for all male members; and S2PFA with a scaling factor of 90% for all female members. Improvements in mortality from 2007 in line with the CMI 2014 projection model, with assumed long-term future improvements of 1.75% per annum.

#### Recovery plan

As the Scheme was in surplus at the valuation date there is no recovery plan in place.

#### Next actuarial valuation

The next triennial valuation is being performed as at 30 June 2018.

#### Management and custody of investments

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

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

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

The investment managers are paid fees for their services. The fees are calculated as a percentage of the market value of the part of the Scheme that they manage, together with performance related fees if applicable.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Investment strategy and principles

The Trustee is responsible for determining the Scheme's investment strategy.

In accordance with the section 35 of the Pensions Act 1995, the Trustee has agreed a statement of investment principles ("SIP"). This was revised in January 2017 and is applicable for the year. A further revision was made in July 2018. A copy of the SIP may be obtained from the contact for enquiries on page 1.

The Trustee's investment strategy considers the Scheme's investments in the following groupings:

- **Return-seeking assets:** Predominantly hedge funds and infrastructure, where the objective is to achieve growth within the constraints of the risk profile set by the Trustee.
- **Matching assets (excluding annuity policies):** Predominantly bonds, LDI funds and swaps, where the objective is to secure fixed of inflation-adjusted cash flows in future, and where the investments are generally expected to be held to maturity.
- **Annuity policies:** The Trustee secured an annuity policy with Phoenix Life Limited in December 2016. It is intended to match the liabilities for pensioner members covered by the policy and eliminate the interest rate, inflation and longevity risk to the Scheme of these liabilities.
- **Money purchase assets:** As these are chosen by individual DC members, the Trustee focuses primarily on the suitability of the range of investments offered.

#### Investment Managers

All Investment Managers appointed by or on behalf of the Trustee to manage the Scheme funds under section 34(3) of the Pensions Act 1995 are appropriately authorised or exempt under The Financial Services and Markets Act 2000. All Investment Managers have the appropriate knowledge and experience to manage the particular investments delegated to them.

#### Self-investment

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995.

#### General

The policy for setting the investment strategy for the Scheme lies with the Trustee. There is a degree of delegation of responsibility for investment decisions to ensure that decisions are taken by persons or organisations with appropriate resources, skills and knowledge to take them effectively. Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, the day-to-day management of the Scheme's asset portfolio, which includes full discretion for stock selection, is the responsibility of the Scheme's investment managers.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Buy-in Annuity

As at 30 June 2018 the Buy-in Annuity Policy was priced at £1,060m (2017: £1,071.8m), by the Scheme Actuary. The Buy-in Annuity Policy guarantees the majority of the Scheme's pensioner liabilities.

The Annuity Policy remains an asset of the Scheme, and is therefore included as part of the Scheme's assets in this report.

#### Final Salary Section Investment Policy

The long-term aim of the Scheme's investments is to achieve a secure rate of growth without exposing the Scheme to unacceptable levels of risk.

In order to achieve this objective, the Trustee has set a benchmark asset allocation. As at 30 June 2018, this was:

Liability Driven Investment (including European Investment Bank bonds and Affordable Housing Fund bonds)  
100.0%

This benchmark asset allocation is reflected in the Statement of Investment Principles dated January 2017.

#### DB Section Investment Performance

The combined performance of the Scheme's DB Section's Investment Managers over the one, three and five year periods to 30 June 2018, as calculated by JP Morgan, is as follows:

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
Scheme	4.8	8.2	9.9

#### Custody of assets

Custody services in accordance with FCA regulations are provided by JP Morgan Chase Bank NA for the segregated Insight mandate.

The Scheme also has cash deposits in the Trustee bank account.

The records and procedures of the Custodian are routinely subjected to scrutiny by their external auditor and the regulatory authorities. The Custodian accepts responsibility for financial losses as a result of negligence or fraud. There is no involvement by the Trustee or Principal Employers in custody procedures.

#### Money Purchase Section Investment Strategy

The Trustee offers members of the DC Section three lifestyle strategies that target specific retirement objectives at retirement in addition to a range of self-select funds. More details on the Scheme's lifestyle strategies are set out below.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Performance of DC funds during the Scheme Year

In designing the fund range overall; the Trustee's key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

Funds are offered through Aon's Delegated DC Services. Under this approach, the Trustee delegates the selection of the platform provider, available fund range and day to day management of the funds to Aon, through Hewitt Risk Management Services Limited (HRMSL).

#### Performance of DC Funds over Scheme Year

Performance of all funds on a one and three year basis is shown below. The table also clarifies which funds are offered on a Self-Select basis and which are used through the Scheme's lifestyle strategies. More details on the Scheme's investment options are set out in the Scheme's investment guide.

	Self select/lifestyle	1 Year	3 Years (p.a.)
PGL Active Global Equity	Self select	8.6%	14.7%
PGL Diversified Multi Asset	Self select	-1.5%	0.6%
PGL Passive UK Equity	Self select	9.2%	9.7%
PGL UK Index-Linked Gilt	Self select	2.0%	8.6%
PGL Ethical	Self select	8.8%	14.9%
PGL Passive Global Equity	Both	7.5%	14.8%
PGL Pre-Retirement Bond	Both	1.5%	6.6%
PGL UK Cash	Both	0.4%	0.4%
PGL Property and Infrastructure	Self Select	5.1%	12.0%
PGL Diversified Multi Strategy Bond	Self Select	0.1%	4.5%
PGL Bond Phase	Lifestyle	0.4%	4.7%
PGL Initial Growth Phase	Lifestyle	7.3%	14.6%
PGL Progressive Growth Phase	Lifestyle	-1.5%	0.6%
PGL Short Term Inflation Linked	Lifestyle	0.0%	1.4%

#### Drawdown Lifestyle Strategy (Default Option)

The Drawdown Lifestyle Strategy works on the principle that a member electing this option will transfer their account on retirement to a specialist income drawdown arrangement.

The Drawdown Lifestyle Strategy initially invests wholly in the PGL Initial Growth Phase Fund until fifteen years before a member's selected retirement age. During this 'growth' phase, the Drawdown Lifestyle Strategy aims to provide real growth (in excess of inflation) over the long term.

From fifteen years before a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, through the PGL Progressive Growth Phase Fund, PGL Bond Phase Fund, PGL Short Term Inflation Linked Fund and PGL Long Term Inflation Linked Fund.

At a member's selected retirement date, the Drawdown Lifestyle Strategy invests the member's assets across a range of asset classes with the aim of providing a real income during the post-retirement phase whilst protecting the value of the investments.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### **Annuity Life Strategy**

The Annuity Lifestyle Strategy works on the principle that a member electing this option will take the maximum tax free cash sum and use the rest of their account to purchase an annuity at retirement.

The Annuity Lifestyle Strategy initially invests wholly in the PGL Initial Growth Phase Fund until fifteen years before a member's selected retirement age. During this 'growth' phase, the Annuity Lifestyle Strategy aims to provide real growth (in excess of inflation) over the long term.

From fifteen years before a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, through the PGL Progressive Growth Phase Fund and the PGL Bond Phase Fund, PGL Short Term Inflation Linked Fund and PGL Long Term Inflation Linked Fund.

From five years before a member's selected retirement age, a member's account is moved into lower risk assets through the PGL Pre-Retirement Bond Fund and the PGL Liquidity Fund.

At a member's selected retirement date, the Annuity Lifestyle Strategy invests the member's assets with 75% in the PGL Pre-Retirement Bond Fund and 25% in the PGL Liquidity Fund with the aim of protecting the value of the investments relative to movements in annuity prices and cash.

#### **Cash Lifestyle Strategy**

The Cash Lifestyle Strategy works on the principle that a member electing this option will take the whole of their account as a cash lump sum at retirement.

The Cash Lifestyle Strategy initially invests wholly in the PGL Initial Growth Phase Fund until fifteen years before a member's selected retirement age. During this 'growth' phase, the Annuity Lifestyle Strategy aims to provide real growth (in excess of inflation) over the long term.

From fifteen years before a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, through the PGL Progressive Growth Phase Fund and the PGL Bond Phase Fund, PGL Short Term Inflation Linked Fund and PGL Long Term Inflation Linked Fund. From five years before a member's selected retirement age, a member's account is moved into cash, namely the PGL Liquidity Fund.

At a member's selected retirement date, the Cash Lifestyle Strategy invests the member's assets 100% in the PGL Liquidity Fund, with the aim of protecting the value of the investments relative to cash.

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### **Self-select fund range**

The Trustee also offers a range of self-select fund options to members covering the main asset classes and with differing levels of risk. These options are summarised in the table below.

#### **Self-select fund**

PGL Diversified Multi Asset Fund  
PGL Long Term Inflation Linked Fund  
PGL Pre-Retirement Bond Fund  
PGL Liquidity Fund  
PGL Global Equity Fund  
PGL Property and Infrastructure Fund  
PGL Diversified Multi Strategy Bond Fund PGL Active Global Equity Fund  
PGL UK Equity Index Fund  
PGL Global Ethical Index Fund

In addition, there are a small number of legacy AVC funds including With-Profits funds managed by Phoenix Life.

#### **Employer related investments**

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995. Details of any employer related investments are disclosed in note 26 to the financial statements.



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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### Further information

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

Individual benefit statements are provided to active members annually. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests are available free of charge once a year.

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

The Trustee of PGL Pension Scheme care of:

The PGL Pension Scheme Administrator  
Aon Hewitt Limited  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2QD  
[pgladmin@aonhewitt.com](mailto:pgladmin@aonhewitt.com)

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

The Trustee will ensure the data subjects of whom personal data is processed for the purposes of this report and financial statement are informed of the processing activities in accordance with the requirements of the applicable data protection legislation.

## **PGL PENSION SCHEME**

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### **TRUSTEE REPORT YEAR ENDED 30 JUNE 2018**

#### **Compliance Statement**

##### **HM Revenue & Customs Registration**

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

##### **Other information**

##### **Pension Tracing**

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

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

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

##### **Resolving difficulties/Internal Dispute Resolution**

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

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

The Pensions Ombudsman  
10 South Colonnade  
Canary Wharf  
E14 4PU

## PGL PENSION SCHEME

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### TRUSTEE REPORT YEAR ENDED 30 JUNE 2018

#### **The Pensions Regulator**

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

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

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

TPR can be contacted at:

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

0870 600 0707  
[customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

#### **The Pension Protection Fund**

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

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a statutory corporation established under the provisions of the Pensions Act 2004.

## PGL PENSION SCHEME

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### STATEMENT OF TRUSTEE'S RESPONSIBILITIES YEAR ENDED 30 JUNE 2018

#### **Trustee's responsibilities in respect of the financial statements**

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("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 paypensions 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 these 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 ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

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 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.

#### **Trustee's responsibilities in respect of contributions**

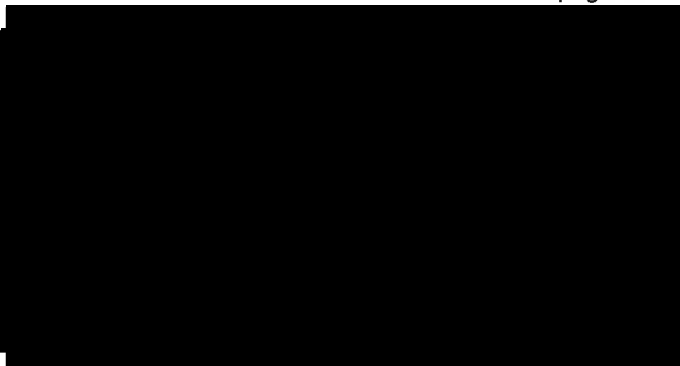
The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before 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 that fall due to be paid are paid into the Scheme 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 to members.

#### **Further information**

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be made to the contact address shown on page 1.



# PGL PENSION SCHEME

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## CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

### **PGL Pension Scheme ("the Scheme") DC Section and AVCs**

The Occupational Pension Scheme (Charges and Governance) Regulations 2015 require the Trustee Directors ("the Trustee") to prepare an annual statement regarding DC governance, which should be included in the Annual Report and financial statements.

This statement is issued by the Trustee covering the period from 1 July 2017 to 30 June 2018 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

- The default investment arrangement;
- Processing of core financial transactions;
- Member borne charges and transaction costs;
- The extent to which the Scheme represents good Value for Members; and
- Trustee knowledge and understanding.

### **The Default Arrangement**

*The Trustee is required to design default arrangements in members' interests and keep them under review. The Trustee needs to take account of the level of costs and the risk profile that are appropriate for the Scheme's membership in light of the overall objective of the default arrangement strategy.*

The latest Statement of Investment Principles (SIP) for the PGL Pension Scheme is attached as an appendix to the Trustee Report and Financial Statements. This sets out the Trustee's investment objective and the principles followed to ensure the investment strategy in place is appropriate for the needs of the Scheme's membership.

The Trustee undertook a strategic review of the default strategy during 2014/2015. This review considered the suitability of the default investment strategy, other lifestyle strategies and fund options for existing members of the Scheme in light of the introduction of Freedom and Choice in 2015.

As a result of the review, the default strategy was revised to reflect the new benefit flexibilities DC members have available to them at the point of retirement. Alternative lifestyle strategies are also made available to members so that they are able to select a strategy that fits their expected benefit choices at retirement.

Additionally, the underlying funds that are used to construct the default strategy (and alternative lifestyles) and the self select funds were reviewed and changes made on the advice of the Trustee's investment adviser.

The SIP was updated in 2017 to reflect these changes and details the specific requirements of the default arrangement and the aims and objectives of the range of investment funds available. Also included are the agreed performance metrics and reporting requirements, which are used to measure whether the funds are successfully meeting the stated objectives.

The objective of the default arrangement is to move members from higher return, higher risk investments to lower risk, lower return investments as they near their retirement age in order to protect the value of their fund. This is considered to be appropriate for the majority of members who are expected to take their funds as flexible income ("income drawdown") during retirement.

## PGL PENSION SCHEME

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### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

The Trustee reviews the performance of the default strategy and other investment options on a quarterly basis between each strategic review to ensure the funds and strategies are delivering as expected.

The Trustee is currently undertaking a review of the underlying investment strategy. The objectives of the review are currently being agreed and the analysis will take place during the first part of 2019.

#### **Processing of Core Financial Transactions**

*The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries) are processed promptly and accurately.*

Core financial transactions are undertaken on behalf of the Trustee by Aon. Aon report quarterly to the Trustee through the Scheme's administration report, which is presented and considered at each quarterly Trustee meeting. The quarterly reports include details of performance against agreed service levels for all transaction types. The service levels reported by Aon were consistently high throughout the Scheme year and the Trustee has no concerns.

Controls around administration and the processing of transactions are documented in the Scheme risk register which is regularly reviewed.

In the light of the above, the Trustee considers that the requirements for processing core financial transactions have been met.

#### **Member Borne Charges and Transaction costs**

*The Trustee should regularly monitor the level of charges borne by members through the funds. These charges comprise:*

- *explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund managers as part of the Total Expense Ratio (TER);*
- *transaction costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.*

The default arrangement has levied a TER of less than 0.75% p.a. of assets under management for all members during the period 1 July 2017 to 30 June 2018. The actual TER members paid was between 0.17% p.a. and 0.79% p.a. depending on where they fell in the default lifestyle strategy (by term to retirement).

During the period the Trustee also made available a range of self-select options for members, all of which were available to both main DC members and to AVC members with TERs of between 0.05% p.a. and 0.92% p.a. Additionally, there is a small legacy AVC policy provided through Phoenix Life. Charges are higher for these funds (up to 1.0% p.a.) as is to be expected for small legacy AVC arrangements. The Trustee is considering whether it can rationalise arrangements to improve Value for Members in this respect.

## PGL PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

<b>Lifecycle strategies</b>	<b>TER* (% p.a.)</b>
PGL Initial Growth Phase Fund	0.27
PGL Progressive Growth Phase Fund	0.79
PGL Bond Phase Fund	0.46
PGL Long-Term Inflation-linked Fund	0.17
PGL Short-Term Inflation-linked Fund	0.17
PGL Pre-Retirement Fund	0.29
PGL Liquidity Fund	0.20
<b>Self Select Funds</b>	<b>TER* (% p.a.)</b>
PGL Global Equity Fund	0.25
PGL Active Global Equity Fund	0.92
PGL UK Equity Index Fund	0.05
PGL Property and Infrastructure Fund	0.44
PGL Diversified Multi-asset Fund	0.79
PGL Diversified Multi-strategy Fund	0.65
PGL Global Ethical Index Fund	0.35

Transaction costs are those costs incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. These costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority rules on disclosure for transaction costs in a standard format came into effect for investment managers on 3 January 2018. The Trustee requested details of transaction costs incurred over the period, in respect of the funds in which members were invested. HRSML who manage the funds on behalf of Aon have been requesting this information from fund managers since January 2018 in order to facilitate the provision of transaction cost information.

However, in common with many providers, the Scheme's providers are not yet in a position to report transaction costs. We are therefore unable to provide details of transaction costs for funds in this year's statement. This is not unusual and we expect full transaction cost information to be available for the next Chair's Statement.

The Trustee, in conjunction with their investment advisers, will continue to liaise with the providers to obtain the transaction cost information.

The Trustee notes that net of fees performance figures include the impact of transaction costs. As such, whilst these costs cannot currently be separately identified, the Value for Members' assessment which has been carried out has effectively allowed for transaction costs.

## PGL PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

#### Illustration of the effect of costs and charges

*The Trustee is required to illustrate the effect of the costs and charges typically paid by a member on their retirement values (as a "pounds and pence figure").*

We have produced the following illustrations to demonstrate the effect of the above costs and charges for investment funds and strategies representative of the Scheme's membership.

Members are primarily invested in the default strategy i.e. Drawdown Lifestyle which automatically transitions members' funds between the underlying funds as members approach retirement age. Members are also offered alternative lifestyle strategies and a series of self select funds. The tables below illustrate the effect of the costs and charges at different ages on accumulated retirement pots for two representative members invested in the default strategy and one of the self select fund options.

For an active member aged 21, invested in the Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £3,000 at age 21 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
25	15,330	15,218	112
30	33,533	33,050	483
35	55,421	54,221	1,200
40	81,741	79,358	2,383
45	113,389	109,201	4,188
50	150,566	143,687	6,879
55	187,331	176,301	11,030
60	221,919	205,794	16,125

For an active member aged 21, invested in the PGL Active Global Equity fund, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £3,000 at age 21 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
25	15,685	15,301	384
30	35,101	33,407	1,694
35	59,396	55,107	4,289
40	89,796	81,115	8,681
45	127,835	112,286	15,549
50	175,431	149,644	25,787
55	234,988	194,417	40,571
60	309,511	248,078	61,433

For a deferred member aged 45 invested in the Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £25,000 at age 45 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
45	25,000	25,000	0
50	29,886	29,486	400
55	34,281	33,213	1,068
60	37,988	36,100	1,888



## PGL PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

For a deferred member aged 45 invested in the PGL Active Global Equity fund, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £25,000 at age 45 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
45	25,000	25,000	0
50	31,282	29,963	1,319
55	39,143	35,910	3,233
60	48,978	43,038	5,940

The following assumptions have been made for the purposes of the above illustrations:

- *The assumed growth rates (gross of costs and charges) are as follows:*
  - *Global equity 6.5% p.a.*
  - *UK equity 6.0% p.a.*
  - *Active multi asset 5.6% p.a.*
  - *Cash 1.6% p.a.*
  - *Index linked bonds 1.0% p.a.*
  - *Property 5.0% p.a.*
- Retirement is assumed at the normal retirement age of 62.
- Member contributions 5%, Company contributions 10% pensionable pay
- The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.

#### Value for members

*The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by DC section and AVC members and the extent to which those charges and costs represent good value for money for members.*

There is no legal definition of "good value" and the process of determining this for members is a subjective one. Based on advice from the Scheme advisors, Aon, the Trustee has established a cost-benefit analysis framework in order to assess whether the member borne charges deliver good Value for Members. The framework has been designed with reference to the statutory guidance. The assessment against the framework is relevant to the current membership. The cost part of the analysis considers the costs and charges members pay. The benefit side of the analysis considers the quality of Scheme Governance and Management, the quality of Scheme Administration, the quality of Scheme Investments and the quality of Scheme Communications.

The Trustee has carried out a detailed assessment of the Scheme over the period to consider whether good value is provided to members in terms of the benefits and services they receive given the level of charges paid.

- **Scheme Governance and Management:** the Scheme is governed by an experienced group of Trustee Directors including a professional, independent Chair. The Board regularly review information about the performance of Scheme investments and DC Section members and decisions being made, amongst other information. This helps determine an appropriate strategy to support DC members and make improvements.
- **Scheme Administration:** The Trustee regularly monitors the Scheme administration and over the period found that the necessary administration standards were being achieved.

## PGL PENSION SCHEME

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### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

- **Scheme Investments:** The Scheme provides members with an appropriate range of lifestyle and self-select fund options. The investment strategy and performance is regularly monitored and reviewed by the Trustee.
- **Scheme Communications:** The Scheme provides members with regular, clear communications regarding the choices open to members, as well as annual benefit statements and 'at retirement' communications. In addition, members have access to a benefit calculation tool and other guidance material on the Scheme website to assist with retirement planning.

Under the Trustee's assessment framework, the Trustee believes that the Scheme delivers value for its members. The Trustee will continue to monitor the Scheme against the Regulator's governance standards to ensure it continues to deliver value.

#### **Trustee's Knowledge and Understanding**

*Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.*

The Trustee has met the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) during the Scheme year through the following measures:

- Assessing training needs and considering whether any gaps exist in individual Trustee Directors' knowledge and understanding;
- Undergoing training in the period and
- Maintaining training logs for each individual Trustee Director which support the above.

Training for the period from 1 July 2017 to 30 June 2018 included the following:

- Analysis of DC Section membership and likely retirement outcomes, Aon DC survey covering market trends and detailed review by Hymans of HRMSL's investment approach.

The Trustee is conversant with the Trust Deed and Rules and the Statement of Investment Principles for the Scheme. The Trustee reverts to the legal advisor for any clarification if required.

In addition to the knowledge and understanding of the Trustee board, the Trustee has engaged with their appointed professional advisers regularly throughout the year to ensure that they run the Scheme and exercise their functions properly, including the following:

- Reviewing quarterly administration reports from Aon.
- Reviewing quarterly reporting of each individual investment funds against benchmarks, with advice from Aon.
- Holding five regular Trustee meetings a year (plus additional ad-hoc meetings and conference calls) with providers and advisers who provided reporting and specialist advice before asking the Trustee to take relevant decisions as required. Minutes of each Trustee meeting document the information shared and specialist advice given.
- Maintaining a regime for proper governance (based on the tPRs Code of Practice) and using this as the basis for governance of the DC Section.

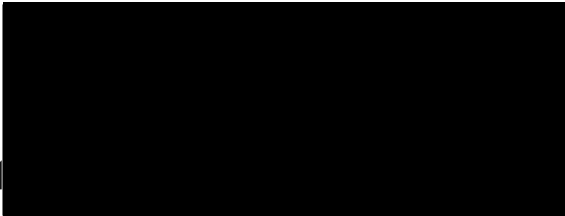
## PGL PENSION SCHEME

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### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2018

Considering the training activities completed by the Trustee Board together with the professional advice available to the Trustee, the Trustee considers that it meets the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) and is confident that the combined knowledge and understanding of the Trustee Board, together with the input from its specialist advisers, enables it to properly exercise its functions as the Trustee of the Scheme.

Signed on behalf of the PGL Pension Trustee Limited (Trustee)



Date: 22.01.2019

# PGL PENSION SCHEME

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## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE YEAR ENDED 30 JUNE 2018

### Report on the financial statements

#### Opinion

In our opinion, PGL Pension Scheme's financial statements:

show a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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.

We have audited the financial statements, included in the annual report, which comprise: the statement of net assets available for benefits as at 30 June 2018; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### Independence

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

#### Conclusions relating to going concern

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

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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern.

#### Reporting on other information

The other information comprises all the information in the annual report other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## PGL PENSION SCHEME

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### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE YEAR ENDED 30 JUNE 2018

#### Responsibilities for the financial statements and the audit

##### *Responsibilities of the Trustee for the financial statements*

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of 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 has no realistic alternative but to do so.

##### *Auditors' 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 auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

Date: 29 January 2019

## PGL PENSION SCHEME

### FUND ACCOUNT YEAR ENDED 30 JUNE 2018

	Note	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Employer contributions	3	2,500	8,865	11,365	15,000	8,008	23,008
Employee contributions	3	-	1,141	1,141	-	652	652
		<u>2,500</u>	<u>10,006</u>	<u>12,506</u>	<u>15,000</u>	<u>8,660</u>	<u>23,660</u>
Individual transfers in	4	23	410	433	-	297	297
Other income	5	230	9	239	6	1	7
		<u>2,753</u>	<u>10,425</u>	<u>13,178</u>	<u>15,006</u>	<u>8,958</u>	<u>23,964</u>
Benefits payable	6	(52,439)	(737)	(53,176)	(52,727)	(398)	(53,125)
Payments to and on account of leavers	7	-	(9)	(9)	(2)	-	(2)
Transfers out	8	(30,801)	(4,252)	(35,053)	(35,296)	(3,173)	(38,469)
Other payments	9	(741)	-	(741)	(500)	-	(500)
Administrative expenses	10	(3,436)	-	(3,436)	(1,927)	-	(1,927)
		<u>(87,417)</u>	<u>(4,998)</u>	<u>(92,415)</u>	<u>(90,452)</u>	<u>(3,571)</u>	<u>(94,023)</u>
<b>Net (withdrawals)/additions from dealing with members</b>		<u>(84,664)</u>	<u>5,427</u>	<u>(79,237)</u>	<u>(75,446)</u>	<u>5,387</u>	<u>(70,059)</u>
Investment income	11	60,252	-	60,252	17,419	-	17,419
Change in market value of investments	12	51,594	7,170	58,764	(61,057)	15,677	(45,380)
Investment management expenses	13	(747)	(6)	(753)	(969)	(10)	(979)
<b>Net returns on investments</b>		<u>111,099</u>	<u>7,164</u>	<u>118,263</u>	<u>(44,607)</u>	<u>15,667</u>	<u>(28,940)</u>
<b>Net increase/(decrease) in the fund during the year</b>		<u>26,435</u>	<u>12,591</u>	<u>39,026</u>	<u>(120,053)</u>	<u>21,054</u>	<u>(98,999)</u>
Transfers between sections		24	(24)	-	350	(350)	-
<b>Net assets of the scheme at 1 July</b>		<u>2,217,488</u>	<u>114,965</u>	<u>2,332,453</u>	<u>2,337,191</u>	<u>94,261</u>	<u>2,431,452</u>
<b>at 30 June</b>		<u>2,243,947</u>	<u>127,532</u>	<u>2,371,479</u>	<u>2,217,488</u>	<u>114,965</u>	<u>2,332,453</u>

The notes on pages 30 to 52 for part of these financial statements.

## PGL PENSION SCHEME

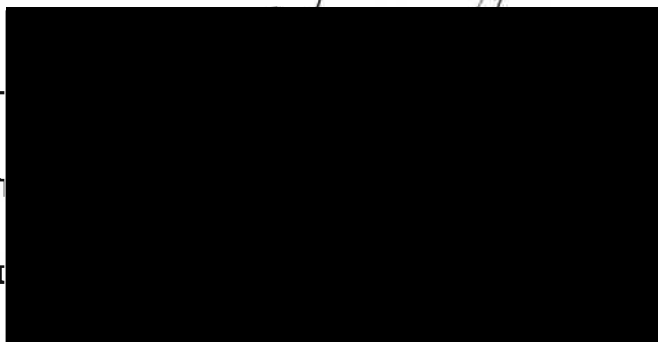
### STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 30 JUNE 2018

	Note	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
<b>Investment assets</b>							
Bonds	12	1,173,046	-	1,173,046	1,198,463	-	1,198,463
Pooled investment vehicles	15	156,139	126,773	282,912	176,030	114,221	290,251
Derivatives	16	62,807	-	62,807	65,106	-	65,106
Insurance policies	18	1,060,000	-	1,060,000	1,071,800	-	1,071,800
AVC investments	19	1,384	-	1,384	1,490	-	1,490
Cash account	20	40	-	40	37	-	37
Cash in transit	20	-	4	4	-	270	270
Dividends and withholding tax	20	5,924	-	5,924	4,123	-	4,123
		<u>2,459,340</u>	<u>126,777</u>	<u>2,586,117</u>	<u>2,517,049</u>	<u>114,491</u>	<u>2,631,540</u>
<b>Investment liabilities</b>							
Derivatives	16	(57,548)	-	(57,548)	(58,279)	-	(58,279)
Repurchase agreements	17	(165,048)	-	(165,048)	(250,638)	-	(250,638)
		<u>(222,596)</u>	<u>-</u>	<u>(222,596)</u>	<u>(308,917)</u>	<u>-</u>	<u>(308,917)</u>
<b>Total net investments</b>		<u>2,236,744</u>	<u>126,777</u>	<u>2,363,521</u>	<u>2,208,132</u>	<u>114,491</u>	<u>2,322,623</u>
Current assets	24	10,098	819	10,917	11,306	515	11,821
Current liabilities	25	(2,895)	(64)	(2,959)	(1,950)	(41)	(1,991)
<b>Net assets available for benefits at 30 June</b>		<u>2,243,947</u>	<u>127,532</u>	<u>2,371,479</u>	<u>2,217,488</u>	<u>114,965</u>	<u>2,332,453</u>

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

The notes on pages 30 to 52 form an integral part of these financial statements.

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



# PGL PENSION SCHEME

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 1. BASIS OF PREPARATION

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

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

### 2. ACCOUNTING POLICIES

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

#### Functional and Presentation Currency

The Scheme's functional and presentational currency is pounds sterling (GBP).

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

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

#### 2.1 Contributions

Normal and additional voluntary contributions, both from employees and employers, are accounted for on an accruals basis in the period to which they relate.

Employers' deficit funding is accounted for in the year in which it falls due in line with the Schedule of Contributions.

Members contributions made under a salary sacrifice arrangement are accounted for on an accruals basis and are categorised as employers' contributions.

#### 2.2 Transfers from and to other schemes

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



## PGL PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 2. ACCOUNTING POLICIES (continued)

##### 2.3 Benefits

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

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

Refunds and opt-outs are accounted for when the Trustee are notified of the member's decision to leave the Scheme.

##### 2.4 Administrative and investment manager expenses

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

##### 2.5 Investment income

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.

Income arising from the underlying investments of the pooled investment vehicles, which is reinvested within the pooled investment vehicles, is reflected in the unit price. Such income is reported within the change in market value.

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

Income arising from insurance policies held by the Trustee to fund benefits payable to Scheme members is included within investment income and is accounted for on an accruals basis.

Derivative income is accounted for on an accruals basis and is reflected in the change in market value for the year.

The interest receivable or payable on repurchase agreement contracts is accounted for on an accruals basis.

##### 2.6 Valuation and classification of investments

Listed investments are valued at closing prices on the recognised stock exchange as at the year end, which are either the last quoted trade price or bid price depending on the market on which they are quoted. Where appropriate, bid values listed in overseas currencies are translated into sterling at the rates of exchange ruling at the year end.

Bonds are valued on a clean basis which excludes the value of interest accruing from the previous interest payment date and the valuation date. Accrued interest is accounted for within investment income.

Unlisted investments are stated at the Trustee's estimate of fair value based on advice of the investment manager or other appropriate professional adviser.

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

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 2. ACCOUNTING POLICIES (continued)

##### 2.6 Valuation and classification of investments (continued)

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

Unitised insurance policies are valued on the same basis as pooled investment vehicles with similar characteristics.

The Scheme continues to recognise assets delivered out under repurchase contracts and stock-lending arrangements to reflect its ongoing interest in those securities. Cash received from repurchase contracts is recognised as an investment asset, and an investment liability is recognised for the value of the repurchase obligation.

##### Derivatives

Derivative contracts are valued at fair value. The fair value, being the unrealised profit or loss on the contracts, is shown as a separate line within investments.

Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit such as an initial margin to be placed with the broker, are recorded at nil cost on purchase.

##### Swaps

Swaps are valued at fair value, using a pricing model which calculates the current value of future expected net cash flows arising from the swap, for which the time value of money is taken into account. Interest is accrued monthly under the terms relating to individual contracts.

Net receipts or payments on swap contracts are reported either within investment income where the economic purpose of the swap is income related, or within change in market value where the economic purpose of the swap is related to the assets and liabilities of the Scheme.

Realised gains and losses on closed contracts and unrealised gains or losses on open contracts are included within change in market value.

The notional principal amount is used for the calculation of cash flows only.

Collateral payments and receipts are reported within cash, and do not form realised gains or losses reported within change in market value.

##### Repurchase arrangements

Under repurchase (repo) arrangements, the Scheme continues to recognise and revalue 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 liability.

##### Change in market value

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

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 2. ACCOUNTING POLICIES (continued)

##### 2.6 Valuation and classification of investments (continued)

###### Transaction costs

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

##### 2.7 Insurance policies (annuities)

Insurance policies bought to provide a member's benefits are included in the statement of net assets at their actuarial value as determined by the Scheme Actuary as at 30 June 2018. Income from annuities is shown separately within investment income.

#### 3. Contributions

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Employer						
Normal	-	8,865	8,865	-	8,008	8,008
Deficit funding	2,500	-	2,500	15,000	-	15,000
	<u>2,500</u>	<u>8,865</u>	<u>11,365</u>	<u>15,000</u>	<u>8,008</u>	<u>23,008</u>
Employee						
Normal	-	72	72	-	77	77
Additional voluntary contributions	-	1,069	1,069	-	575	575
	<u>-</u>	<u>1,141</u>	<u>1,141</u>	<u>-</u>	<u>652</u>	<u>652</u>

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the Employer.

Deficit funding contributions of £15,000,000 per annum are being paid by the Employer to the Scheme until 31 August 2017. No further deficit contributions are due.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 4. Transfers in

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Individual transfers in	23	410	433	-	297	297

#### 5. Other income

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Other income	230	9	239	6	1	7

Included within other income are refunds of property refurbishment costs totalling £223k which the Scheme had paid in prior years.

#### 6. Benefits

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Pensions	50,548	-	50,548	50,080	-	50,080
Commutations of pensions and lump sum retirement benefits	1,859	410	2,269	2,637	375	3,012
Purchase of annuities	-	228	228	-	23	23
Lump sum death benefits	32	99	131	10	-	10
	<u>52,439</u>	<u>737</u>	<u>53,176</u>	<u>52,727</u>	<u>398</u>	<u>53,125</u>

#### 7. Payments to and on account of leavers

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Refund of contributions re: Refund to members leaving service	-	9	9	-	-	-
Payments to members joining state scheme	-	-	-	2	-	2
	<u>-</u>	<u>9</u>	<u>9</u>	<u>2</u>	<u>-</u>	<u>2</u>

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 8. Transfers out

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Individual transfers out to other schemes	30,801	4,252	35,053	35,296	3,173	38,469

#### 9. Other payments

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Payments on term insurance policies	741	-	741	500	-	500

The term insurance policy is underwritten by Aviva.

#### 10. Administrative expenses

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Administration and processing	1,152	-	1,152	645	-	645
Actuarial fees	564	-	564	408	-	408
Audit fees	69	-	69	61	-	61
Legal fees	227	-	227	120	-	120
Other professional fees	1,315	-	1,315	655	-	655
Scheme levies	98	-	98	29	-	29
Trustee fees and expenses	11	-	11	9	-	9
	<b>3,436</b>	<b>-</b>	<b>3,436</b>	<b>1,927</b>	<b>-</b>	<b>1,927</b>

Other professional fees include Investment Consultancy fees paid to Aon of £372k (2017: £498k) and £719k paid to Campbell Lutyens.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 11. Investment income

	<b>DB</b>	<b>DC</b>	<b>2018</b>	<b>DB</b>	<b>DC</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>Total</b>	<b>£000</b>	<b>£000</b>	<b>Total</b>
			<b>£000</b>			<b>£000</b>
Income from bonds	10,499	-	10,499	8,290	-	8,290
Income from pooled investment vehicles	2,434	-	2,434	108	-	108
Interest on cash deposits	14	-	14	3	-	3
Annuity income	47,294	-	47,294	9,018	-	9,018
Other investment income	11	-	11	-	-	-
	<b>60,252</b>	<b>-</b>	<b>60,252</b>	<b>17,419</b>	<b>-</b>	<b>17,419</b>

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 12. Investments

	Opening value at 1 Jul 2017	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in market value	Closing value at 30 Jun 2018
	£000	£000	£000	£000	£000
<b>Defined benefit section</b>					
Bonds	1,198,463	32,326	(83,434)	25,691	1,173,046
Pooled investment vehicles	176,030	194,461	(252,525)	38,173	156,139
Derivatives	6,826	292	(1,390)	(469)	5,259
Insurance policies	1,071,800	-	-	(11,800)	1,060,000
AVCs	1,490	-	(105)	(1)	1,384
	<u>2,454,609</u>	<u>227,079</u>	<u>(337,454)</u>	<u>51,594</u>	<u>2,395,828</u>
Cash	37				40
Repurchase agreements	(250,638)				(165,048)
Dividends and withholding tax	4,124				5,924
<b>Total DB net investments</b>	<u>2,208,132</u>				<u>2,236,744</u>
<b>Defined contribution section</b>					
Pooled investment vehicles	114,221	14,981	(9,599)	7,170	126,773
	<u>114,221</u>	<u>14,981</u>	<u>(9,599)</u>	<u>7,170</u>	<u>126,773</u>
Cash in transit	270				4
<b>Total DC net investments</b>	<u>114,491</u>				<u>126,777</u>
<b>Total net investments</b>	<u>2,322,623</u>				<u>2,363,521</u>

Included in the DC purchases and sales figures above are £4,915,826 in relation to members switching their holdings.

The Scheme holds annuities with Alba Life and Phoenix Life.

The DB pooled investment vehicle purchases and sales include £116m relating to the transfer of assets from Innisfree to Insight.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 12. Investments (continued)

Included within the DC Section's investments are AVC assets of £10,051,904 (2017: £8,889,196).

An analysis of DC Section investment assets is as follows:

	2018 £000	2017 £000
Allocated to members	126,685	114,399
Not allocated to members	92	92
	126,777	114,491

#### 13. Investment management expenses

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Administration and management fees	747	6	753	946	10	956
Performance fees	-	-	-	23	-	23
	747	6	753	969	10	979

Included within administration and management fees are £17,311 (2017: £23,317) relating to performance measurement services.

#### 14. Transaction Costs

There were no direct transaction costs. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.



## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 15. Pooled investment vehicles

	DB 2018 £000	DC 2018 £000	Total 2018 £000	DB 2017 £000	DC 2017 £000	Total 2017 £000
Equity Funds	-	47,524	47,524	-	43,802	43,802
Bond Funds	-	12,767	12,767	-	11,701	11,701
Cash Funds	64,766	2,192	66,958	4,086	2,521	6,607
Diversified Growth Funds	-	63,208	63,208	-	55,174	55,174
Property Funds	-	1,082	1,082	84,392	1,023	85,415
Hedge Funds	91,373	-	91,373	87,552	-	87,552
	<u>156,139</u>	<u>126,773</u>	<u>282,912</u>	<u>176,030</u>	<u>114,221</u>	<u>290,251</u>

#### 16. Derivatives

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
<b>Assets</b>						
Swaps	62,807	-	62,807	65,106	-	65,106
	<u>62,807</u>	<u>-</u>	<u>62,807</u>	<u>65,106</u>	<u>-</u>	<u>65,106</u>
<b>Liabilities</b>						
Swaps	(57,548)	-	(57,548)	(58,279)	-	(58,279)
	<u>5,259</u>	<u>-</u>	<u>5,259</u>	<u>6,827</u>	<u>-</u>	<u>6,827</u>

#### Objectives and policies for holding derivatives

The Trustee have authorised the use of derivative financial instruments by its investment managers as part of their investment strategy as follows:

- **Swaps:** The Trustee aim to match the liability-driven element of the investment portfolio with the Scheme long term liabilities, particularly in relation to their sensitivities to interest rate movements. Due to the lack of available long-dated bonds the Trustee holds interest-rate swaps to extend the duration and match more closely with the Scheme's liability profile.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### Swaps

Type	Expires within	Notional principal £000	Fair Value	
			Asset £000	Liability £000
Interest rate swap (3 contracts)	2035-2055	261,064	62,807	-
Interest rate swap (2 contracts)	2045-2055	25,599	-	(57,548)
			62,807	(57,548)

Cash collateral in respect of the swap positions is paid to or received from the swap counterparties based upon the net exposure to each counterparty. As at 30 June 2018 collateral received was £22,120,000 (2017: £23,920,000) and collateral paid was £16,849,171 (2017: £17,684,950).

#### 17. Repurchase agreements

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Repurchase agreements	(165,048)	-	(165,048)	(250,638)	-	(250,638)

In order to maintain (and increase) the Scheme's economic exposure to interest rates and inflation rates, a liability hedging programme has been put in place. These instruments are used to achieve the Scheme's agreed target level of liability hedging hence to reduce the investment risk of the Scheme assets relative to the liabilities. The repurchase agreements are part of the investment manager's liability matching portfolio. The Scheme received cash consideration from the counterparties in return for the transfer of bonds, which it is committed to repurchase for the consideration received plus accrued interest.

	£000
Cash consideration received	165,048
Accrued interest payable to counterparties	171
Amounts payable to counterparties on expiration of contracts	165,219

As at 30 June 2018, the Scheme assets include bonds with a market value of £166,594,188 pledged as collateral against repurchase agreements. The market value of the underlying securities is the year end value and will not directly reconcile to the cash consideration received and the amount payable to the counterparties as the cash consideration is based on the original market value of the securities at the outset of the contract.

£1,911,948 cash collateral has also been pledged in relation to the repurchase agreements.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 18. Insurance policies

	2018 £000	2017 £000
Alba Life	24,700	26,700
Phoenix Life	1,035,300	1,045,100
	1,060,000	1,071,800

The Scheme holds insurance policies with Alba Life and Phoenix Life. These policies are valued by the Scheme Actuary and the following key assumptions have been used:

#### Financial assumptions

Discount rate - Post retirement  
Pension increases

Gilt yield curve

Derived from the RPI or CPI price inflation assumption allowing for the maximum and minimum annual increases using term dependent best estimates of future inflation volatility or allowing for the relevant fixed rate of increase that applies (e.g. 3% per annum)

#### Demographic assumptions

Post-retirement mortality

90% of S2PA tables, allowing for year of birth, with improvements in line with CM 2017 core projections for males and females with  $S_k=8.0$ , together with a long term rate of mortality improvement of 1.75% p.a.

Marital assumptions

A man is assumed to be three years older than his wife.  
90% of non-pensioners are assumed to be married or have a dependant at retirement or earlier death  
90% of male and female pensioners are assumed to be married or have a dependant at the valuation date.

#### 19. Additional Voluntary Contributions (AVCs)

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Phoenix Life	1,367	-	1,367	1,473	-	1,473
Phoenix Mutual	17	-	17	17	-	17
	1,384	-	1,384	1,490	-	1,490

The Trustee holds assets which are separately invested from the main Scheme to secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 30 June each year confirming the amounts held to their account and movements during the year.

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

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 20. Cash and other investment balances

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Cash	40	-	40	37	-	37
Cash in transit	-	4	4	-	270	270
Dividends and withholding tax	5,924	-	5,924	4,123	-	4,123
	<u>5,964</u>	<u>4</u>	<u>5,968</u>	<u>4,160</u>	<u>270</u>	<u>4,430</u>

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 21. Fair value of investments

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

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

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

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

Category	Level 1 £000	Level 2 £000	Level 3 £000	2018 Total £000
<b>DB section</b>				
<b>Investment assets</b>				
Bonds	-	1,173,046	-	1,173,046
Insurance policies	-	-	1,060,000	1,060,000
Pooled investment vehicles	64,766	-	91,373	156,139
Derivatives	-	-	5,259	5,259
AVC investments	-	1,384	-	1,384
Cash	40	-	-	40
Accrued interest	5,924	-	-	5,924
Repurchase agreements	-	-	(165,048)	(165,048)
	<u>70,730</u>	<u>1,174,430</u>	<u>991,584</u>	<u>2,236,744</u>
<b>DC section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	126,773	-	126,773
Other investments	4	-	-	4
	<u>4</u>	<u>126,773</u>	<u>-</u>	<u>126,777</u>
	<u>70,734</u>	<u>1,301,203</u>	<u>991,584</u>	<u>2,363,521</u>

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Category	Level 1	Level 2	Level 3	2017
	£000	£000	£000	Total £000
<b>DB section</b>				
Bonds	-	1,198,463	-	1,198,463
Insurance policies	-	-	1,071,800	1,071,800
Pooled investment vehicles	4,087	-	171,943	176,030
Derivatives	-	-	6,826	6,826
AVC investments	-	1,490	-	1,490
Cash	37	-	-	37
Accrued interest	4,124	-	-	4,124
Repurchase agreements	-	-	(250,638)	(250,638)
	8,248	1,199,953	999,931	2,208,132
<b>DC section</b>				
Pooled investment vehicles	-	114,221	-	114,221
Other investments	270	-	-	270
	270	114,221	-	114,491
	8,518	1,314,174	999,931	2,322,623

## 22. Investment risks

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

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

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

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

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

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

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

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22. Investment risks (continued)

During the year to 30 June 2018, the Trustee instructed the sale of the Innisfree holding. Between April and June 2018 the PFI funds were sold and the proceeds were invested in the LDI account managed by Insight.

Post year end the Blackstone holdings were fully redeemed. The proceeds settled in the Insight account on 31 July 2018. A small holding (c. 5% of the Scheme's Blackstone holding) will remain with Blackstone until completion of the Blackstone Partners Offshore Fund's 2018 audit, with payment of any residual holding expected in June 2019.

The updated Statement of Investment Principles, which reflected the removal of the Scheme's return-seeking assets, was agreed by the Trustee in July 2018.

#### Investment Policy and Objectives

The Trustee aims to invest the assets of the Defined Benefits (DB) section of the Scheme prudently to ensure that the benefits promised to members are provided. In setting a suitable investment strategy, the Trustee is mindful of the long term objective of the Scheme. Over the year to 30 June 2018 the Trustee has reduced the expected return and risk to which the Scheme is exposed, with the aim of reducing the potential downsides and removing assets from the Scheme which are less liquid and/or transferrable as part of any future "buy out".

The asset allocation strategy that the Trustee has selected, after consultation with the employer, is designed to be the lowest-risk asset allocation that they could adopt in relation to the Scheme's liabilities

The agreed asset allocation strategy chosen to meet the objective above is set out in the following table.

	Target weighting %	Benchmark index
<b>Defensive assets assets</b>	<b>100.00</b>	
Liability Driven Investment (LDI) and collateral Annuity Policy	100.00	Bespoke Liability Benchmark (Insight) No formal benchmark in place
<b>Total</b>	<b>100.00</b>	

#### Custody of assets

The Trustee has appointed JP Morgan as the DB section's custodian. The custodian provides safekeeping of the Scheme's assets held with Insight and performs the associated administrative duties, such as the collection of interest and dividends and dealing with corporate actions.

#### Currency risk

The Scheme is subject to currency risk to the extent that the pooled funds in which it invests purchase assets denominated in currencies other than Sterling without hedging the currency risk. The Scheme has invested in funds where the currency risks associated with any non-Sterling denominated investments may not be hedged. This currency risk is mitigated by the manager using currency hedging "caps and collars" to reduce exposure. The Trustee considers any currency risk in the Blackstone Fund as part of the overall determination of the Fund's investment strategy where the manager actively decides if the risk needs to be mitigated. Although the Scheme redeemed from the Blackstone Fund on 1 July 2018, the Scheme was somewhat exposed to currency risk to the extent described above.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22. Investment risks (continued)

The Scheme's total investments in funds with some exposure to currency risk as at 30 June (2018 and 2017) were:

Exposure to currency risk	30 June 2018	30 June 2017
	Market value	Market value
	£000	£000
Innisfree Secondary Fund	-	49,404
Innisfree Secondary Fund 2	-	34,987
Blackstone – Partners Offshore Fund	91,372	87,552
<b>Total</b>	<b>91,372</b>	<b>171,943</b>

Source: Investment Managers and JP Morgan (custodian and performance measurer). The significant decrease in total value reflects the Innisfree assets sold and transferred to Insight's LDI mandate during 2018.

#### Interest rate risk

The Scheme is subject to interest rate risk within the Scheme's LDI portfolio, managed by Insight, and the value of the annuity policies held with (Phoenix Life Limited) PLL.

The Scheme has instructed Insight to invest the LDI portfolio so that the interest rate and inflation sensitivity of the total Scheme assets is more than that of the liabilities to reflect that the Scheme is in surplus, and to reduce volatility of the funding level. To the extent that the assets are subject to interest rate risk, this provides a hedge to movements in interest rates in the liabilities and therefore reduces the risk for the Scheme in aggregate. The objective of the Scheme's LDI mandate is to broadly hedge the funding level of the Scheme. As at 30 June 2018, the Trustee aims to achieve this objective by targeting a hedge of 111% of the liability cashflow benchmark with Insight. The value of the annuity policies are expected to move in line with the liabilities they cover.

Within the Fund of hedge funds, the manager will have discretion to invest in assets which result in interest rate risk. The underlying investment managers decide whether or not to hedge the interest rate risk taking into account whether this is a deliberate exposure and forms part of the overall objectives of the fund. The Scheme's key exposures to interest rate risk as at 30 June (2018 and 2017) were:

Exposure to interest rate risk	30 June 2018	30 June 2017
	Market value	Market value
	£000	£000
Defensive assets	1,081,599	962,898
<b>Total</b>	<b>1,081,599</b>	<b>962,898</b>

Source: Investment Managers and JP Morgan (custodian and performance measurer). The significant increase in total value reflects the Innisfree assets sold and transferred to Insight's LDI mandate during 2018.



## PGL PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22. Investment risks (continued)

##### Other price risk

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

Before investing in any asset class, or entrusting the Scheme's assets to a particular manager, the Trustee takes advice on the risks involved both on a quantitative and qualitative basis from their investment consultant.

The decision as to whether to invest in a particular security is delegated to the manager within specified investment restrictions.

The Trustee seeks to ensure that, when considered as a whole, the risks taken by the Scheme are suitably sized and diversified in terms of the type of risk taken and the sources of expected future returns.

These risks are managed by ensuring that the portfolio is well diversified both across asset classes and within each individual asset class. In addition, the Trustee takes advice from their investment consultant as to the continuing suitability of the asset classes and managers in which they invest.

The Trustee receives regular reports from their managers and investment consultant setting out the nature and extent of the risks in the Scheme's assets.

The DC Section of the Scheme has exposure to these risks because of the investments it makes in following the investment strategy described in this report.

As well as investment risk, the Trustee also recognises that members are exposed to a number of other risks including:

- **Market fluctuations** – where unit linked policies are used, the value of policies allocated for member benefits may fluctuate with the movement in the underlying asset values. This means that, at a member's retirement, there is the possibility that the fund will have to be realised at an inopportune time to provide retirement benefits.
- **Annuity purchase** – the rates applied when pension funds are used to buy annuities may be more expensive than anticipated and the more expensive annuity rates could coincide with a time when retirement funds have lost value due to market fluctuations, as described above.
- **Inflation** – the absolute return on investments and hence the value of the pension policy may be diminished by inflation.
- **Assets may not be readily realisable** – a member may want to use policy proceeds for benefits at a time when there may be a delay in realisation (mainly related to investments in property based funds).

The Scheme has exposure to these risks because of the investments it makes in following the agreed investment strategy.

## PGL PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22. Investment risks (continued)

##### Risk management structure

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

The Trustee has appointed three investment managers to manage the Scheme's assets under agreed mandates. The Trustee requires the investment managers to operate within agreed target allocations, benchmarks and risk tolerance levels consistent with the Statement of Investment Principles.

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

The Trustee has decided to implement the DC Section's investment strategy through Aon's Delegated DC Services. Under this approach, the Trustee delegates the selection of the platform provider, available fund range and day to day management of the funds to Aon, through Hewitt Risk Management Services Limited (HRMSL). The selection of stocks is delegated to the underlying investment managers used within each fund, as chosen by HRMSL. The Trustee reviews the performance of its investment manager against the agreed performance objectives.

##### Risk measurement and reporting

The Trustee monitors the Scheme's risks periodically with appropriate reference to potential losses. The Trustee measures risks both qualitatively and quantitatively.

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

##### Risk mitigation

The Trustee's approach to managing investment risk is set out in the Statement of Investment Principles.

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

The Trustee acknowledges that its investment managers may use derivatives and other instruments for trading purposes and in connection with its risk management activities.

##### Credit risk

The main source of credit risk within the portfolio is due to Annuity Policy and the investment in bonds and instruments that are used to manage the interest rate and inflation exposure of the Scheme.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22. Investment risks (continued)

By purchasing an annuity policy the Trustee has an agreement with the insurer (PLL) that the insurer will honour the benefit payments as and when they fall due. This removes a number of risks from the Scheme (market risk, longevity risk etc.) but does give rise to a credit risk, in that if PLL were unable to make the benefit payments (that they are obliged to make) then the responsibility of making those payment falls on the Trustee. This is mitigated in a number of ways:

1. The Trustee received financial due diligence advice in relation to PLL.
2. PLL are required to meet prudent reserving requirements
3. The FSCS provides protection to the owner of the annuity
4. The buy-in is backed by high quality collateral, expected to cover over 90% of the liability value.

This collateral is reviewed on a quarterly basis by Risk Specialists at Aon Hewitt.

The objective of taking on credit exposure within the segregated LDI holding is to minimise the impact that movement of gilt prices has on the Scheme's funding position. The Scheme accepts the credit risk is unavoidable if it is to manage these exposures effectively.

The credit risk is managed by ensuring that guidelines are in place for Insight to ensure an appropriate overall level of credit quality and diversification of issuers and counterparties commensurate with the objectives of the investment. The agreements underlying any derivatives trades are also reviewed by the Scheme's investment advisers and lawyers to ensure any risks which the Scheme is exposed to are reasonable.

The Trustee receives regular reports from Insight setting out the extent of credit risk within the portfolio and, in particular, whether any agreed guidelines have been breached.

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

Indirect credit risk arises in relation to underlying investments held in the pooled infrastructure investment vehicles and also, to a lesser extent, the fund of hedge funds. The credit risk exposure is taken in an effort to generate returns, which are expected to compensate for the risk taken. In the case of the infrastructure holding, the fund invests into projects in return for an agreed set of future cashflows, so credit risk is a fundamental feature of the investment. The Credit risk associated with the infrastructure projects is perceived to be very low.

The Trustee mitigates some of the credit risk associated with the pooled fund using the following:

- Before entrusting the Scheme's assets to a particular manager, the Trustee takes advice on the risks involved both on a quantitative and qualitative basis from their investment consultant
- By investing in pooled funds containing an appropriate degree of diversification
- By investing in pooled funds that have appropriate benchmarks and investment restrictions
- By regularly reviewing the investment manager's performance.

As at 30 June 2018, all of the Scheme's assets were subject to credit risk to some extent. The DC Section is subject to direct credit risk in relation to its policy with AEGON.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22. Investment risks (continued)

Should AEGON become insolvent, statutory protection is in place through the Financial Services Compensation Scheme (FSCS). The FSCS covers business conducted by firms authorised by the Financial Conduct Authority (FCA), and applies when a firm is unable or likely to be unable to pay claims arising against it. If AEGON became insolvent, the Trustee would be eligible to make a claim on the FSCS in respect of all assets invested through the AEGON policy.

The DC Section is subject to credit risk relating to HRMSL, as manager of the Delegated DC Funds used within the DC investment strategy, and the underlying fund managers chosen by HRMSL for use within the Delegated DC Funds. The Trustee has received advice from its investor advisor providing information on these risks and how each risk is mitigated.

The DC Section is also subject to credit risk within the underlying funds which provide exposure to bonds and cash. The underlying funds invest in pooled investment vehicles, and are therefore directly exposed to credit risk in relation to the instruments they hold in the pooled investment vehicles. Member level risk exposures will be dependent on the funds invested in by members.

The credit risk is managed by HRMSL by ensuring that guidelines are in place for the underlying investment managers commensurate with the objectives of the investment.

#### Summary of DC Section risk exposure

The table overleaf summarises the potential risk exposures by fund at 30 June 2018:

	Fund risk	Credit risk	Currency	Interest rate risk	Other price risk
PGL Initial Growth Phase Fund	✓		✓		✓
PGL Progressive Growth Phase Fund	✓	✓	✓	✓	✓
PGL Bond Phase Fund	✓	✓	✓	✓	✓
PGL Short Term Inflation Linked Fund	✓			✓	✓
PGL Long Term Inflation Linked Fund	✓			✓	✓
PFL Pre-Retirement Bond Fund	✓	✓		✓	✓
PGL Liquidity Fund	✓	✓		✓	✓
PGL Global Equity Fund	✓		✓		✓
PGL Property and Infrastructure Fund	✓		✓	✓	✓
PGL Diversified Multi Strategy Bond Fund	✓	✓	✓	✓	✓
PGL Active Global Equity Fund	✓		✓		✓

For reference, we have considered credit risk only in the context of underlying securities held rather than credit risks associated with AEGON, HRMSL or the underlying managers.

## PGL PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 23. Concentration of investments

The following investments, excluding UK Government securities, account for more than 5% of the Scheme's net assets as at 30 June 2018.

	Value £000s	2018 %	Value £000s	2017 %
Phoenix Life Limited annuity	1,035,300	43.66	1,045,100	44.10

#### 24. Current assets

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Employer contributions due	-	8	8	-	262	262
Employee contributions due	-	47	47	-	1	1
Bank	10,075	764	10,839	11,284	252	11,536
Sundry debtors	23	-	23	22	-	22
	<u>10,098</u>	<u>819</u>	<u>10,917</u>	<u>11,306</u>	<u>515</u>	<u>11,821</u>

All contributions due to the Scheme at 30 June 2018 and 30 June 2017 relate to June 2018 and June 2012 respectively were paid in full in accordance with the Schedule of Contributions and therefore do not count as Employer Related Investments.

Included in the DC cash is £11,750 (£11,829) which is not allocated to members. All other DC assets are allocated to members.

#### 25. Current liabilities

	DB £000	DC £000	2018 Total £000	DB £000	DC £000	2017 Total £000
Accrued expenses	1,518	6	1,524	647	6	653
Accrued benefits	275	23	298	126	31	157
HM Revenue & Customs	669	35	704	675	4	679
Sundry creditors	433	-	433	502	-	502
	<u>2,895</u>	<u>64</u>	<u>2,959</u>	<u>1,950</u>	<u>41</u>	<u>1,991</u>

## PGL PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 26. Employer related investments

At the year end the Scheme holds underlying investments in Phoenix Group Holdings within its Pooled Investment Vehicle assets at a bid value of less than 0.001% (2017: less than 0.001%) of the total assets of the Scheme.

At the year end, the Scheme held an investment asset of £1,060.0m (2017: £1,071.8m) in a bulk annuity buy-in policy with Phoenix Life, which is part of the same group as the Employers under the Scheme.

#### 27. Related Party Transactions

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

Principal and participating Employers are considered related parties. All transactions involved with these entities relate to remittance of monthly contributions required under the rules of the Scheme. The principal employer recharges the Scheme for costs.

At the year end two of the Directors of the Trustee company were pensioners and receiving benefits.

In addition to the above one of the Trustee's Directors and the Chair receive fees settled by the Employer.

The Scheme holds AVC assets with Phoenix Life and Phoenix Mutual which are both part of the same group as the Employers under the Scheme.

Annuity policies with Phoenix Life are related party transaction as Phoenix Life is part of the same group as the Employers under the Scheme.

Other than those items disclosed elsewhere in the financial statements, were no related party transactions, that require separate disclosure.

#### 28. Contingent assets and liabilities

In the opinion of the Trustee the Scheme had no contingent liabilities as at 30 June 2018 (2017: £nil).

## PGL PENSION SCHEME

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### INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 30 JUNE 2018

#### Statement about contributions

##### Opinion

In our opinion, the contributions required by the Schedules of Contributions for the Scheme year ended 30 June 2018 as reported in PGL Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the Schedules of Contributions certified by the Scheme actuary on 30 June 2016 and 27 November 2017.

We have examined PGL Pension Scheme's Summary of Contributions for the Scheme year ended 30 June 2018 which is set out on the following page.

##### Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

#### Responsibilities for the Statement about Contributions

##### Responsibilities of the Trustee in respect of contributions

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by Employers in accordance with relevant requirements.

##### Auditors' responsibilities in respect of the statement about contributions

It is our responsibility to provide a statement about contributions and to report our opinion to you.

##### Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

Date: 29 January 2019

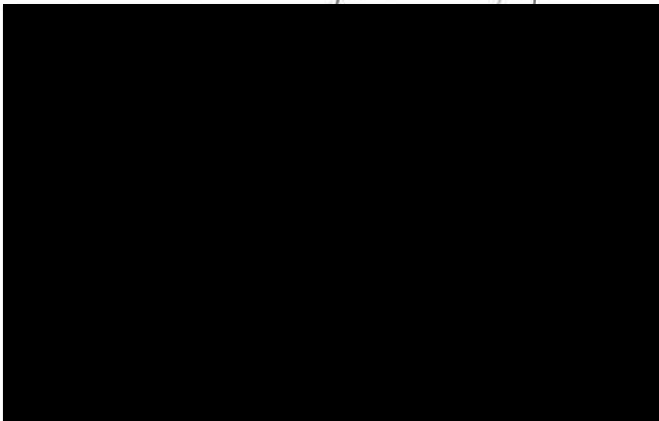
## PGL PENSION SCHEME

### SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 30 JUNE 2018

During the year ended 30 June 2018, the contributions payable to the Scheme were as follows:

	DB £'000s	DC £'000s	2018 £'000s
<b>Contributions required by the schedule of contributions</b>			
Normal	-	8,937	8,937
Deficit	2,500	-	2,500
	<u>2,500</u>	<u>8,937</u>	<u>11,437</u>
Other contributions			
AVCs	-	1,069	1,069
<b>Total</b>	<u><b>2,500</b></u>	<u><b>10,006</b></u>	<u><b>12,506</b></u>

Approved by the Trustee and signed on its behalf:





## PGL PENSION SCHEME

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### ACTUARIAL STATEMENT

#### ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

**Name of scheme:** PGL 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 can be expected to continue to be met for the period for which the schedule is to be in force.

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule and the statement of funding principles.

#### 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 30 June 2016.

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



Date: 27 November 2017

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2QD

Name of employer: Aon Hewitt Limited

## **PGL PENSION SCHEME**

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### **APPENDIX**

## **PGL Pension Scheme** **Statement of Investment Principles**

### **Defined Contribution Section**

The investments described in this section of the Statement of Investment Principles cover options available for members' benefits held in the Defined Contribution ('DC') section of the Scheme in addition to the investments available to members with DB Section AVCs which themselves are categorised as DC benefits.

#### **Investment Objective**

In designing the fund range overall, the Trustee's key aim is to provide a range of investments that are suitable for meeting members' long- and short-term investment objectives. They have taken into

### **INVESTMENT MANAGEMENT ARRANGEMENTS**

The Trustee has decided to implement the Scheme's DC investment strategy through Aon's Delegated DC Services. Under this approach, the Trustee delegates the selection of the platform provider, available fund range and day to day management of the funds to Aon, through Hewitt Risk Management Services Limited (HRMSL).

The available fund range consists of a number of white-labelled blended funds. The underlying managers and structure of each blended fund is delegated to the investment manager, namely HRMSL. A small number of additional funds are also available outside of the delegated DC funds.

### **ASSET ALLOCATION STRATEGY**

The Trustee recognises that the key source of financial risk (in relation to members meeting their objectives) normally arises from asset choice. The Trustee therefore retains responsibility for the investment fund options made available to the membership and takes expert advice as required from its professional advisers.

Three distinct asset allocation strategies are offered to members, which target different benefits at retirement, namely drawdown, annuity purchase and cash.

Each asset allocation strategy aims to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to equities, and then to gradually diversify their investments in the years approaching retirement, to reduce volatility and provide a broad base of assets from which members can choose the type of benefits they wish to take. This is achieved by automatically moving members' funds from return-seeking assets, which aim for long-term growth in excess of inflation, to a more broad-based and lower risk asset mix as a member approaches their selected retirement age.

For members who do not wish to make an active decision regarding the investment of their assets, a Default Option has been put in place following consideration of the Scheme membership, the risks

## PGL PENSION SCHEME

### APPENDIX

associated with investment and after taking advice from Aon Hewitt Ltd. This Default Option assumes members draw-down income at retirement.

In setting the three asset allocation strategies, the Trustee has reviewed the extent to which the return on investments (after deduction of any charges relating to those investments) is consistent with the objectives of the strategy, which is broadly to provide an appropriate risk/return profile given the needs of members.

The Trustee regularly reviews the appropriateness of the three asset allocation strategies and may make changes from time to time. Members are advised accordingly of any changes.

Details of the three asset allocation strategies are provided below.

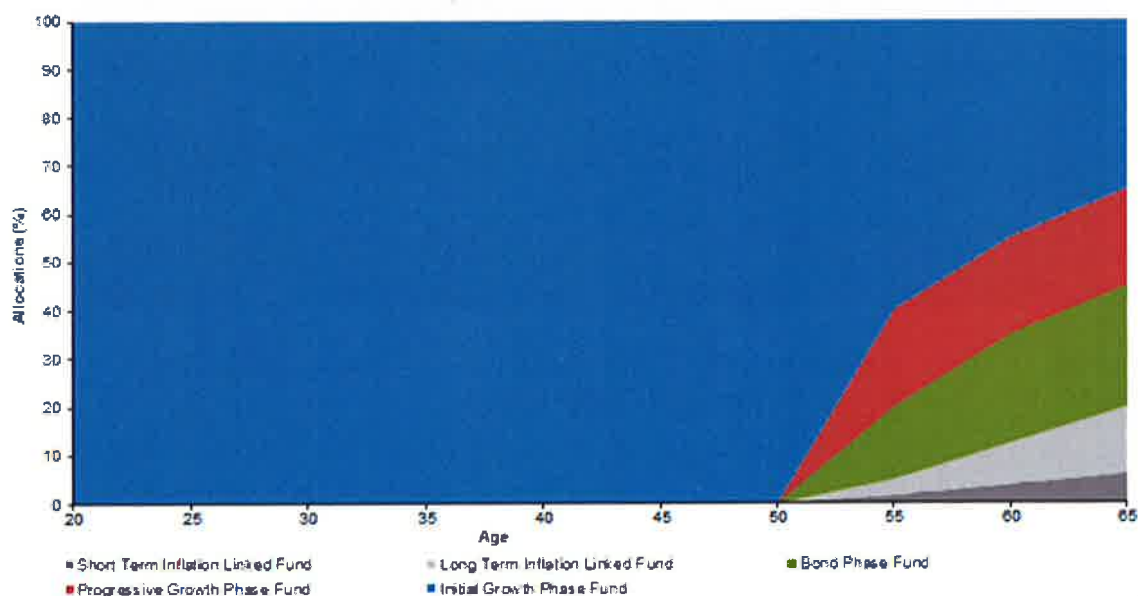
#### Drawdown Lifestyle Strategy (The Default Option)

The Drawdown Lifestyle Strategy works on the principle that a member electing this option will transfer their account to a specialist income drawdown arrangement.

The Drawdown Lifestyle Strategy initially invests wholly in the Aon Managed Initial Growth Phase Fund until fifteen years before a member's selected retirement age. During this 'growth' phase, the Drawdown Lifestyle Strategy aims to provide real growth (in excess of inflation) over the long term.

From fifteen years from a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, through the Aon Managed Progressive Growth Phase Fund, Aon Managed Bond Phase Fund, Aon Managed Short Term Inflation Linked Fund and Aon Managed Long Term Inflation Linked Fund.

At a member's selected retirement date, the Drawdown Lifestyle Strategy invests the member's assets across a range of asset classes with the aim of providing a real income during the post-retirement phase whilst protecting the value of the investments.



# PGL PENSION SCHEME

## APPENDIX

### Annuity Lifestyle Strategy

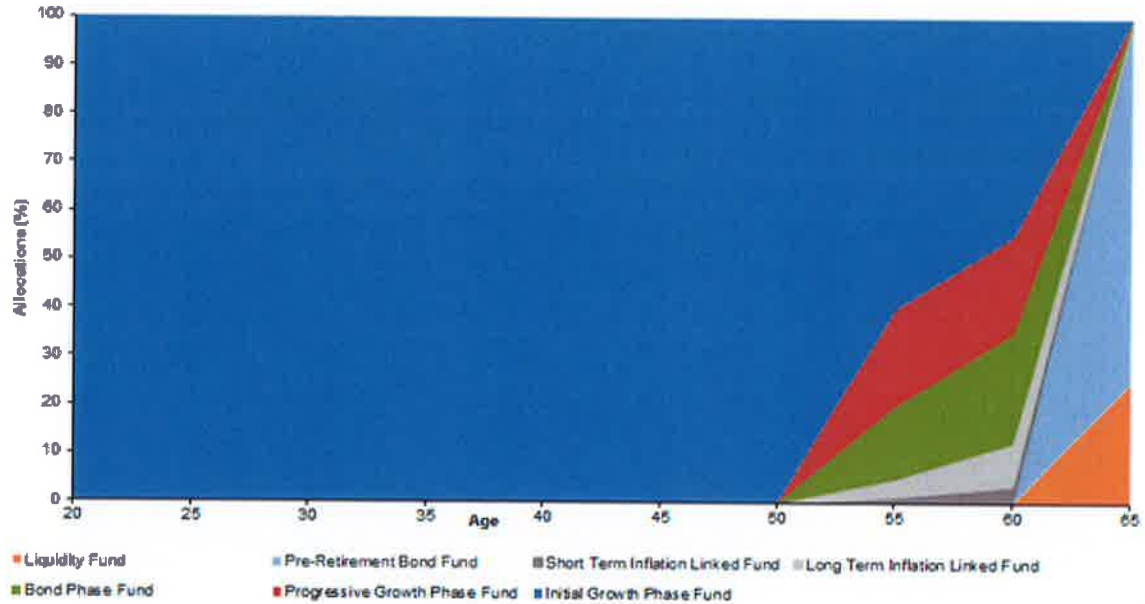
The Annuity Lifestyle Strategy works on the principle that a member electing this option will take the maximum tax free cash sum and use the rest of their account to purchase an annuity at retirement.

The Annuity Lifestyle Strategy initially invests wholly in the Aon Managed Initial Growth Phase Fund until fifteen years before a member's selected retirement age. During this 'growth' phase, the Annuity Lifestyle Strategy aims to provide real growth (in excess of inflation) over the long term.

From fifteen years from a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, through the Aon Managed Progressive Growth Phase Fund, Aon Managed Bond Phase Fund, Aon Managed Short Term Inflation Linked Fund and Aon Managed Long Term Inflation Linked Fund. From five years before a member's selected retirement age a member's account is moved into lower risk assets through the Aon Managed Pre-Retirement Bond Fund and the Aon Managed Liquidity Fund.

At a member's selected retirement date, the Annuity Lifestyle Strategy invests the member's assets with 75% in the Aon Managed Pre-Retirement Bond Fund and 25% in the Aon Managed Liquidity Fund with the aim of protecting the value of the investments relative to movements in annuity prices and cash.

This structure is summarised in the chart below.



# PGL PENSION SCHEME

## APPENDIX

### Cash Lifestyle Approach

The Cash Lifestyle Strategy works on the principle that a member electing this option will take the whole of their account as a cash lump sum at retirement.

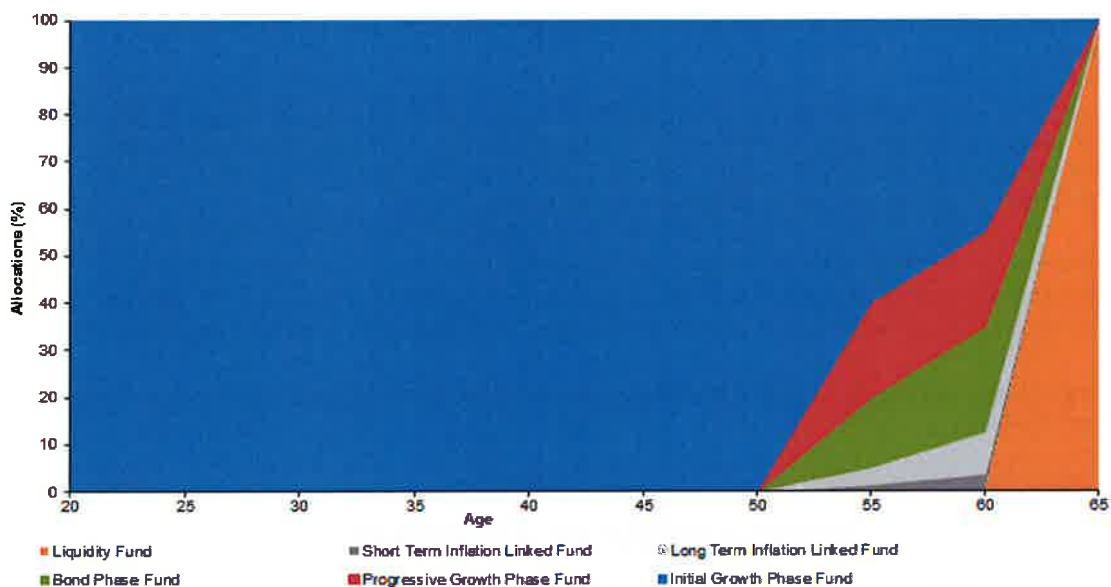
The Cash Lifestyle Strategy initially invests wholly in the Aon Managed Initial Growth Phase Fund until fifteen years before a member's selected retirement age. During this 'growth' phase, the Cash Lifestyle Strategy aims to provide real growth (in excess of inflation) over the long term.

From fifteen years from a member's selected retirement age, lower risk investments are gradually introduced, including protection and income generating investments, through the Aon Managed Progressive Growth Phase Fund, Aon Managed Bond Phase Fund, Aon Managed Short Term Inflation Linked Fund and Aon Managed Long Term Inflation Linked Fund. From five years before a member's selected retirement age a member's account is moved into cash, namely the Aon Managed Liquidity Fund.

At a member's selected retirement date, the Cash Lifestyle Strategy invests the member's assets 100% in the Aon Managed Liquidity Fund, with the aim of protecting the value of the investments relative to cash.

This structure is summarised in the chart below.

Cash Lifestyle



## PGL PENSION SCHEME

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### APPENDIX

#### DEFAULT LIFESTYLE STRATEGY: RATIONALE

The asset allocation strategies, including the Default Option, have been constructed following analysis of the existing membership of the Scheme. This analysis took into account factors such as age, accumulated fund values and term to retirement, to identify different types of member in order to test alternative investment strategies.

The design of the Default Option offered to members reflects this analysis, having carried out multiple simulations of future economic and investment scenarios, and also taking into account the various options members will have regarding the way in which they draw their benefits in retirement.

The aim of the Default Option is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to equities, and then to gradually diversify their investments in the years approaching retirement, to reduce volatility and provide a broad base of assets from which members can choose the type of benefits they wish to take.

The outcomes of the Default Option and other lifestyle strategies will be reviewed periodically with reference to the manner in which members take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

#### CHOOSING INVESTMENTS

The investment options offered to members are deemed appropriate, given the nature of the membership.

The Trustee has put in place the default arrangement described above, in acknowledgement that some members will be unwilling or feel unable to make investment choices. A choice of alternative asset allocation strategies, as well as self-select fund options, are offered so members can tailor their investment selections, to meet their requirements, if they so wish.

Day to day management of the funds including the selection of the underlying investment managers and asset allocation structure is delegated to HRMSL under Aon's Delegated DC Services. The selection of stocks is delegated to the underlying investment managers used within each fund, as chosen by HRMSL.

The Trustee takes professional advice when formally reviewing the investment manager or fund options offered to members.

The range of investment options is set out in the table in Appendix 1.

#### RISK MEASUREMENT AND MANAGEMENT

The Trustee recognises that members take the investment risk. The Trustee takes account of this in the selection and monitoring of the investment manager and the choice of funds offered to members. The main areas of risk with this type of arrangement are as follows:-

**Default option risk** - the risk of the default option being unsuitable for the requirements of some members. The Trustee has provided additional strategies and individual fund options in addition to the default, and has communicated to members the need to review their own requirements and circumstances before making any investment decisions.

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**Market risk** - the Scheme is subject to currency, interest rate and other price risk associated with the underlying investments. These risks can impact the valuations of the funds. The Trustee has selected a wide range of funds to be available to allow members to suitably diversify their investments to manage these risks. This is also considered when setting the lifestyle strategies. Further, the Trustee closely monitors the performance of the funds and receives formal quarterly reports from the investment adviser giving views on their continuing appropriateness, and that of the underlying fund managers.

**Annuity purchase** – the rates applied when pension funds are used to buy annuities may be more expensive than anticipated and the more expensive annuity rates could coincide with a time when funds have lost value due to market fluctuations, as described above. For those members invested in the Annuity Lifestyle Strategy, members' funds will automatically be switched into the Aon Managed Pre-Retirement Bond Fund as they near retirement, with the aim of protecting the value of the benefits that will be provided.

**Inflation** – the absolute return on investments and hence the value of the pension policy may be diminished by inflation. To help mitigate this risk, a range of funds is offered including growth funds which aim to provide real growth (in excess of inflation) over the long term.

**Assets may not be readily realisable** – a member may want to use policy proceeds for benefits at a time when there may be a delay in realisation (mainly related to investments in property based funds). The fund options available, however, enable members to link their policies to more liquid investments as they approach retirement.

Due to the complex and interrelated nature of these and other risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustee's policy is to review the range of funds offered and the suitability of the lifestyle option at least triennially.

In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

### CUSTODY

Investment in pooled funds gives the Trustee rights to the cash value of the units rather than to the underlying assets. The underlying investment manager of each of the pooled funds is responsible for the appointment and monitoring of the custodian of the fund's assets.

### EXPECTED RETURN ON ASSETS

Over the long-term the Trustee's expectations are:

- for units representing "growth" assets (UK equities, overseas equities, multi-asset funds and property), to achieve a real return (in excess of inflation) over the long term. The Trustee considers short-term volatility in equity price behaviour to be acceptable, given the general expectation that over the long-term equities will outperform the other major asset classes
- for units representing monetary assets (UK bonds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing fixed income annuities
- for units representing inflation linked assets (UK index-linked bonds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing real annuities that increase in line with inflation

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- for units representing cash, to protect the capital value of the investment and achieve a rate of return in line with money market interest rates

Returns achieved by the investment manager are assessed against performance benchmarks set by the Trustee in consultation with its investment adviser and the investment manager.

### REALISATION OF INVESTMENT

The Trustee recognises that there is a risk of holding assets that cannot easily be realised should the need arise. The majority of assets held on behalf of members are realisable at short notice (through the sale of units in pooled funds).

### SOCIAL ENVIRONMENTAL OR ETHICAL CONSIDERATION

The Trustee offers a range of funds including specialist funds which aim to address social environmental and ethical considerations.

### ACTIVISM AND THE EXERCISE OF RIGHTS ATTACHING TO INVESTMENTS

As the assets are held indirectly through unit linked funds it is the responsibility of the underlying investment manager of each of the pooled funds to exercise the rights attaching to the investments. The Trustee will review from time to time the underlying investment managers' principles and how these have been applied in exercising these rights.

### FEE STRUCTURE FOR INVESTMENT MANAGER

The investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice. Annual investment management charges (including other annual charges levied by the investment manager and some administration charges) are met by the members by deduction from the unit price.

### INVESTMENT ADVISER

Aon Hewitt Limited has been selected as investment adviser to the Trustee. It operates under an agreement to provide a service designed to ensure that the Trustee is fully briefed both to take the decisions it is equipped to do so after training and advice and to monitor those decisions that it delegates. Aon Hewitt Limited is currently paid on a time-cost basis with a fixed fee in place for certain regular pieces of work.

*This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.*

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### **APPENDIX**

#### **Appendix 1 – DC fund options**

This Appendix provides information on the fund options that are used in the three asset allocation strategies and available through the self-select fund range.

The Trustee has decided to implement the Scheme's DC investment strategy through Aon's Delegated DC Services. Under this approach, the Trustee delegates the selection of the platform provider, available fund range and day to day management of the funds to Aon, through Hewitt Risk Management Services Limited (HRMSL).

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#### Investment Management Arrangements

The following table describes the mandates given to the investment manager within each asset class.

Fund	Benchmark	Target
Initial Growth Phase Fund	90% MSCI All Country World Index 7% FTSE EPRA/NAREIT Developed Index 1.5% ARE/IPD UK Quarterly All Balanced Property Index 1.5% FTSE Developed Core Infrastructure Index	To outperform the benchmark
Progressive Growth Phase Fund	3 month LIBOR GBP	To outperform the benchmark by 3.0% pa over rolling three year periods
Bond Phase Fund	50% 3-month LIBOR GBP 50% iBoxx Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 1.5% pa over rolling three year periods
Short-Term Inflation Linked Fund	FTSE UK Gilts Up to 5 Year Index-Linked Gilts Index	To perform in line with the benchmark
Long-Term Inflation Linked Fund	FTSE UK Gilts Index-Linked Over 5 Years Index	To perform in line with the benchmark
Pre-Retirement Bond Fund	Manager bespoke	To perform in line with the benchmark
Liquidity Fund	7 Day LIBID Rate	To perform in line with the benchmark
Global Equity Fund (Passively Managed)	MSCI All Country World Index	To outperform the benchmark
Active Global Equity Fund	MSCI All Country World Index	To outperform the benchmark
Property & Infrastructure Fund	70% FTSE EPRA/NAREIT Developed Index 15% ARE/IPD UK Quarterly All Balanced Property Index 15% FTSE Developed Core Infrastructure Index	To outperform the benchmark
Corporate Bond Fund	3 month LIBOR GBP	To outperform the benchmark by 2.0% pa over rolling three year periods
UK Equity Fund	FTSE All Share Index	To perform in line with the benchmark
Ethical Global Equity Fund	FTSE4Good Global Index	To perform in line with the benchmark