



# Invensys Pension Scheme

## Trustee's Annual Report & Financial Statements 2019



# Contents

- 01 Chair's review
- 03 Trustee's report: the year in summary
- 06 Trustee, the Board, its committees, advisers and investment managers
- 08 Trustee's report
- 14 Investment report
- 19 Statement of Trustee's responsibilities
- 20 Statement regarding DC governance
- 31 Actuary's certificate of the calculation of Technical Provisions
- 32 Independent auditor's report to the Trustee of the Invensys Pension Scheme
- 34 Fund account
- 35 Statement of net assets
- 36 Notes to the financial statements
- 50 Summary of contributions
- 51 Actuary's certificate of Schedule of Contributions
- 52 Independent auditor's statement about contributions to the Trustee of the Invensys Pension Scheme
- 53 Members' information
- 54 Glossary

# Trustee Charter

## The Trustee will:

- Act in accordance with the Scheme's governing documents and the law.
- Act in the best interests of the members at all times, taking into account the position of each class of member.
- Act prudently, honestly, with integrity and in good faith having taken appropriate professional advice.
- Seek to safeguard members' benefits by managing Scheme funds effectively.
- Communicate to all members regularly and in a clear and concise way.
- Deliver a high level of service to all members.

# Chair's review

There are three parts to this review:

1. The year in summary
2. Our investment summary
3. The outlook

## 1. The year in summary

This section summarises the year to 31 March 2019.

### Triennial valuation

During the year, the Trustee completed a full valuation of the Scheme as at 31 March 2018. The liabilities of the Scheme (the Technical Provisions) were calculated by the Scheme Actuary using assumptions agreed with Invensys Limited (the Company). Total assets of £5,097m exceeded the estimated liabilities of £4,954m by £143m. This represents a funding level of 103%. The surplus at March 2015, the last full valuation of the Scheme, was £67m.

The main change in the assumptions from the 2015 valuation was a reduction in the assumed future improvement in members' life expectancy. This reflects recent trends. The methodology used to set the inflation and interest rates assumptions was not changed.

As the Scheme continues to be fully funded on a Technical Provisions basis no contributions are required from the Scheme's Sponsor, Invensys Limited or from the other participating employers in the Scheme.

### Estimated funding position

Each year, the Scheme Actuary provides the Trustee with an estimated funding position, based on the assumptions agreed at the previous triennial valuation. As at 31 March 2019, the assets of the Scheme were £5,045m and the liabilities were estimated to be £4,950m. This indicated that the Scheme had a surplus of £95m and a funding ratio of 102%.

### Schneider Electric results for 2018

Schneider Electric, which provides a £1,750m guarantee to the Scheme, reported its 2018 results on 15 February 2019. Adjusted earnings before interest, taxes and amortisation (EBITA) were €3.9bn (2017: €3.7bn). Free cash flow was €2.1bn (2017: €2.3bn). Total market capitalisation of Schneider Electric at 31 March 2019 was €41bn (circa £35bn).

### Scheme Administration

Pensioners are now able to access information using the on-line functionality provided by the Scheme administrator.

### Membership

The Scheme closed to future accrual on 31 March 2015. All the active members became deferred members at that time.

The Scheme has 60,713 members, 4.5% fewer than last year. 41,518 are receiving a pension and 19,195 are deferred members.

### Guaranteed Minimum Pension Reconciliation and Rectification

The Scheme continued to reconcile all its Guaranteed Minimum Pensions (GMPs) with the UK Government's records. All other pension schemes which have previously contracted out of the State Second Pension have been doing the same thing. The project involved the comparison of many thousands of records dating back to 1978 and is particularly complex because of the number of schemes that were merged into what became the Invensys Pension Scheme. We have made good progress and we expect to complete the reconciliation phase in 2019. Our Scheme administrator has already started to correct our records and the amount of GMP paid where necessary.

### Guaranteed Minimum Pension Equalisation

We have started to plan for the equalisation of GMPs, following the High Court decision in the Lloyds Bank pension scheme case in late 2018.

This ruling may affect the pension of members who accrued benefits between 17 May 1990 and 5 April 1997.

Further court ruling(s) and guidance for schemes affected by equalisation are expected in the coming year. We intend to start correcting benefits once the further guidance is published. This topic was discussed in the 2019 edition 1 of Pension News which is available on our website. We will continue to provide updates on this subject in future editions of Pension News.

### Pension Increase Exchange (PIE)

The final part of the Pension Increase Exchange project for Pensioner Members that the Company ran was completed in the year.

The Trustee continues to offer a PIE option to members as they reach retirement. Members selecting this option receive a higher initial pension but will receive lower increases to their pension in future years.

# Chair's review continued

## 2. Our investment summary

### Our investment strategy

Our investment strategy is:

1. to secure members' future benefits by reducing risk and delivering consistent, reliable investment performance.
2. to meet the requirement of the Company to achieve 1 percentage point above the return on gilts (The Strategic Target). This requires the Trustee to invest in assets that have an element of additional risk associated with them.

### The Scheme's assets grew by 5%, but underperformed against our Strategic Target resulting in a slightly smaller surplus

The year to 31 March 2019 saw a broadly supportive macro-economic environment. The US, Eurozone and UK economies grew in 2018 by 2.9%, 1.9% and 1.4% respectively. The performance of financial markets was generally positive.

The Scheme's assets achieved a return of 5.0% over the year, however this was 0.7 percentage points below the Strategic Target. The 5.7% Strategic Target reflected lower gilt yields which increased the present value of liabilities to be paid in the future.

During the year, the Investment Committee and the Executive Office focused on the following investment initiatives:

- Enhancement of risk return profile - implementing a number of asset re-allocations when the pricing of investment grade bonds was attractive relative to gilts.
- Ongoing focus on cash flow generation - ensuring that there is projected to be sufficient cash available to pay pensions.
- Management of Brexit - The Trustee has monitored the evolution of negotiations through the year. We have reviewed the legal documentation with the Scheme's service providers and counterparties, and considered the impact that potential Brexit scenarios may have on markets.

You can find further details in the Investment report on page 14.

### DC and AVC developments

Following a review, conducted with its Investment Adviser, the Trustee decided to

change both the range of funds available to members with DC and AVC investments and the default lifestyle arrangement. Based on an understanding of how most members use their DC savings, the default lifestyle fund now targets cash at retirement, rather than an annuity. These changes were implemented during 2018.

## 3. The outlook

### The Scheme is well positioned for the future

The funding level, along with the security provided by the Company, the other participating employers and the Schneider Electric SE Guarantee of £1,750m, gives the Trustee confidence that the Scheme is well positioned to pay the pensions promised to its members.

### The Trustee will continue to assess the financial security of the Scheme

Looking to the future, the Trustee will continue to monitor both the funding level and the security provided by the Company. Where there are opportunities to improve the security of our members' benefits, we will seek to work with the Company to achieve them.

The Trustee will continue to monitor the Scheme's investments closely, looking for ways to deliver the current investment target while managing investment risk.

### Thank you to the Board

I am grateful to the Board for their involvement, effort and enthusiasm. They continue to tackle demanding technical issues and oversee significant projects, in order to meet the responsibility of providing a safe and secure Scheme for all members, now and in the future. I would particularly like to thank Eleanor Ager, Tony Ferris and Andy Smith who left the Trustee during the year for their significant contributions. Both Eleanor and Tony served as directors of the Trustee for more than 11 years. Andy, who served as our CEO for six years, left in December 2018.



Kathleen O'Donovan  
Chair of the Board

10 July 2019

# Trustee's report: the year in summary

## The accounts in brief

£m	2019	2018	2017
<b>Fund value at start of the year</b>	<b>5,097</b>	<b>5,341</b>	<b>4,925</b>
<b>Income</b>			
Contributions paid by the Company and Scheme members	-	-	-
Income and capital gains/(losses) from investments	246	69	707
<b>Outgoings</b>			
Benefits payable to members (pensions and lump sums)	(247)	(256)	(249)
Payments to leavers	(35)	(41)	(22)
Fees and expenses (administration, advisers, investment managers)	(16)	(16)	(20)
<b>Fund value at end of the year</b>	<b>5,045</b>	<b>5,097</b>	<b>5,341</b>
<b>Less estimated value of Technical Provisions including AVCs and DC</b>	<b>(4,950)</b>	<b>(4,954)</b>	<b>(5,312)</b>
<b>Estimated surplus/(shortfall) as at year end</b>	<b>95</b>	<b>143</b>	<b>29</b>
<b>Funding Level</b>	<b>102%</b>	<b>103%</b>	<b>101%</b>

## Funding position

The Scheme Actuary provides the Trustee with an update of the Scheme's funding level each year. This is either a formal valuation, which is carried out at least every three years (the triennial valuation), or an annual estimate in the intervening years.

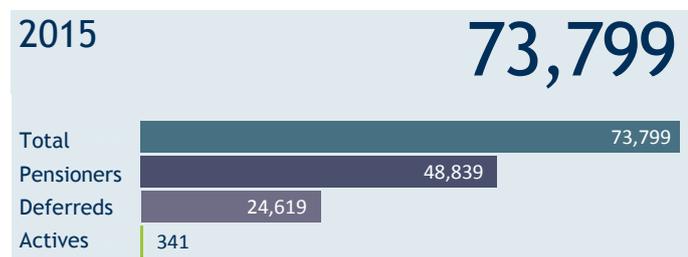
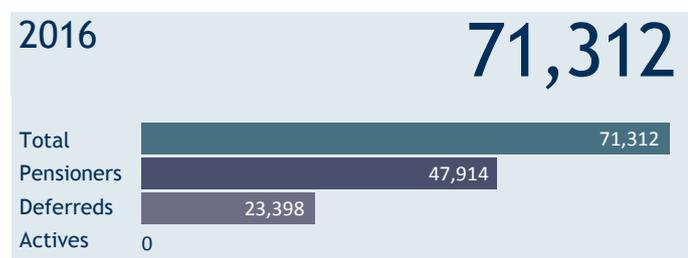
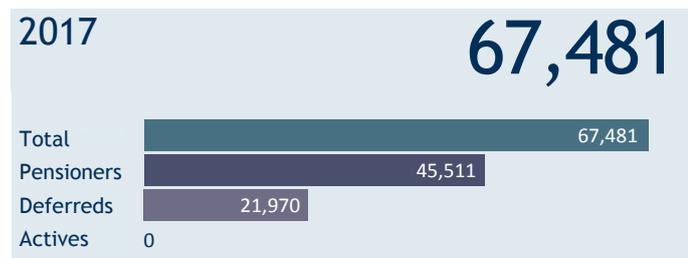
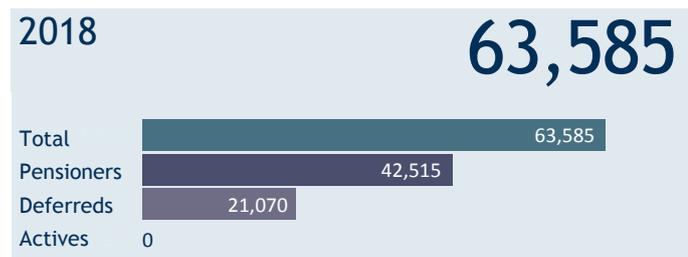
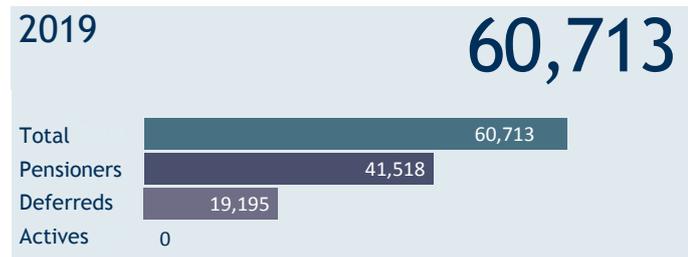
The last formal valuation was carried out at 31 March 2018. The amount required to cover the Scheme's liabilities is known as the Technical Provisions. In the 2018 valuation, the Technical Provisions amounted to £4,954m, giving a Scheme surplus of £143m and a funding level of 103%.

The next full valuation is expected to be carried out as at 31 March 2021.

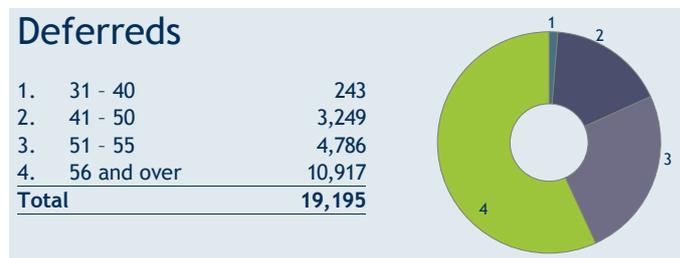
The Trustee continues to monitor the funding position of the Scheme using the assumptions that were put in place for the 2018 valuation to ensure the funding arrangements remain appropriate. The Scheme Actuary has estimated the Scheme had a surplus of £95m at 31 March 2019 using the 2018 valuation assumptions.

# The year in summary: membership profile

## Number of members



## Age profiles at 31 March 2019



\*Includes pensions payable to dependents of members

## Changes in membership during year

	Deferred	Pensioners	Total
At 31 March 2018	21,070	42,515	63,585
Retrospective adjustments <sup>1</sup>	(150)	(82)	(232)
Deaths	(55)	(2,190)	(2,245)
Retirements	(844)	844	-
Spouse/dependant pensions	-	631	631
Leavers <sup>2</sup>	(427)	(200)	(627)
Untraced Deferred over NRD <sup>3</sup>	(399)	-	(399)
At 31 March 2019	19,195	41,518	60,713
Of which, members of the Defined Contribution (DC) Section total	180	-	180

<sup>1</sup> Retrospective adjustments: membership movements recorded after 1 April 2018, which relate to the 2017/18 Scheme year.

<sup>2</sup> 427 leavers in the deferred column relate to transfers out (224 members), members who retired but converted their pension to a lump sum (176), members who received a refund of contributions (20) and 7 members who took a serious ill-health lump sum. 200 leavers in the pensioner column relates to new spouse/dependant members who opted to commute their pension under the trivial commutation provisions.

<sup>3</sup> Members who have not claimed their pension and are more than 6 years past Normal Retirement Date (NRD) are classified as 'untraced' and removed from the statistics. 399 additional members were moved to this classification during the year.

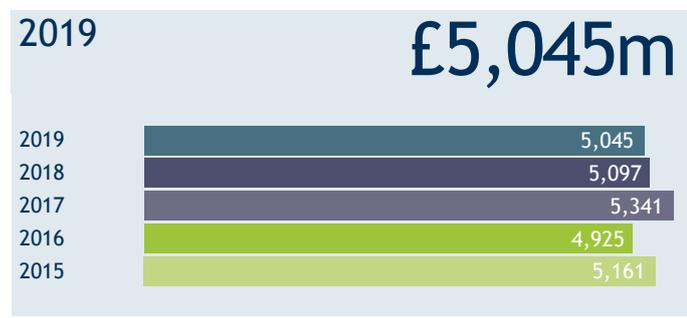
At the 31 March 2019 there were:

2,987 members who are excluded from membership records because they were more than 6 years past their Normal Retirement Date. These members may be paid a pension if we are able to trace them.

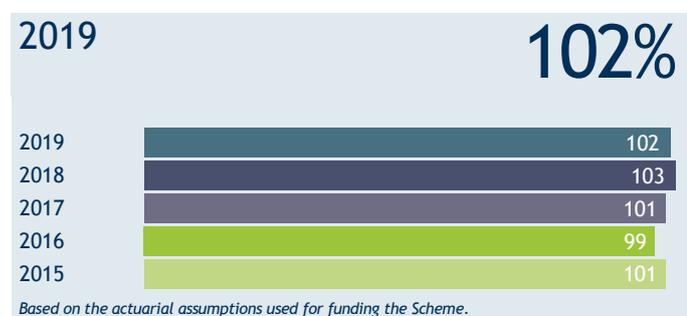
3,176 pensioners who commuted their pension to cash, leaving a contingent spouse liability only on their death, and are not included in the membership table above.

# The year in summary: investment summary

## Value of pension fund (£m)



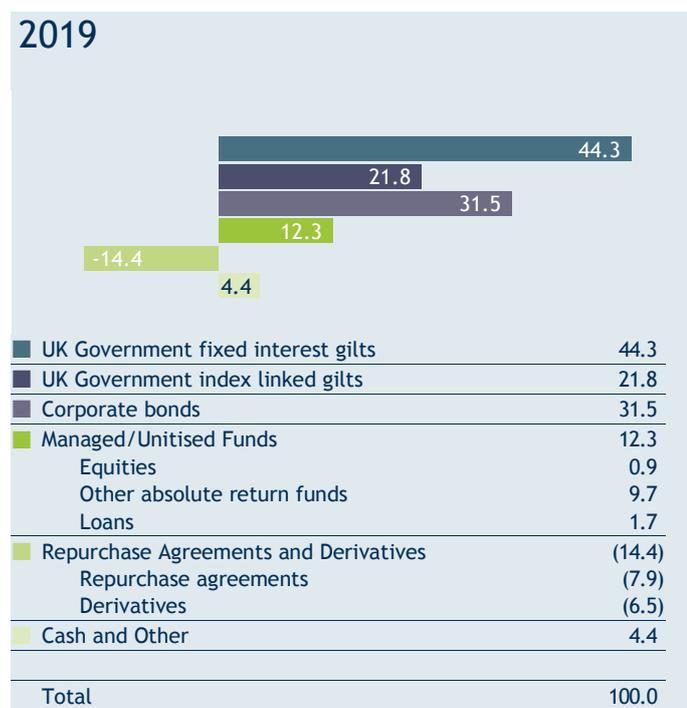
## Scheme funding level (%)



## Annual investment returns (%)



## Distribution of investments by type (%)



## Distribution of investments by investment manager (%)

1	BlackRock Liability Matching Fund*	55.1
2	AXA (IG Bonds)*	15.3
3	M&G (IG Bonds)*	8.4
4	Amundi (IG Bonds)*	6.2
5	M&G Sleeve run-off*	1.2
6	AXA Sleeve run-off*	0.2
7	Amundi (Broad Bonds)	2.4
8	Barings DAA	4.0
9	BlackRock DAA	1.1
10	LGIM (Equities)	0.9
11	BlackRock (Hedge funds)	1.0
12	M&G (Loans)	1.7
13	AXA PCS (Reg Cap)	1.2
14	BlackRock (Cash vehicle)	1.0
15	Money Purchase including DC & AVCs	0.2

\* These mandates are run on a segregated basis and the securities are held directly via the Scheme's custodian platform with BNY Mellon.

# Trustee, the Board, its committees, advisers and investment managers

## Trustee of the Scheme

Invensys Pension Trustee Limited is the Trustee of the Invensys Pension Scheme. The directors of the Trustee who served during the year are listed on this page.

## Appointed by the Company

### Kathleen O'Donovan (Chair of the Board)

Kathleen has been a member of the Board since 1991 and was appointed Chair of the Board in February 2003. As Chief Financial Officer of BTR and Invensys between 1991 and 2002, she has been deeply involved in the Scheme for many years. Previously a partner with Ernst & Young, Kathleen has held a number of non-executive directorships, including at ARM Holdings plc, Prudential plc, the Bank of England and O2 plc.

### Trevor Lambeth

Trevor joined Schneider Electric in 1988 and has held various finance and systems roles throughout the business. He is currently Vice President - Finance for UK and Ireland. Trevor is a Chartered Accountant and a member of the Institute of Corporate Treasurers. He was appointed to the Board on 1 November 2018.

### 20-20 Trustee Services Limited represented by Michel Picot

Michel has been a trustee of pension funds linked with French parent companies since 2007. He started his career as an auditor with KPMG and held various international Financial and Executive positions in listed groups, both in France and abroad. He is a Strategy and Management Consultant for High Tech developing companies and sits on various boards as an independent director. Michel is a representative of 20-20 Trustee Services Limited, an independent UK Trustee Firm, which was appointed as a Director of the Trustee on 1 November 2018.

### Trustee Director who resigned during the year

Eleanor Ager served as a director appointed by the Company until 31 October 2018.

## General Membership Director

### Nathan Blackwell

Nathan worked for 12 years at Invensys' London HQ, where he was ultimately appointed as Director of Corporate Finance. He later joined Thales as UK M&A and Commercial Director. Nathan now works as a director for PwC within its pensions consulting team. He has worked on a number of pension initiatives and he brings that experience with him to the Board. He was appointed to the Board in December 2013.

## Pensioner Directors

### Ian Fyfe (Deputy Chair of the Board)

Ian is a Chartered Accountant and a Chartered Management Accountant. He worked for 21 years in various financial and management roles in the Angus and Dunlop Groups. He then managed the Dunlop Group Pension Scheme from 1982 until its merger with other BTR schemes in 1988, when he became General Manager of the BTR Group Pension Scheme until his retirement in 1996. Since then, Ian has served as a Director of the Trustee Company.

### Nigel Casson-Moss

Nigel has 30 years' experience as a Finance Director in the UK manufacturing industry. He became a Trustee Director of the T&N Retirement Benefits Plan in 1999. He subsequently became Pension and Benefits Manager for the T&N Group in 2001. He joined Invensys Pensions in January 2004 as General Manager, working for the Trustee Board, with executive responsibility for the Scheme, including the Administration Office in Newcastle. Nigel retired in September 2008 and was elected as a Pensioner Director of the Invensys Pension Scheme in February 2010.

### Will Spinney

Will joined Invensys in 2000 and worked in the treasury department in the London HQ, first as Deputy Treasurer, then as Group Treasurer. He was heavily involved with the major refinancings in 2004 and 2006 and dealt with pension issues as part of those. He was a fiduciary of the Invensys US pension scheme while he was Group Treasurer. Since 2007, Will has been working for the professional body for corporate treasurers, writing and teaching extensively. Will was appointed to the Board on 6 December 2018.

### Peter Vos

Peter is a Chartered Accountant and a trustee with financial responsibilities for four charities. He retired in 2012 from Parker SSD Drives, a former subsidiary of Eurotherm, where he worked for 31 years, holding a variety of senior financial roles until moving into general management to head SSD Drives Europe. After Invensys bought Eurotherm, he also worked as Chief Financial Officer at Baan in the Netherlands. As a Member-Nominated Trustee Director since February 2013, Peter brings substantial pension experience, having been a trustee of many of the schemes of his former employers.

### Trustee Director who resigned during the year

Tony Ferris, served as a Pensioner Director until 8 November 2018.

# Trustee, the Board, its committees, advisers and investment managers continued

## Executive Office members

at 31 March 2019

The Board and its committees direct the operation of the Scheme through its Executive Office (EO). The EO comprises:

### Thomas Mercier, Chief Executive Officer

Appointed as CEO 1 October 2018

Thomas joined IPS as Chief Investment Officer in November 2010 from Goldman Sachs International, where he advised corporations and their pension schemes. Thomas continues to lead the Executive Office investment team.

### Michael Walters, Chief Financial Officer

Appointed 1 October 2018

Before joining IPS, Michael had held senior financial roles within a number of organisations including Comet Group plc.

### Ann-Marie Burns, Chief Administrative Officer

Appointed 9 October 2017

Ann-Marie joined from Punter Southall Administration Limited, where she was Regional Operations Manager.

### Lin Ju, Investment Associate

Appointed 1 March 2013

Lin joined IPS from Goldman Sachs International.

## Current Committee membership

	Investment Committee	Audit and Risk Committee	Pension Governance Committee	Nomination and Remuneration Committee	Company Liaison Committee
K A O'Donovan	✓(Chair)	✓(Chair)		✓(Chair)	✓(Chair)
N B Casson-Moss			✓(Chair)	✓	✓
I R Fyfe			✓	✓	✓
D N Blackwell		✓	✓		
T Lambeth		✓			
M Picot (20-20 Trustee Services Ltd)	✓	✓			
W Spinney	✓				
P B Vos	✓				

There is also an executive committee known as the Asset and Liability Management Committee. Thomas Mercier and Michael Walters are the members of this committee.

## Changes to the Board

Eleanor Ager left the board on 31 October 2018 and Tony Ferris left on 8 November 2018. Trevor Lambeth and 20-20 Trustee Services Limited were appointed on 1 November 2018 and Will Spinney was appointed on 1 December 2018.

## Scheme advisers and investment managers

The Trustee receives advice from a number of sources. The appointed Scheme advisers and investment managers are listed below.

### Scheme Actuary

S M Leake FIA, XPS Pensions Ltd

### Scheme Administrator

XPS Holdings Limited

### Scheme External Auditor

Ernst & Young LLP

### Scheme Internal Auditor

Crowe LLP

### Legal Advisers

Norton Rose Fulbright LLP

### Investment Adviser

River and Mercantile Investments Ltd

### Employer Covenant Adviser

PricewaterhouseCoopers LLP

### Investment Managers

BlackRock Advisors (UK) Ltd

BlackRock Investment Management LLC (to September 2018)

BlackRock Investment (UK) Limited

Baring Asset Management Ltd

AXA Investment Managers UK Ltd

M&G Investment Management Ltd

AllianceBernstein Ltd (to January 2019)

Amundi Luxembourg SA

River and Mercantile Investments Ltd

Legal & General Investment Management Ltd (LGIM) \*

AXA Investment Managers Paris

Amundi (UK) Limited

### DC & AVC Managers

Legal & General Investment Management Ltd (LGIM) \*

Prudential Assurance Company Limited

Equitable Life Assurance Society

Baillie Gifford & Co Limited (to September 2018)

Blackrock Life Limited (to September 2018)

\* Funds managed by LGIM are held in policies with Legal & General Assurance (Pensions Management) Ltd.

### Custodian and Collateral Manager

The Bank of New York Mellon London Branch

### Bankers

Lloyds Bank plc

# Trustee's report

The Trustee's first responsibility is to its members. The Trustee aims to provide a reliable investment performance, reassurance, and careful management of its resources.

## About the Scheme

The Invensys Pension Scheme (the Scheme) is a registered occupational pension scheme. It was established by a Trust Deed on 31 March 1988, consolidating the main BTR, Dunlop and Tilling defined benefit schemes then in operation. At that time, the Scheme was named the BTR Group Pension Scheme.

On 6 April 2000, the Scheme merged with the Siebe Pension Scheme and was renamed the Invensys Pension Scheme. The Scheme was closed to new members on 1 November 2004, and to further accrual for existing members on 31 March 2015.

A Defined Contribution (DC) section of the Scheme was introduced from 1 April 2007. This was closed to further contributions on 31 March 2015.

The sponsoring employer of the Scheme is Invensys Limited (the Company).

## Trustee arrangements

The Trustee of the Scheme is Invensys Pension Trustee Limited. Invensys Pension Trustee Limited is a company limited by guarantee. This company is a corporate trustee whose Board of Directors act together as Trustee of the Scheme.

The Trustee is responsible for the payment of benefits, safeguarding the assets of the Scheme, and monitoring whether those assets are sufficient to meet the Scheme's liabilities as they fall due. It ensures that proper accounting records and controls are maintained by the Scheme's administration offices, in accordance with applicable laws and regulations, and takes such steps as are reasonably open to it to prevent and detect fraud and other irregularities.

The Trustee is also responsible for preparing audited financial statements showing a true and fair view of the financial transactions of the Scheme during the Scheme year. These financial statements must also show the amount and disposition of the assets and liabilities at the end of the year, other than liabilities to pay future pensions and benefits after the end of the Scheme year (which are separately calculated and certified by the Scheme Actuary).

The financial statements have been prepared and audited in accordance with Section 41 of the Pensions Act 1995. They contain information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain

Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee has met its responsibilities in ensuring that contributions are made to the Scheme at least in accordance with Scheme Rules and the Schedule of Contributions.

During the year under review, the Board met seven times, the Investment Committee met five times, the Audit and Risk Committee met five times and the Pension Governance Committee met five times.

## Board structure

In accordance with the Articles of Association of the Trustee Company, the Board consists of a maximum of nine Directors. Three of these Directors, in addition to the Chair of the Board, are appointed by the Company. One is appointed from the entire Scheme membership. Four are appointed as Scheme pensioners. The appointing or nominating authority may also remove Directors from office. The Company also has the right to change the Trustee Company, as well as the right to change the Company-appointed Directors.

All decisions the Trustee Board has taken during the year under review arose from a consensus of opinion. Under the Articles of Association of the Trustee, decisions may be taken by a majority vote.

## Committee structure

The Board has established six committees that meet regularly, or as required, in order to ensure the Scheme is managed efficiently.

**The Investment Committee (IC)** comprises Directors whose role is to review the development and implementation of appropriate strategies for the investment of the Scheme's assets and to obtain advice, make decisions and give recommendations to the Trustee in respect of its investment responsibilities.

**The Audit and Risk Committee (ARC)** monitors the effectiveness of the Scheme's systems of risk management and internal control.

In addition, the committee works with the Scheme's internal and external auditors and reviews the annual financial audit of the Scheme's accounts on behalf of the Board.

**The Pension Governance Committee (PGC)** oversees the administration of the Scheme and the security of its data.

**The Company Liaison Committee** works directly with the Company on issues relating to Company policy and status. It also negotiates Scheme funding issues and can operate as a sub-committee of the Board for major transactions.

# Trustee's report continued

The **Nomination and Remuneration Committee** evaluates the balance of skills, knowledge and experience at the Executive Office (EO) and determines remuneration of the EO and makes recommendations to the Company regarding remuneration of the Trustee Directors.

The **Asset and Liability Management Committee (ALCo)** has three main responsibilities, delegated under its Terms of Reference. These are:

1. implementing the Investment Committee's investment decisions
2. making investment decisions in areas specifically delegated to the ALCo by the Investment Committee
3. monitoring and reporting on the Scheme's investment matters.

These committees make regular reports and proposals to the Board. Where appropriate, the Board then authorises the actions taken. Board members are considered to be the key management personnel of the Scheme for the purpose of Financial Reporting Standard FRS102. The Board and its committees direct the operation of the Scheme and implement its strategy through the Executive Office.

## Actuarial liabilities and valuation

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, which represent the present value of benefits to which members are entitled. This is assessed at least every three years using assumptions agreed between the Trustee and the Company and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request. Annual updates are presented to the Trustee in other years.

The Scheme Actuary is independent of the Scheme and the Company. He assesses the funding position of the Scheme, i.e. the balance between assets and liabilities.

The latest full valuation was as at the effective date of 31 March 2018. An annual update was performed as at 31 March 2019.

In accordance with the Pensions Act 2004, the Trustee set the method and assumptions for the Scheme Actuary to calculate the Technical Provisions (the amount required by the Scheme to provide for the Scheme's liabilities on an on-going basis). These Technical Provisions were then agreed by the Company. In setting the method and assumptions, the Trustee took into account both the strength of the Covenant provided by Company, the other participating employers and the parent

company guarantee of up to £1,750m, which it secured from Schneider Electric SE in January 2014.

A summary of the method and key assumptions is given below:

### Method

The actuarial method used to calculate the Technical Provisions was the defined accrued benefits method.

### Key assumptions

The assumptions agreed with the Company for the 31 March 2018 valuation were as follows:

- a discount rate set to be the yield available on the nominal fixed interest gilt yield curve plus 1.0 percentage point per annum
- an RPI inflation assumption derived from nominal and real gilt yield curves
- a CPI assumption, which has been derived by making a suitable adjustment to the RPI inflation assumption. A deduction of 0.75% per annum has been used for this valuation, which reflects a prudent adjustment given observed past levels and future expectations. The assumption could not be derived directly as there was no reliable market-based method for deriving an assumption for CPI price inflation
- pension increases assumptions based on the relevant inflation assumption and a model to allow for the pension increase collars (e.g. 3% and 5%) and future inflation volatility of 1.5% per annum
- the pre-retirement mortality table based on AC00 tables
- a post-retirement mortality assumption of 102% of the S2PA tables for males and 114% of the S2DA tables for females, both projected in line with the Continuous Mortality Investigation Model (CMI\_2016) for future improvements with a 1.5% per annum long-term rate of improvement and a smoothing factor of 8.0.

The agreed assumptions gave rise to a funding surplus of £143m as at 31 March 2018. As the Scheme was in surplus, there was no requirement for deficit funding from the Company for the immediate future.

The next full valuation is expected to have an effective date of 31 March 2021.

### Solvency funding position

As at 31 March 2018, it was estimated that the amount required to secure the defined benefit obligations of the Scheme in full with an insurance company, in the event of the Scheme winding up, was £6,442m, which is a shortfall of £1,345m. This figure is just an indication and does not imply that the Trustee or the Scheme Sponsor are considering winding up the Scheme.

# Trustee's report continued

## Nomination of Directors of the Trustee Company

Invensys Limited nominates up to 4 Trustee Directors, including the Chair of the Board.

When a vacancy arises for a Pensioner Director, any retired member of the Scheme who receives a pension from the Trustee may put himself/herself forward. His/her candidature must be supported by nominations from two other pensioner members who receive a Scheme pension. The Nomination and Remuneration Committee then carries out a selection process, which is given final approval by the Board.

Similarly, when a vacancy arises for the position of General Membership Director, any member of the Scheme may put himself/herself forward. His/her candidature must be supported by nominations from two other members of the Scheme, and is subject to the Nomination and Remuneration Committee's selection process and final approval by the Board.

## Trustee training, knowledge and understanding

Our Trustee training programme takes account of the particular needs of each Board member and the committees on which he/she serves. Newly appointed Directors receive a comprehensive induction programme. The Board's training policy then requires each Director to undertake a number of days' training each year based on his/her experience and requirements.

The Board members receive internal training at routine meetings and strategy sessions and also attend external training courses and seminars. Directors are encouraged to undertake the Trustee Toolkit training provided by the Pensions Regulator. Some Board members receive additional development from their external board positions.

Trustee Director	Total training days 01/04/18 - 31/03/19
K A O'Donovan	2.3 days
E K Ager ( <i>to 31 Oct 18</i> )	0.0 days
D N Blackwell	6.2 days
N B Casson-Moss	2.5 days
A G Ferris ( <i>to Nov 18</i> )	1.4 days
I R Fyfe	1.8 days
T Lambeth ( <i>from 1 Nov 18</i> )	2.2 days
M Picot ( <i>from 1 Nov 18</i> )	2.6 days
W E Spinney ( <i>from 6 Dec 18</i> )	1.6 days
P B Vos	6.0 days

## Trustee attendance

Trustee Directors: attendance for year to 31 March 2019

	Trustee Board	IC <sup>4</sup>	ARC	PGC
Number of meetings/calls held	8	5	5	5
K A O'Donovan	8	5	5	*
E K Ager ( <i>to 31 Oct 18</i> )	2	*	*	3
D N Blackwell	8	*	5	2 <sup>1</sup>
N B Casson-Moss	8	*	4 <sup>2</sup>	5
A G Ferris ( <i>to 8 Nov 18</i> )	4	3	*	*
I R Fyfe	8	*	*	3
T Lambeth ( <i>from 1 Nov 18</i> )	4	*	1	*
M Picot <sup>3</sup> ( <i>from 1 Nov 18</i> )	4	2	2	*
W E Spinney ( <i>from 6 Dec 18</i> )	3	1	*	*
P B Vos	7	5	*	*

\* The Director is not a member of that committee and attends as an invitee only.

<sup>1</sup> The Trustee joined the committee in December 2018

<sup>2</sup> The Trustee left the committee in December 2018

<sup>3</sup> Michel Picot represents 20-20 Trustee Services Limited

<sup>4</sup> A Company representative also attends the IC

## Remuneration of Trustee Directors

During the year ended 31 March 2019, the following payments were made:

**Chair of the Board** - received an annual salary of £99,000.

**Pensioner Directors** - received a per diem rate.

**General Member Director** - received a per diem rate.

**Company Nominated Directors** - Individual directors were remunerated by the Company, or received a per diem rate. 20-20 Trustee Services Limited was paid £6,250 per month for its services as a trustee.

## Communication

The Board ensures that we communicate with all members on a regular basis. During the year, the Scheme issued two newsletters, with the summer newsletter incorporating the Annual Review of the Scheme. The Scheme has a website: [www.invensypensions.co.uk](http://www.invensypensions.co.uk). Members can also contact the Scheme by email, by phone or in writing. Contact details are set out on page 53.

During the year, a new online facility called MyPension.com was rolled out to pensioners by the Scheme administrator. It provides pensioners with secure access to view their personal data, including payslips and P60s.

# Trustee's report continued

## Responsible investment

The Trustee believes Environmental, Social and Governance (ESG) factors can have an impact on the performance of its investments and the consideration of ESG factors can enhance the risk and return profile of its investments. The Trustee therefore expects its investment managers, when exercising discretion in the mandates that they manage for the scheme, to integrate all relevant and material financial factors, including ESG considerations, into the investment decision-making process.

The Trustee considers how potential new investment managers incorporate ESG factors into their investment process before selecting a manager. As part of its regular monitoring process the Trustee requests that managers demonstrate their approach to incorporating ESG factors when exercising discretion in the mandates they manage for the Scheme.

In order to act in the best financial interests of members the Trustee believes it must act as a responsible asset owner. The Trustee has delegated the exercising of voting and engagement rights to its investment managers. The Trustee expects its investment managers to exercise voting and engagement rights so as to protect and enhance the value of the Scheme's investments. The Trustee monitors the actions taken by the investment managers on a regular basis.

## Scheme governance

The Scheme's governance is defined as the structure, behaviour, policies and procedures adopted by the Trustee in pursuit of its objectives. It includes:

- holding the assets securely on trust, employing a custodian for their safeguard and investing them appropriately given the Scheme's specific circumstances
- monitoring the Company Covenant risk
- ensuring that the Scheme's liabilities are fully understood, and its data is accurate and reliable
- monitoring the balance between assets and liabilities and, jointly with the Company, making provision to meet the future costs of the Scheme
- monitoring the other risks that would result in the assets not being sufficient to meet the liabilities
- ensuring that the correct levels of benefits are being paid on time to members
- ensuring that benefits are paid to the correct members
- ensuring the appropriate level of communication with its members and the Company is delivered with an appropriate frequency
- ensuring the Scheme complies with the complex framework of law and regulations applicable to the UK pension scheme industry.

The Trustee is committed to ensuring the Scheme's governance objectives are met by managing risk effectively using efficient decision-making processes and adopting pension industry best practice, where this is appropriate for the Scheme.

## The management of risk

The Trustee has overall responsibility for internal control and risk management. In accordance with guidance, it operates an integrated risk management framework and receives routine risk reporting of the risks the Scheme runs. It is committed to identifying, evaluating and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level.

As part of its overall risk management responsibilities, the Trustee uses a risk register as a tool to oversee the key risks to the Scheme. As part of the introduction of integrated risk management it took the opportunity to carry out a fundamental review of its risk register. The risk register covers areas such as:

- operational risks including pension administration
- corporate sponsor
- external factors affecting the Scheme's investments
- internal factors affecting the Scheme's investments
- scheme funding and valuation.

The Trustee has delegated the oversight of managing investment risks to the Investment Committee - see the Investment report and notes to the financial statements for more details.

The Trustee has also delegated oversight of non-investment governance-related matters to the Audit and Risk Committee (ARC). These matters include ascertaining that the Scheme complies with Scheme Rules and statutory regulations, and reviewing the existing process and procedures of the Scheme to ensure they are well documented, relevant and effective.

The ARC also oversees:

- the operational risk review
- the Scheme's annual budgeting process and the triennial business planning by the Executive Office
- the Annual Report process
- the review of the performance of the Trustee (and its committees), its advisers and the Executive Office

# Trustee's report continued

The Pension Governance Committee (PGC) manages risk by overseeing the work of the Scheme Administrator. The PGC has responsibility for:

- monitoring the Scheme Administrator's performance including adherence to the Service Level Agreement;
- reviewing the Scheme's operations in the light of best practice guidance and changes in regulations;
- ensuring, in conjunction with the Scheme Administrator, compliance with data protection regulations regarding member data;

## Audit function and processes

The Scheme's external auditor, Ernst & Young LLP, performs a financial audit each year. In addition, the Scheme uses Crowe LLP to act as its internal auditor to review its controls and processes. The ARC oversees both the internal and external audit activity.

## Compliance statement

The Scheme is a registered pension scheme. The Trustee knows of no reason why such status should be prejudiced or withdrawn.

## Trust Deed and Rules

On 22 August 2016, the Trustee and the Company signed the Fourth Definitive Trust Deed and Rules of the Scheme. The Trust Deed and Rules brought the Scheme up to date with current legislation and amalgamated a number of Deeds of Amendment that had occurred since the Third Definitive Deed and Rules were completed in 2006.

Members can request a copy of the Trust Deed and Rules from Invensys Pensions. This is a substantial document and an appropriate copy charge will be made.

## Contributions

On 31 March 2015, the Scheme closed to future accrual and there were no active contributing members from that date.

During the year, no reports had to be made to the Pensions Regulator in respect of late payments of contributions.

The summary of contributions is on page 50 states contributions payable under the Schedules of Contributions dated 25 January 2016 and 18 October 2018.

## Pension increases and transfer values

Under the Scheme Rules, pensions in payment are generally increased annually by reference to the percentage change in inflation over a 12-month period measured to the end of December in each year. (This excludes the Guaranteed Minimum Pension portion, which receives statutory increases in line with Pension Increase Orders published by the UK Government).

The Scheme has multiple sections with varying rules relating to pension increases. For members who joined the Scheme before 6 April 2000, the pension in payment increase in excess of GMP will generally be a minimum of 3% and a maximum of 5%. For members who joined the Scheme on or after 6 April 2000 the annual pension in payment increase will generally be capped at 5%.

In 2015, the Trustee also introduced a Pension Increase Exchange option for members retiring after that date. This gives members the option to exchange future pension increases for a higher initial pension, which will not increase by as much in the future.

The average increase applying to pensions on 1 April 2018 was 2.9%. The lowest increase was 0% and the highest was 5%.

For the majority of deferred members, their deferred pensions in excess of GMP are revalued in line with the cost of living (calculated, depending on the requirements of the rules of the relevant section of the Scheme, by reference to the Consumer Price Index or the Retail Price Index) up to a maximum of 5% p.a.

No discretionary increases were awarded in the year.

Statutory cash equivalent transfer values are calculated in accordance with the provisions of Part IV Chapter IV of the Pensions Scheme Act 1993, as amended by the Pensions Act 1995 and the Pensions Act 2004 with relevant regulations and guidance issued by the Pensions Regulator on a basis determined by the Trustee after having taken advice from the Scheme Actuary.

There were no discretionary increases or benefits allowed for in the calculation of transfer values for the year ending 31 March 2019.

# Trustee's report continued

## Disputes and complaints procedure

We operate an Internal Dispute Resolution Procedure (IDRP) in accordance with the provisions of the Pensions Act 1995. Before a formal complaint is considered, we advise members to contact our Scheme administrator to see if the matter can be resolved informally.

During the course of the year under review, 12 formal complaints were received by the Scheme administrator on behalf of the Trustee and one case was brought forward from the previous year. Nine of the complaints were resolved during the year including three that were referred to the Pensions Ombudsman. Three of the nine IDRPs were upheld and one complaint was partially upheld. Of the four complaints outstanding at the year end, three had been referred to the Pensions Ombudsman. Details of the Scheme's IDRPs are available from the Scheme administrator. The number of complaints has increased as a result of the GMP reconciliation project and the corrections that are required as a result.



For and on behalf of Invensys Pension Trustee Limited

**Kathleen O'Donovan**  
Chair of the Board

10 July 2019

# Investment report

## The Trustee aims to secure members' future benefits by reducing risk and delivering consistent, reliable investment performance.

The Invensys Pension Scheme is a mature scheme. On 31 March 2015, the Scheme closed to future accrual. All active members became deferred members, and the Scheme stopped receiving ongoing contributions from the active membership. The Scheme is a substantial net payer of benefits. This therefore erodes its asset base naturally every year. We can measure the extent of its maturity in the net payments made each year: approximately £285m (6%) of its current asset base was paid out in the 2018-2019 financial year. The outflows were about £15m lower than last year. This reflects the completion of the trivial commutation exercise in the previous year and the lower volume of individual transfers to other pension schemes (see page 34).

## Scheme investment strategy

The Scheme's investment objective is to achieve investment returns that ensure the assets of the Scheme are sufficient to meet each member's benefits and the Scheme's expenses as they fall due over time.

The Scheme's Technical Provisions imply a required return on investments equivalent to UK Government gilt yields +1.0 percentage point per annum. The Trustee sets a Strategic Target, which is to deliver this return over the long term. The Trustee's investment policy for the Scheme's Defined Benefit section is designed to achieve the Strategic Target. In order to deliver gilts +1.0 percentage point, the Trustee has to invest in assets that have an element of risk associated with them. The risks, and the framework for managing them, are described in detail in the notes to the financial statements.

This Strategic Target is primarily driven by:

- the Scheme's profile:
  - the nature of the liabilities
  - the structure of the membership base
- the Trustee's overall risk tolerance
- the Trustee's evaluation and perception of the covenant provided to the Scheme.

From the Strategic Target, the Trustee derives a Strategic Asset Allocation. This is designed to deliver asset returns of gilts +1.0 percentage point per annum over the long term, and therefore to perform in line with the liabilities measured on a Technical Provisions basis. The chart below shows that the Scheme assets' performance has tracked the Strategic Target very closely. The analysis starts from the end of April 2013. This coincides with the contribution into the Scheme on 3 May 2013 of £400m and the creation of a Reservoir Trust of £225m following the sale by Invensys plc of its Rail division. At that time, the investment strategy was revisited and the Trustee took the opportunity to reduce investment risks.



# Investment report continued

At the investment level, the Trustee sets specific performance targets for each underlying investment manager. These specific targets naturally have shorter time horizons than the Strategic Target. The aggregation of these targets determines the Scheme's Investment Manager Target (IMT).

Year on year, the IMT might be above or below the Strategic Target. The Trustee is responsible for:

- long-term monitoring of the performance of the assets against the Strategic Target, equivalent to the Technical Provisions (as above).
- ongoing monitoring of the performance of the assets against the IMT (see investment managers' performance section).

The Strategic Target corresponded to a return of 5.7% in the year to 31 March 2019. Its value reflects primarily the impact of lower gilt yields. This increases the present value of the pensions that the Scheme is expected to pay. The IMT corresponded to a return of 5.6% and was slightly lower than the Strategic Target because the IMT had a lower sensitivity to movements in gilt yields and therefore increased less than the Strategic Target when gilt yields fell.

The Trustee determines the investment strategy after taking advice from a professional investment adviser. The investment strategy and objectives, together with full details of the investment process, are set out in the Statement of Investment Principles. This document is updated regularly. A copy is available to members of IPS.

## Strategic asset allocation

To a large extent, the Trustee has invested in assets with a profile that closely matches the Scheme's liabilities by using bonds or 'bond-like' assets. This helps the assets to match the valuation movements in the liabilities, thereby reducing the volatility of the Scheme's funding position.

The Trustee is not able to match fully the liabilities of the Scheme with its assets. This is mainly because of the requirements agreed with the Company, which means the Trustee needs to target a performance return on the Scheme's assets equal to the discount rate used for the valuation of the liabilities on a Technical Provisions basis, currently gilt yield +1.0 percentage point per annum.

The Scheme's investments are classified in two categories:

1. A Liability Matching Fund (LMF). This is used to mitigate the Scheme's interest rate and inflation risks. The LMF is composed exclusively of assets perceived to have a relatively low risk:
  - UK Government gilts
  - Network Rail bonds
  - cash
  - cash equivalent instruments.

BlackRock, the asset manager managing this portfolio, is also permitted to use derivative instruments, such as interest and inflation swaps, and gilt repurchase agreements. The LMF currently represents 55% of the assets, which are held directly via the Scheme's custodian platform with BNY Mellon.

2. An Investment Portfolio. This aims to access the risk premium of a diversified portfolio of return-seeking assets. It also seeks to benefit from the additional performance available from active management, where considered appropriate. The total Investment Portfolio currently represents 43% of the assets.

Mandates using primarily investment grade (IG) bonds make up 31% of the assets and were managed by:

- AXA
- M&G
- Amundi.

The remaining 12% comprise:

- a Fixed Income Global Alpha (FIGA) Fund (Hedge Funds: BlackRock)
- two Dynamic Asset Allocation mandates (DAA: Barings and BlackRock)
- a broad bond portfolio (Amundi)
- a listed equity portfolio (LGIM)

# Investment report continued

- a loans mandate (M&G)
- a fund investing in bank capital release transactions (AXA PCS).

Around 2% of the Scheme's assets were allocated to DC and AVC plans or were held in cash to satisfy the Scheme's short-term payment obligations.

## Investment managers' performance

The assets are managed by independent investment managers under the guidance of the Trustee and its Investment Adviser. The Scheme's investment managers are continuously reviewed over 12-36 month rolling periods. Medium to long periods of review are essential, as they enable managers to be judged over a business cycle.

The investment managers' performance in any given year is expected to be a function of the capital markets environment and their ability to navigate the markets to deliver relative outperformance.

The year to 31 March 2019 had a broadly stable and supportive macro-economic environment. The US and the Eurozone economies grew in 2018 at rates of 2.9% and 1.9% respectively. The UK economy growth was a little bit behind but still in positive territory at 1.4% over the same period. China continued to report very significant growth in region of 6%, similarly to previous years. However, trade tensions rose during the year, led by the US administration threatening to impose tariffs with some of its main trading partners. In addition, some indicators also started to point to a slowdown in the economic activity.

This might explain the overall shift in the policy of the main central banks during the year. The US Federal Reserve increased its main target interest rate by 0.75 percentage points but they have indicated they would reduce the pace of increases, at a level below what had been anticipated by them and market participants before. The Bank of England also increased the base rate by 0.25 percentage points during the year. They also have since indicated they could provide further support to the UK economy, depending on the developments regarding the UK's exit of the European Union.

Financial markets performance was relatively steady and positive during most of the year. However, there was a sharp correction towards the end of 2018 and the beginning of 2019, which they have to a large degree recovered from. Global equities returned c.5% year-on-year. Credit spreads ended the year broadly wider than they were at the beginning of the year. UK gilt yields decreased at the short and medium maturities, however the gilt yields on longer maturities remained largely unchanged.

The Scheme's assets achieved a return of 5.0% over the year net of all fees and costs. This was 0.6 percentage points and 0.7 percentage points below the Investment Manager Target and the Strategic Target respectively. Over the past 3 years, the Scheme's assets outperformed those targets by 0.4% and 0.2% percentage points respectively (see page 14 for graphical analysis).

The Investment Management Target is split between the target for the LMF and the target for the Investment Portfolio. The LMF had a total return of 7.3%, in line with its target of 7.2%. Over the past 3 years the LMF had a total return of 8.7%, 0.3 percentage point above its target. Those relatively high performance numbers are largely explained by the fall in gilt yields. The Investment Portfolio had a total return of 2.1% for the year. This return was 1.8 percentage points below the target of 3.9%. The returns for most of the mandates in the Investment Portfolio were positive but below their targets. In the case of the IG Bonds, Broad Bonds and Loans mandates, this was largely due to the widening of credit spreads. On a positive note, the widening of credit spreads created an opportunity for the Scheme to reallocate gilts into some of those mandates and thus achieve higher return expectations (see page 17 for further details). The DAA funds performance had not fully recovered as at 31<sup>st</sup> March 2019 from the market correction in the last months of 2018. The BlackRock FIGA fund, one of the Scheme's smallest allocations, performed negatively as the manager made investments based on fundamentals, but a variety of idiosyncratic and geopolitical events were not in the manager's favour. Over the past three years, the Investment Portfolio was 0.7 percentage point ahead of its return target on an annualised basis, as the strong performance of its largest mandates outweigh the underperformance of some of the smaller mandates. The Trustee divested from one mandate during the year and has put or kept under review three additional mandates.

# Investment report continued

## Investment managers' historical performance

Investment Manager	Asset class	Holdings at 31 March 2019		12 months to 31 March 2019		Investment return % pa 3 years to 31 March 2019 <sup>1</sup>	
		£m	% of total	Actual %	Target %	Actual %	Target %
<b>Liability Matching Fund (LMF)</b>							
BlackRock		2,768	54.9	7.3	7.2	8.7	8.4
<b>Investment Portfolio</b>							
AXA	IG Bonds	766	15.2	2.2	3.6	3.5	2.6
M&G	IG Bonds	423	8.4	1.3	2.1	3.2	1.9
Amundi	IG Bonds	312	6.2	3.9	5.0	2.1	2.7
M&G sleeve run-off	IG Bonds	60	1.2	(0.5)	2.4	3.1	2.4
AXA sleeve run-off	IG Bonds	9	0.2	1.6	3.9	3.1	3.9
Amundi <sup>2</sup>	Broad bonds	122	2.4	0.2	3.8	2.9	3.6
Barings	DAA	202	4.0	1.7	4.8	5.1	4.6
BlackRock	DAA	55	1.1	1.1	3.1	3.5	3.6
LGIM <sup>3</sup>	Equity	47	0.9	4.8	4.8	10.2	4.6
Blackrock (FIGA)	Hedge funds	49	1.0	(3.9)	5.7	3.1	5.5
M&G	Loans	86	1.7	2.4	4.8	4.1	4.6
AXA PCS	Reg Cap	59	1.1	9.8	8.4	7.7	7.9
<b>Investment Portfolio<sup>4</sup></b>		<b>2,190</b>	<b>43.4</b>	<b>2.1</b>	<b>3.9</b>	<b>3.9</b>	<b>3.2</b>
Cash		51	1.0	0.5	-	0.4	-
<b>Managed assets</b>		<b>5,009</b>	<b>99.3</b>	<b>5.0</b>	<b>5.6</b>	<b>6.9</b>	<b>6.4</b>
DC & AVC investments		12	0.2				
<b>Net financial assets</b>		<b>5,021</b>	<b>99.5</b>				
Net current assets and other		24	0.5				
<b>Net assets of the Scheme</b>		<b>5,045</b>	<b>100.0</b>				

The numbers in this table may not add up exactly because of rounding differences.

<sup>1</sup> Or since inception if the performance monitoring period is shorter (AXA PCS and Amundi IG Bonds: June 2017, AXA and M&G sleeves run-off: July 2017).

<sup>2</sup> Formerly Pioneer until its acquisition by Amundi

<sup>3</sup> The LGIM target shown above is the Scheme target of Libor +4% for the investment, whereas the manager aims to track an equity index.

<sup>4</sup> The target for the Investment Portfolio and the managed assets reflects the Investment Manager Target

<sup>5</sup> AllianceBernstein Broad Bonds mandate of c.£100m was fully divested in 3 tranches over December 2018 - January 2019 and the mandate was terminated on February 28<sup>th</sup> 2019. The performance since 1 April 2018 to termination was -0.8%. The performance since 1 April 2016 to termination is 1.6%p.a.

## Key initiatives during the year

- **Enhancement of risk and return profile.** The Trustee implemented a number of asset and risk reallocations during the year. It reallocated about £250m from gilts towards investment grade bonds towards the end of 2018 in order to increase the overall expected return on the Scheme's assets. The reallocation took place between mid-November to early January to benefit from the meaningful widening of credit spreads. As part of this, the Trustee also redeemed its investment in the broad bond fund with AllianceBernstein. The proceeds of about £100m of the divestment were invested in investment grade bonds.
- **Ongoing focus on cash flow generation.** The Trustee continues to review regularly the efficiency of its asset allocation in delivering both the required returns and cash flows to pay pensions. This dual objective was an important factor in the termination of the mandate with AllianceBernstein mentioned above and the re-allocation of other assets within the Scheme.

# Investment report continued

- **Assessing impact of the UK leaving the European Union.** Throughout the year, the Trustee has been monitoring the evolution of the negotiations between the UK and the EU. It has reviewed with the support of its advisers, and sought to amend as needed, the existing arrangements with its investment service providers and derivatives counterparties in order to ensure minimal disruption from the UK leaving the EU. The Trustee also regularly reviews potential scenarios of market movements, including those that may be potentially caused by the UK leaving the EU, in order to test the robustness of the its investment strategy and look for opportunities.
- **Cost management.** The Trustee continuously look for opportunities to manage the investments more efficiently. During the year, this led to an improvement of the management fee structures of two of mandates and the re-structuring of another manager to reduce other running costs.

## Custody arrangements

Trust law and the Pensions Act 1995 impose specific duties on the Trustee to safeguard the assets of the Scheme. Since 2001, the Trustee has appointed a global custodian. The global custodian holds the Scheme's assets that make up the various portfolios managed by the investment managers. Since 1 September 2006, the Bank of New York Mellon has been the Scheme's global custodian. In September 2018 the legal entity which held our assets changed to the London branch of the US based The Bank of New York Mellon. Previously the services were provided by the London branch of the European entity The Bank of New York Mellon SA/NV.

The custodians are responsible for the safekeeping and administration of assets. They ensure that assets are only released with appropriate authorisation.

The administrative functions of the custodians include:

- settlement of transactions
- collection of income arising from the investments
- recovery of any tax paid that is due
- reporting and accounting for the Scheme's investments.

The Scheme uses some pooled and collective investment arrangements, where custody services are arranged through the fund provider.

The Trustee, together with its Investment Adviser, keeps the effectiveness of the custodial arrangements under review. The custodians are required to publish a report on their internal controls, which has been audited by a third-party auditor in accordance with agreed standards.

## Largest investments

The Scheme had no investments with a value greater than 5% of the net assets of the Scheme, other than gilts.

An analysis of investments is shown in the notes to the Scheme's financial statements on pages 39 to 43. The aggregate amounts of sales and purchases of investments during the year are also shown in those notes.

## Defined Contribution and Additional Voluntary Contribution Investments

The arrangements regarding the management of investments related to money purchase benefits including the Defined Contribution (DC) section and Additional Voluntary Contributions (AVCs) made by Defined Benefit members are described in the Statement regarding DC Governance on pages 20 to 30. The Investment performance of the individual funds held by the Trustee on behalf of members are monitored by the Investment Committee.

# Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

# Statement regarding DC governance

## Money Purchase benefits under the Scheme

Certain members of the Scheme (as detailed in the table below) have entitlements to money purchase benefits emanating from:

- Additional Voluntary Contributions (AVCs) made by Defined Benefit (DB) section members to supplement their DB pension;
- contributions to a Defined Contribution (DC) section of the Scheme that was set up to allow DB members to retain their accrued rights for past service as a deferred DB benefit, but pay lower member contributions for future service;
- other legacy benefits including parts of contributions made by DB members that could not be repaid when short service refunds were made and certain former Protected Rights.

The Scheme closed to future accrual on 31 March 2015 and members cannot make further AVC or DC contributions.

At 31 March 2019	DB Scheme AVCs	DC Section investments	Other legacy benefits secured by DC investments	Total Money Purchase Benefits
Number of members	806	180	445	1,431
Investments	£5.8m	£4.8m	£1.2m	£11.8m

This statement is given in accordance with the requirements of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) ('the Administration Regulations') to provide members who have money purchase benefits under the Scheme with information about the investment arrangements and to explain how these benefits are governed and administered.

This statement covers the money purchase benefits under the Scheme described above, including the DC Section of the Scheme ('the DC Section') and the Additional Voluntary Contribution arrangement of the DB Section ('the AVC arrangement')<sup>1</sup>.

## DC Section

### Default arrangement

The DC Section is not used for auto-enrolment and closed to future accrual on 31 March 2015. As such, it is not required to meet some requirements for default arrangements, such as preparation of a special statement of investment principles. However, for information purposes the Trustee has provided details of the default arrangement that operated prior to closure of the Scheme, and was updated following a strategy review during 2018.

Members of the DC Section of the Scheme who did not make an explicit choice regarding the investment of their funds were invested into a lifestyle option as the default arrangement.

The objective of the current lifestyle option is to provide investment growth by investing in return-seeking assets at younger ages when funds are invested wholly in equities, with a gradual switching of assets over the 20 years before the member's expected retirement date, towards a final position of 100% cash. The lifestyle fund itself invests in a series of funds managed by Legal & General Investment Management Ltd. The funds are managed passively and annual management charges are currently in the region of 0.100% to 0.223% of the fund value, depending on the fund.

By investing in this manner, the Trustee seeks to deliver growth over the member's lifetime within the Scheme without excessive risk taking, with an increased focus in later years on reducing volatility to enable members approaching retirement to make financial plans for the period after retirement. The Trustee considers this approach to be in the best interests of relevant members and relevant beneficiaries.

<sup>1</sup> For the purposes of this statement, information regarding other legacy benefits that are now secured by defined contribution investments are also included in the AVC arrangement category as indicated.

# Statement regarding DC governance continued

## Review and changes made during the Scheme year

The Trustee, alongside its investment adviser, undertook in early 2018 a strategy review of the appropriateness of the investment strategy within the default arrangement and the fund offering outside of the default arrangement. This review took into account the demographics of the DC membership, the value for members offered and the way the DC Section was being used by the membership, including members' observed retirement income decisions.

Following this review, the following changes were made to the default arrangement during September 2018:

1. The 'at-retirement' asset allocation of the lifestyle profile was changed from 25% cash; 75% index-linked gilts to 100% cash. This reflects historic (and expected future) decisions at retirement actually taken by the DC Section members - namely putting their DC pot towards their tax-free cash allowance.
2. The LGIM Global Equity Fixed Weight (50:50) Index Fund was replaced with equal allocations to the LGIM World Equity Index Fund and the LGIM World Equity Index Fund - GBP Currency Hedged. The intention here was two-fold:
  - i. To remove the UK equity bias present in the Fixed Weight (50:50) Index Fund and instead reflect global market capitalisation weights to the regions invested in;
  - ii. To introduce a GBP currency hedge across half of the overseas equity exposure, as a pragmatic way of mitigating the impact of overseas currency movements relative to sterling.

Additionally, the following funds were added to the wider fund range within the DC Section, to increase the choice available to members:

1. LGIM Multi Asset Fund
2. LGIM Ethical Global Equity Index Fund
3. LGIM World Equity Index Fund - GBP Currency Hedged

The Trustee communicated these changes with the DC Section membership by letter ahead of implementation, reminding members of the alternative options available to choose from within the wider DC Section fund range which may better meet their individual needs.

## AVC arrangement

### Review and changes made during the Scheme year

Alongside the review of the DC Section detailed above, the Trustee, with the support of its investment adviser, also carried out a review of the AVC arrangement's fund range. This review considered fund performance, fee levels, overall value for members and the breadth of the fund range as a whole.

The Trustee concluded that for the majority of funds, better value for members would be available via a range of lower cost, passively-managed options with LGIM. A consolidation was therefore implemented in September 2018, at the same time as the DC Section changes detailed above.

As per the DC Section changes, the Trustee communicated these changes with the AVC arrangement membership ahead of implementation, reminding members of the alternative options available to choose from within the wider AVC arrangement fund range which may better meet their individual needs.

## Trustee knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for the 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 07. The comments in this section relate to the Trustee as a body in dealing with the whole scheme and are not restricted to the DC section.

# Statement regarding DC governance continued

The Trustee has put in place arrangements for ensuring that Trustee Directors take personal responsibility for understanding pension and trust law and keeping up to date with relevant developments and that they carry out a self-assessment of training needs. The Chair of the Trustee Board holds annual performance meetings with each Trustee Director, supplemented by informal feedback from advisers. The performance of the Board and each of its committees is also reviewed annually. The Executive Office arranges for training to be made available to individual Trustee Directors or to the whole Trustee body as appropriate, including annual training away-days and additional training at trustee and committee meetings by external advisers on trust documentation and developments in law and practice, including environmental, social and governance investment-related issues and data protection. The secretary to the Scheme records the training undertaken, which is then reported in the Annual Report. In addition, the Trustee receives advice from professional advisers to supplement the knowledge of the Trustee Directors, and the relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers.

All the existing Trustee Directors have completed the relevant sections of the Pension Regulator's Trustee Toolkit and new Trustee Directors are required to complete this within six months of taking up office. Taking account of actions taken individually and as a trustee body, and the professional advice available to it, the Trustee Directors consider that they are properly enabled to exercise their functions as trustees.

## Processing scheme transactions

The Trustee has a specific duty to ensure that core financial transactions (including 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) relating to the DC Section and AVC arrangement are processed promptly and accurately.

For the DC Section, these transactions are undertaken on the Trustee's behalf by the Scheme administrator, XPS Administration, and its investment manager, Legal & General Investment Management Ltd (LGIM). For the AVC arrangement and other legacy benefits that are now secured by defined contribution investments, these transactions are additionally carried out by The Prudential Assurance Company Limited (Prudential), The Equitable Life Assurance Society (Equitable Life), Baillie Gifford & Co Ltd (Baillie Gifford) and Scottish Equitable plc (Scottish Equitable, also known by the brand name Aegon) for the respective funds they provide.

The Trustee's service agreement with the administrator sets clear standards and deadlines for the accurate and timely processing of transactions. The administrator has committed to using only suitably trained, skilled and experienced personnel on Scheme matters, and to operating in accordance with its own published, and independently audited, internal operating control framework, which includes requirements for supervision and reconciliation of transactions. The Trustee receives quarterly reports on performance against those service levels. In addition, the Trustee receives and reviews the Scheme administrator's annual assurance report on its internal controls which is produced by an independent reporting accountant, BDO LLP (AAF report) to support its assessment of whether the controls are operating effectively.

The service agreement includes an agreed process for reporting on, and promptly correcting, any errors that may occur, with financial penalties for non-compliance. This process has been working effectively to the Trustee's satisfaction.

During the year we strengthened the reconciliation controls regarding certain legacy benefits that arose from the DB section that are now secured by money purchase investments. A reconciliation performed by the Scheme Administrator identified that insufficient units in the relevant investment funds were held for these members. The issue was promptly brought to the attention of the Trustee, the cause of the difference was investigated by the Scheme Administrator and the shortfall was rectified by purchasing additional units. The management of these legacy benefit investments was then brought under the control regime and Service Level requirements that apply to the DC Section. The Trustee is satisfied that no member suffered any loss as a result of this control weakness that has now been rectified.

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

# Statement regarding DC governance continued

## Security of assets

The Trustee, with its legal adviser, has assessed the protections offered to Scheme members should any of the Scheme fund providers run into financial difficulty.

As at 31 March 2019 the Trustee holds insurance policies with the fund providers<sup>2</sup>, under which members' investments are made. The Trustee believes that, in the event of insolvency of any such fund provider, the Trustee would be able to claim compensation through the Policyholder Protection Scheme ("FSCS") on members' behalf.

The Policyholder Protection Scheme is operated by Financial Services Compensation Scheme Ltd, which is an independent body set up by the government to protect consumers when authorised financial services firms fail. The FSCS aims to ensure investors get back 100% of the value of their insurance policy in the event of the insolvency of the insurer. The FSCS does not protect against movement in the underlying value of the assets of the funds. Further information regarding the FSCS is available at [fscs.org.uk](http://fscs.org.uk). Please note that the terms of the FSCS may be subject to review and amendment from time to time by the UK Prudential Regulation Authority.

## Charges and transaction costs

The Trustee reviews the charges and transaction costs borne by Scheme members every year to determine whether or not those charges and costs represent good value for money for members. Performance of the DC and AVC funds net of member charges are also monitored on a quarterly basis and annual basis respectively.

In this section, the four sources of charges and transaction costs incurred during the Scheme year are set out:

1. Total expense ratio or "TER" (% p.a.): This is the ongoing charge levied on member assets by the fund provider for investment management services and running costs. For Prudential and Equitable Life funds, the TER also includes member record-keeping and administration services (see point 4 below).
2. Transaction costs (ongoing): These are the transaction costs arising when the fund manager buys/sells securities as part of its ongoing management of the fund. Examples of such costs include custodian fees on trades, transaction taxes, broker commission, and 'slippage costs' (the difference between the market price of a trade at the time the order enters the market, and the actual execution price) or bid-offer spreads.
3. Transaction costs (incurred in implementing strategy changes): These are the transaction costs arising as a result of the buying and selling of funds during implementation of the strategy changes in September 2018.
4. Member administration fees: For the Prudential and Equitable Life funds, the ongoing member charge also includes member record-keeping and administration services. These providers do not separate out their ongoing charge between investment management, running costs and administration, but rather quote a single ongoing charge encompassing all these services.

Ongoing transaction costs under category 2) above have been disclosed as the costs over the most recently-available 12 month period, given the lack of availability of the costs from the fund managers over the partial year for which the funds were invested in. Where unavailable, the Trustee does not expect the transaction costs for the 12 months to 31 March 2019 to be meaningfully different to those costs disclosed in this statement.

Some of the ongoing transaction costs shown are negative, which indicates a gain. This is mainly a result of an anti-dilution offset (an adjustment made by the manager so that the cost of buying and selling fund units is met by those transacting). Where the anti-dilution offset outweighs the other sources of transaction costs, this results in an overall gain for invested members.

Some of the transaction costs incurred in implementing the strategy changes were also negative, indicating a gain. This is a result of the anti-dilution adjustment applied by the manager on the date of sale or purchase acting to benefit members, depending on whether the funds were bought or sold on their behalf during the changes.

## DC Section

The member incurs a total expense ratio ("TER") ranging from 0.100% p.a. to 0.300% p.a. of the sum invested, depending on the fund(s) in which they are invested. As a reference, this is significantly lower than the maximum allowed of 0.750% p.a. for a default fund used for auto-enrolment purposes.

---

<sup>2</sup> The fund providers as at 31 March 2019 are: Legal & General Assurance (Pensions Management) Limited, The Prudential Assurance Company Limited and The Equitable Life Assurance Society.

# Statement regarding DC governance continued

The table below sets out information on charges and transaction costs for the funds available to members during the Scheme year. Members invested in the default or alternative lifestyle option may be invested in a combination of these funds; each member's annual benefit statement will set out how much they have invested in each fund.

LGIM Fund	TER (% p.a.)	Transaction costs (ongoing) % p.a. <sup>3</sup>	Transaction costs (incurred in implementing strategy changes) %
Global Equity Fixed Weight (50:50) Index <sup>1</sup>	0.165	-0.001	-0.084
UK Equity Index <sup>1</sup>	0.100	-0.011	not applicable
AAA-AA-A Corporate Bond All Stocks Index <sup>1</sup>	0.150	-0.040	-0.330
Over 5 Year Index-Linked Gilt Index <sup>1</sup>	0.100	0.045	0.000
Cash <sup>1</sup>	0.125	0.004	0.000
World Equity Index <sup>1, 2</sup>	0.200	-0.007	0.027
World Equity Index - GBP Hedged <sup>1, 2</sup>	0.223	0.071	0.031
Multi-Asset Fund <sup>2</sup>	0.250	0.014	not applicable
Ethical Global Equity Index <sup>2</sup>	0.300	0.006	not applicable

Source: LGIM

<sup>1</sup> Fund used in the lifestyle profiles during the Scheme year.

<sup>2</sup> Fund introduced in September 2018 during implementation of strategy changes.

<sup>3</sup> Ongoing transaction costs for the 12 months to 31 March 2019 are not available as at the date of this statement. The Trustee expects to receive this information from LGIM by the end of July 2019. Ongoing transaction costs for the 12 months to 31 December 2018 (latest 12 month period available) have been shown for the purposes of this statement.

## AVC arrangement

The member incurs a total expense ratio ("TER") ranging from nil to 1.45% p.a. of the sum invested, depending on the fund(s) in which they are invested.

The two lifestyle profiles available to DC Section members (targeting cash and annuity purchase at retirement respectively) are also available to AVC members.

Total expense ratios for the additional funds available to AVC members during the Scheme year are set out in the tables below:

LGIM Fund	TER (% p.a.)	Transaction costs (ongoing) % p.a. <sup>1</sup>	Transaction costs (incurred in implementing strategy changes) %
UK Equity Index	0.100	-0.011	0.129
AAA-AA-A Corporate Bond All Stocks Index	0.150	-0.040	0.329
Over 5 Year Index-Linked Gilt Index	0.100	0.045	0.000
World Equity Index	0.200	-0.007	0.015
Multi-Asset Fund	0.250	0.014	0.230
Over 15 Year Gilts Index	0.100	-0.018	0.000
All Stocks Gilts Index	0.100	0.026	0.000
Pre-Retirement Fund	0.150	0.015	0.025
Ethical Global Equity Index	0.300	0.006	0.000

Source: LGIM. All funds shown in the table above were introduced in September 2018 during implementation of strategy changes.

<sup>1</sup> Ongoing transaction costs for the 12 months to 31 March 2019 are not available as at the date of this statement. The Trustee expects to receive this information from LGIM by the end of July 2019. Ongoing transaction costs for the 12 months to 31 December 2018 (latest 12 month period available) have been shown for the purposes of this statement.

# Statement regarding DC governance continued

Prudential Fund	TER (% p.a.)	Transaction costs (ongoing) % p.a.	Transaction costs (incurred in implementing strategy changes) %
UK Property <sup>3</sup>	1.45	0.26	not applicable
Deposit <sup>2</sup>	no explicit charges	0.00	not applicable
UK Equity Passive <sup>1, 3</sup>	0.65	0.31	0.09
UK Equity <sup>1, 3</sup>	0.75	-0.04	0.22
North American Equity Passive <sup>1, 3</sup>	0.85	-0.01	0.07
International Equity <sup>1, 3</sup>	0.75	0.08	-0.19
Global Equity <sup>1, 3</sup>	0.75	-0.04	0.35
Ethical <sup>1, 3</sup>	0.75	-0.03	-0.54
All Stocks Corporate Bond <sup>1, 3</sup>	0.75	-0.10	0.35
Fixed Interest <sup>1, 3</sup>	0.75	-0.10	0.03
Long Term Gilt Passive <sup>1, 3</sup>	0.65	-0.13	0.05
Long Term Bond <sup>1, 3</sup>	0.65	0.12	-0.30
Index-Linked <sup>1, 3</sup>	0.75	0.08	0.10
Discretionary <sup>1, 3</sup>	0.75	-0.07	0.53
Long Term Growth Passive <sup>1, 3</sup>	0.65	-0.19	0.16
With Profits Cash Accumulation	1.00	0.05	not applicable

Source: Prudential. Ongoing transaction costs for the 12 months to 31 March 2019 are not available as at the date of this statement. The Trustee is engaging with Prudential regarding the provision of transaction costs for the 12 months to 31 March 2019 and expects to receive this information from July 2019. Ongoing transaction costs for the most recently-available 12 month period have been shown for the purposes of this statement.

- <sup>1</sup> Scheme assets transferred to the new LGIM fund range in September 2018 during implementation of strategy changes.
- <sup>2</sup> Ongoing transaction costs for the 12 months to 31 December 2018 (latest 12 month period available) have been shown for the purposes of this statement.
- <sup>3</sup> Ongoing transaction costs for the 12 months to 30 June 2018 (latest 12 month period available) have been shown for the purposes of this statement.

Equitable Life Fund	TER (% p.a.)	Transaction costs (ongoing) % p.a.	Transaction costs (incurred in implementing strategy changes) %
UK FTSE All Share Tracker <sup>1</sup>	0.50	0.030	0.00
Managed <sup>1</sup>	0.75	0.083	0.00
With Profits <sup>2</sup>	1.00	0.045	n/a

Source: Equitable Life. Ongoing transaction costs for the 12 months to 31 March 2019 are not available as at the date of this statement. The Trustee is engaging with Equitable Life regarding the provision of transaction costs for the 12 months to 31 March 2019 and expects to receive this information in July 2019. Ongoing transaction costs for the 12 months to 31 December 2018 (the most recently-available 12 month period) have been shown for the purposes of this statement.

- <sup>1</sup> Scheme assets transferred to the new LGIM fund range in September 2018 during implementation of strategy changes.
- <sup>2</sup> Subject to approval by the High Court and by a policyholder vote later in 2019, it is proposed that Equitable Life's With Profits policies will be transferred to a new provider, Utmost Life and Pensions ("Utmost"), in January 2020. If this change goes ahead, it is expected that the value of members' With Profits investments will be uplifted and any investment guarantees will be removed. The With Profits investments will also be converted to unit-linked investments.

The Trustee will review the investments again following the completion of this process.

Baillie Gifford Fund	TER (% p.a.)	Transaction costs (ongoing) % p.a.	Transaction costs (incurred in implementing strategy changes) %
Balanced Managed <sup>1, 2</sup>	0.43	-0.06	-0.20

Source: Baillie Gifford. Ongoing transaction costs shown for the 12 months to 31 March 2019.

- <sup>1</sup> Scheme assets were transferred to the new LGIM fund range in September 2018 during implementation of strategy changes.
- <sup>2</sup> Scheme assets were held in respect of other legacy benefits that are now secured by defined contribution investments.

# Statement regarding DC governance continued

Aegon BlackRock Fund	TER (% p.a.)	Transaction costs (ongoing) % p.a.	Transaction costs (incurred in implementing strategy changes) %
Balanced Growth <sup>1, 2</sup>	0.91	0.18	0.20
Pre-Retirement <sup>1, 2</sup>	0.50	0.00	-0.17

Source: Scottish Equitable. Ongoing transaction costs for the 12 months to 31 March 2019 are not available as at the date of this statement. The Trustee is engaging with Scottish Equitable regarding the provision of transaction costs for the 12 months to 31 March 2019 and expects to receive this information in July 2019. Ongoing transaction costs for the 12 months to 31 December 2018 (the most recently-available 12 month period) have been shown for the purposes of this statement.

<sup>1</sup> Scheme assets were transferred to the new LGIM fund range in September 2018 during implementation of strategy changes.

<sup>2</sup> Scheme assets were held in respect of other legacy benefits that are now secured by defined contribution investments.

## Projected impact of costs and charges

Below is an illustrative example of the cumulative effect over time of the member-borne charges and costs on the value of a member's money purchase savings. This considers the impact of the total expense ratio and ongoing frictional transaction costs (set out in the tables above) across the Scheme's fund range available to members as at 31 March 2019. It assumes a starting pot size of £10,000 with no further contributions, given the DC Section is closed to future contributions. The assumptions are detailed in the notes after the tables.

### Projected pension pot, in today's terms

Years	Default Lifestyle		LGIM Global Equity Fixed Weight (50:50) Index Fund		LGIM UK Equity Index Fund		LGIM AAA-AA-A Corporate Bond All Stocks Index Fund		LGIM Over 5 Year Index-Linked Gilt Index Fund	
	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted
1	£10,200	£10,200	£10,200	£10,200	£10,200	£10,200	£10,000	£10,000	£9,900	£9,900
3	£10,600	£10,500	£10,600	£10,600	£10,600	£10,600	£9,900	£9,900	£9,700	£9,700
5	£11,000	£10,900	£11,000	£10,900	£11,000	£11,000	£9,900	£9,800	£9,500	£9,400
10	£12,200	£11,900	£12,200	£12,000	£12,200	£12,000	£9,700	£9,600	£9,100	£8,900
15	£13,300	£12,900	£13,400	£13,100	£13,400	£13,200	£9,600	£9,400	£8,600	£8,400
20	£14,400	£13,800	£14,700	£14,300	£14,700	£14,500	£9,400	£9,200	£8,200	£8,000
25	£15,300	£14,500	£16,200	£15,600	£16,200	£15,900	£9,300	£9,000	£7,800	£7,500
30	£15,500	£14,500	£17,900	£17,000	£17,900	£17,400	£9,200	£8,900	£7,400	£7,100
33	£15,200	£14,100	£19,000	£18,000	£19,000	£18,400	£9,100	£8,800	£7,200	£6,900

### Projected pension pot, in today's terms

Years	LGIM Cash Fund		LGIM World Equity Index Fund		LGIM World Equity Index Fund - GBP Hedged		LGIM Multi-Asset Fund		LGIM Ethical Global Equity Index Fund	
	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted
1	£9,900	£9,900	£10,200	£10,200	£10,200	£10,200	£10,100	£10,100	£10,200	£10,200
3	£9,700	£9,700	£10,600	£10,600	£10,600	£10,500	£10,300	£10,300	£10,600	£10,500
5	£9,500	£9,500	£11,000	£10,900	£11,000	£10,900	£10,600	£10,400	£11,000	£10,900
10	£9,100	£8,900	£12,200	£11,900	£12,200	£11,800	£11,200	£10,900	£12,200	£11,800
15	£8,600	£8,500	£13,400	£13,000	£13,400	£12,800	£11,800	£11,400	£13,400	£12,800
20	£8,200	£8,000	£14,700	£14,200	£14,700	£13,900	£12,500	£11,900	£14,700	£13,900
25	£7,800	£7,600	£16,200	£15,500	£16,200	£15,100	£13,200	£12,400	£16,200	£15,000
30	£7,400	£7,200	£17,900	£16,900	£17,900	£16,400	£14,000	£12,900	£17,900	£16,300
33	£7,200	£6,900	£19,000	£17,800	£19,000	£17,200	£14,500	£13,300	£19,000	£17,100

# Statement regarding DC governance continued

## Projected pension pot, in today's terms

Years	LGIM Over 15 Year Gilts Index Fund		LGIM All Stocks Gilts Index Fund		LGIM Pre-Retirement Fund		Prudential UK Property Fund		Prudential Deposit Fund	
	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted
1	£9,900	£9,900	£9,900	£9,900	£9,900	£9,900	£10,200	£10,000	£9,900	£9,900
3	£9,700	£9,700	£9,700	£9,700	£9,900	£9,800	£10,600	£10,100	£9,700	£9,700
5	£9,500	£9,500	£9,500	£9,500	£9,800	£9,700	£11,000	£10,100	£9,500	£9,500
10	£9,100	£9,000	£9,100	£8,900	£9,500	£9,400	£12,200	£10,200	£9,100	£9,100
15	£8,600	£8,500	£8,600	£8,500	£9,300	£9,100	£13,400	£10,300	£8,600	£8,600
20	£8,200	£8,100	£8,200	£8,000	£9,100	£8,800	£14,700	£10,400	£8,200	£8,200
25	£7,800	£7,700	£7,800	£7,600	£8,800	£8,500	£16,200	£10,500	£7,800	£7,800
30	£7,400	£7,300	£7,400	£7,200	£8,600	£8,200	£17,900	£10,600	£7,400	£7,400
33	£7,200	£7,000	£7,200	£6,900	£8,500	£8,100	£19,000	£10,700	£7,200	£7,200

## Projected pension pot, in today's terms

Years	Prudential With Profits Cash Accumulation Fund		Equitable Life With Profits Fund	
	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted
1	£10,100	£10,000	£9,900	£9,800
3	£10,300	£10,000	£9,700	£9,400
5	£10,600	£10,000	£9,600	£9,100
10	£11,100	£10,000	£9,100	£8,200
15	£11,700	£10,000	£8,800	£7,500
20	£12,400	£10,000	£8,400	£6,800
25	£13,100	£10,000	£8,000	£6,200
30	£13,800	£10,000	£7,700	£5,600
33	£14,200	£10,000	£7,500	£5,300

### Notes:

1. Values shown are estimates and are not guaranteed;
2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
3. Assumes inflation of 2.5% per annum;
4. Assumes charges in future years are equal to charges today, and frictional transaction costs in the future are the same as those over year to 31 March 2019 or the latest available 12-month period;
5. For the default strategy, assumes a member is aged 32 years old now. This corresponds to the youngest member enrolled into the DC Section.
6. Projections are shown at terms up to 33 years, when a member who is 32 years old now would reach the Scheme's Normal Retirement Age of 65.
7. The projected impact of costs and charges for the Prudential With-Profits Cash Accumulation and the Equitable Life With-Profits funds have been shown based on the underlying asset allocations of the funds. In practice, charges and transaction costs are deducted from the overall fund before bonus rates are set for policyholders, and bonus rates are not directly linked to underlying asset returns each year.

# Statement regarding DC governance continued

The projected growth rates used are based on the Scheme's 2019 Statutory Money Purchase Illustrations, as advised by the Scheme Actuary and are set out below:

Fund	Nominal accumulation rate per annum (gross of charges)
LGIM Global Equity Fixed Weight (50:50) Index	4.50%
LGIM UK Equity Index	4.50%
LGIM AAA-AA-A Corporate Bond All Stocks Index	2.20%
LGIM Over 5 Year Index-Linked Gilt Index	1.50%
LGIM Cash	1.50%
LGIM World Equity Index	4.50%
LGIM World Equity Index - GBP Hedged	4.50%
LGIM Multi-Asset Fund	3.65%
LGIM Ethical Global Equity Index	4.50%
LGIM Over 15 Year Gilts Index	1.50%
LGIM All Stocks Gilts Index	1.50%
LGIM Pre-Retirement Fund	2.00%
Prudential UK Property Fund	4.50%
Prudential Deposit Fund	1.50%
Prudential With Profits Cash Accumulation	3.60%
Equitable Life With Profits	1.60%

Source: XPS Pensions Group

The above illustration has been prepared with regard to the Department for Work and Pensions' guidance ("Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes"), published in September 2018.

## Value for members

The Company is responsible for paying all the administration costs associated with the DC Section, and in respect of the LGIM funds within the AVC arrangement. In addition, the Trustee contracted to pay an annual fee to Legal & General Assurance (Pensions Management) Limited, the fund provider, should total invested funds fall below a threshold value. To date the total funds invested exceed the threshold and no such fee has been payable. As an indication of the benefit, our Investment Advisor estimates that the administration services paid for by the company would cost members invested with Legal & General an annual charge of 0.2% to 0.25% if administration services were supplied by a fund provider and deducted from members' funds.

With the AVC arrangement, ongoing member charges for the Prudential and Equitable Life funds include some administration services, for example member record-keeping and provision of an annual benefit statement.

### Total expense ratios

The Trustee most recently reviewed the total expense ratios as part of a formal review of the DC Section and AVC arrangement during the first half of 2018, and also as part of a formal 'value for members' assessment covering the Scheme year.

Within the DC Section, the average total expense ratio throughout the default arrangement range is lower than the average member charge for similar-sized trust-based DC arrangements, published by the Department for Work & Pensions in its latest survey of DC charges<sup>3</sup>.

Within the AVC arrangement, the fund range changes implemented during 2018 have brought total expense ratios down to levels comparable with the DC Section. The AVC funds retained from the previous fund range (aside from the Prudential Deposit Fund, which has no explicit member charge) have higher member charges than the passive LGIM funds in the consolidated range. This is in part due to them being actively managed and including administration services as well as investment management. Overall, compared with similar options available in the wider DC fund market, the Trustee is comfortable these options represent reasonable value for members.

The Trustee is satisfied that this charging structure is appropriate for members and represents good value for money, taking account of the size of the Scheme funds and the fact that there will be no future contributions to increase the fund size.

<sup>3</sup> Source: Department for Work & Pensions: "Pension Charges Survey 2016: Charges in defined contribution pension schemes", published October 2017

# Statement regarding DC governance continued

## Transaction costs

### LGIM funds

All the LGIM funds (except for the Cash fund) are passively managed with the aim of tracking their respective benchmark indices before the deduction of their total expense ratio, but after the deduction of transaction costs. The Trustee regularly monitors performance of the funds against their objectives and is satisfied the objectives have been met over the Scheme year, after the deduction of transaction costs.

The transaction costs over the year for the Cash fund are almost negligible in absolute terms, and are relatively low as a proportion of the total expense ratio (compared to the other funds offered). This, combined with the fact the fund has had a positive return net of member charges over the past five years (in a low interest rate environment where some cash funds across the industry have produced negative returns after the deduction of member charges), has led the Trustee to conclude the overall costs and charges applicable to the Cash fund (including transaction costs) are appropriate.

The Trustee is satisfied that the transaction costs incurred over the Scheme year for each of the available funds are acceptable in the context of the funds' objectives.

### Non-LGIM Funds

For the Prudential and Equitable Life funds present in the Scheme as at 31 March 2019, the Trustee is comfortable the transaction costs incurred by the managers are reasonable in the context of overall fund performance. All the non-LGIM funds have been replaced by LGIM funds, with the exception of the UK Property, Deposit and With Profits funds with Prudential and the With Profits fund with Equitable Life. For the funds retained, the Trustee is satisfied that the transaction costs incurred over the Scheme year for each of the available funds are acceptable in the context of the funds' objectives.

For those funds removed from the fund range in the Scheme year, some of the disclosed transaction costs are relatively high compared to similar passively managed options with LGIM. Equally, some of the negative transaction costs (i.e. gains) disclosed are relatively high compared to the LGIM funds. Overall, the relatively high ongoing charges for these funds were the dominant factor leading to their replacement.

## Conclusion

Overall, the Trustee is satisfied value for members is present in the Scheme. In making this determination, the Trustee has carried out a formal value for members assessment which considered not just the cost to members (see above) but also the quality of the offering and services provided to members. The Trustee believes good value is demonstrated through:

- A default investment strategy designed to take account of member needs, and to control risk as members approach retirement and the need for protection increases;
- Fund performance broadly in line with objectives over the time periods assessed as at 31 March 2019;
- A robust governance and monitoring process;
- The Company paying for member administration costs associated with the DC Section and the LGIM funds within the AVC arrangement, as opposed to this being borne by members;
- Reasonable ongoing member charges, in the context of the total asset size of the Scheme and the fact it is closed to further contributions.

The Trustee will carry out its next formal value for members assessment next year, in respect of the 12 month period to 31 March 2020.

# Statement regarding DC governance continued

## Overall Conclusion

As Trustee of the Scheme, we have reviewed our systems, processes and controls across key governance functions and considered the Pensions Regulator's recommendations for defined contribution schemes. Our assessment is that our systems, processes and controls are appropriate to the Scheme and are also consistent with the requirements and recommendations for governance set out in the Pensions Regulator's:

- Code of practice 13: Governance and administration of occupational defined contribution trust-based schemes (the 'DC Code')
- Regulatory guidance for defined contribution schemes.

Based on our assessment and for the reasons set out earlier in this statement, we believe that we have met the standards of practice set out in the DC code and applicable DC regulatory guidance.

The Statement regarding DC governance was approved by the Trustee and signed on its behalf by:

A handwritten signature in blue ink, appearing to read 'K O'Donovan', with a long horizontal line extending to the right.

**Kathleen O'Donovan**  
Chair of the Board

10 July 2019

# Actuary's certificate of the calculation of Technical Provisions

## Name of scheme: Invensys Pension Scheme

### Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 31 March 2018 is made in accordance with regulations under Section 222 of the Pensions Act 2004. The calculation uses the method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 18 October 2018.



**Steve Leake**

Fellow of the Institute and Faculty of Actuaries

XPS Pensions Limited

Tempus Court

Onslow Street

Guildford

Surrey GU1 4SS

15 November 2018

# Independent auditor's report to the Trustee of the Invensys Pension Scheme

## Opinion

We have audited the financial statements of Invensys Pension Scheme for the year ended 31 March 2019 which comprise the Fund Account, the Statement of Net Assets and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion, the financial statements:

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

## Basis for opinion

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

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

## Conclusions relating to going concern

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

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

## Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

# Independent auditor's report to the Trustee of the Invensys Pension Scheme continued

## Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 19, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or to cease operations, or have no realistic alternative but to do so.

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

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

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

## Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

/s/ Ernst & Young LLP

Statutory Auditor

London

10 July 2019

Notes:

1. The maintenance and integrity of the Invensys Pension Scheme web site is the responsibility of the Trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Fund account

## For the year ended 31 March 2019

### Contributions and benefits

	Note	2019 £m	2018 £m
Employer contributions	3	0.1	0.1
<b>Total contributions</b>		<b>0.1</b>	<b>0.1</b>
Individual transfers in from other schemes		0.3	0.2
		0.4	0.3
Benefits payable	4	(246.9)	(256.2)
Payments to and on account of leavers	5	(35.4)	(40.9)
Administrative expenses	6	(7.0)	(6.2)
		(289.3)	(303.3)
<b>Net withdrawals from dealings with members</b>		<b>(288.9)</b>	<b>(303.0)</b>
<b>Returns on investments</b>			
Investment income	7	134.8	130.7
Change in market value of investments	9	110.5	(61.3)
Investment management expenses	8	(9.1)	(10.0)
<b>Net returns on investments</b>		<b>236.2</b>	<b>59.4</b>
<b>Net decrease in the fund during the year</b>		<b>(52.7)</b>	<b>(243.6)</b>
<b>Opening net assets of the Scheme at 1 April</b>		<b>5,097.4</b>	<b>5,341.0</b>
<b>Closing net assets of the Scheme at 31 March</b>		<b>5,044.7</b>	<b>5,097.4</b>

# Notes to the financial statements

## Investments

	Note	2019 £m	2018 £m
<b>Investment assets</b>	10		
Bonds		4,906.7	4,818.8
Pooled investment vehicles		721.3	825.9
Derivative contracts		365.5	377.8
Cash instruments		55.0	57.9
AVC investments		5.8	6.1
DC investments		6.0	4.5
Other financial assets		37.2	35.6
Cash deposits		22.9	38.7
Financial assets		6,120.4	6,165.3
<b>Investment liabilities</b>	10		
Derivative contracts		(689.9)	(696.7)
Repurchase agreement liabilities		(396.8)	(398.5)
Other financial liabilities		(10.1)	(4.3)
Financial liabilities	10	(1,096.8)	(1,099.5)
<b>Total net investments</b>	9	5,023.6	5,065.8
<b>Current assets</b>	12	27.3	39.4
<b>Current liabilities</b>	13	(6.2)	(7.8)
<b>Net assets of the scheme at 31 March</b>		5,044.7	5,097.4

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 that 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 certificate by the Scheme Actuary on page 31 and the funding position on page 3 of the Annual Report. These financial statements should be read in conjunction with these statements.

Signed on behalf of Invensys Pension Trustee Limited



K A O'Donovan



N B Casson-Moss

10 July 2019

Directors

# Notes to the financial statements

## 1 Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2014).

A new Statement of Recommended Practice was published in 2018 and is applicable for accounting periods commencing on or after 1 January 2019. The Trustee does not expect there to be any changes as a result of adopting the 2018 SORP guidance.

## 2 Accounting policies

### a Contributions

Levy reimbursement contributions are accounted for on an accruals basis, in accordance with the Schedule of Contributions under which they are paid.

Augmentation contributions are accounted for in accordance with the agreement under which they are payable. In the absence of any formal agreement, they are accounted for on a receipts basis.

### b Investment income

Income from fixed interest securities, index-linked securities and cash is taken into account on an accruals basis, calculated on a daily basis.

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

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.

### c Transfers

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

### d Benefits

Benefits payable are included in the financial statements on an accruals basis when the member notifies the Trustee as to the type or amount of benefit to be taken or, where there is no choice, on the date of retirement or leaving. Pensions paid include amounts paid in respect of insured pensioners. The income relating to these is shown as annuities received within investment income.

### e Investment manager fees

Investment manager fees are accounted for on an accruals basis. They are primarily charged as a percentage of the portfolio valuation and as a percentage of the outperformance, if any, generated by the relevant managers with active management mandates.

### f Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling, the Scheme's functional currency, at the rate of exchange ruling at the Scheme year-end. Gains and losses on foreign currency investment and cash balances are shown in aggregate within the change in market value of investments to which they relate in the Fund Account.

Investment income denominated in foreign currencies is recorded by applying the spot exchange rate ruling at the date on which the income relating to the investment falls due.

# Notes to the financial statements

## continued

### g Investment assets

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.

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

Pooled investment vehicles are valued at the closing bid price or, if single priced, at the closing single price.

Fixed interest securities are stated at a value, their clean price, which excludes the value of interest accruing from the previous interest payment date to the valuation date.

### h Derivatives

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.

Derivative contracts are included in the net assets statement at fair value. Exchange traded derivatives with positive values are included in the net assets statement as assets at bid price, and those with negative values as liabilities at offer price.

### i. Futures

Open futures contracts are recognised in the statement of net assets at their fair value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract, as determined by the closing exchange price as at the year-end.

Amounts outstanding in respect of the initial margin and any variation margin are shown within amount due from/to brokers/managers.

Amounts included in change in market value represent realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.

### ii. Swaps

Swaps are valued at fair value, using pricing models that calculate the current value of future expected net cash flows arising from the swaps, for which the time value of money is taken into account. Interest is accrued under the terms relating to individual contracts. Net receipts or payments on swap contracts are either reported within investment income or change in market value.

### iii. Forward foreign exchange contracts

Forward foreign exchange contracts outstanding at the year-end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract were matched at the year-end with an equal and opposite contract at that date.

Changes in the fair value of the forward contracts are reported within change in market value in the Fund Account.

### i Repurchase agreements

Where the Scheme enters into a repurchase agreement (a 'repo'), it receives a cash loan from the counterparty, which is collateralised by specific assets of the Scheme. The obligation to repay the loan is accounted for as a financial liability. The assets pledged as collateral are included in the Scheme's net assets and their change in market value and any related investment income is accounted for on an accruals basis. The assets pledged are not free to be otherwise used by the Scheme and their value is separately disclosed in note 10.

The Scheme pays interest to the repo counterparties on the cash borrowed and this is accounted for on an accruals basis within investment income in line with the terms of the respective contracts.

### j Taxation

The Scheme is a 'registered pension scheme' for tax purposes under the Finance Act 2004. The Scheme's income and chargeable gains are free of UK Income and Capital Gains tax, and tax recoverable on the Scheme's income is treated as part of that income.

### k Administrative expenses

Administrative expenses are accounted for on an accruals basis.

# Notes to the financial statements continued

## 3 Contributions

	2019 £m	2018 £m
<b>Employers</b>		
Levy reimbursement	0.1	0.1
	0.1	0.1

## 4 Benefits payable

	2019 £m	2018 £m
Pensions	225.4	224.8
Commutations and lump sum retirement benefits	20.8	30.6
Lump sum death benefits	0.6	0.6
Tax where lifetime or annual allowance exceeded	0.1	0.2
	246.9	256.2

## 5 Payments to and on account of leavers

	2019 £m	2018 £m
Individual transfers to other schemes	35.4	40.9
	35.4	40.9

## 6 Administrative expenses

	2019 £m	2018 £m
Administration and processing	4.8	3.9
Pension Protection Fund levy	0.2	0.2
Actuarial fees	0.6	0.9
Legal and other professional fees	1.2	1.0
Audit fees	0.1	0.1
Directors' fees	0.1	0.1
	7.0	6.2

## 7 Investment income

	2019 £m	2018 £m
Income from bonds	113.0	115.7
Interest on cash deposits and margin accounts	1.2	0.6
European loan income	2.8	2.7
Annuities received	0.5	0.5
Repo interest expense	(3.1)	(2.0)
Income from derivatives (swaps)	8.6	6.9
Broad bond fund income	4.5	4.3
Other	7.3	2.0
	134.8	130.7

# Notes to the financial statements continued

## 8 Investment management expenses

	2019 £m	2018 £m
Administration, management, custody	8.1	6.2
Performance-related fees	1.0	3.8
	9.1	10.0

## 9 Investments - reconciliation table

	As at 31 March 2018 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Other transactions £m	Market value movement £m	As at 31 March 2019 £m
Bonds	4,818.8	979.0	(1,004.8)	-	113.7	4,906.7
Pooled investment vehicles	825.9	1,016.1	(1,121.4)	-	0.7	721.3
Derivative contracts	(318.9)	53.0	(56.0)	-	(2.5)	(324.4)
Repurchase agreement liabilities	(398.5)	474.1	(472.4)	-	-	(396.8)
Cash instruments	57.9	34.0	(37.2)	-	0.3	55.0
AVCs investments	6.1	3.8	(4.4)	-	0.3	5.8
DC investments	4.5	4.9	(3.8)	-	0.4	6.0
	4,995.8	2,564.9	(2,700.0)	-	112.9	4,973.6
Other financial assets and liabilities	31.3	-	-	(4.2)	-	27.1
Cash deposits	38.7	-	-	(13.4)	(2.4)	22.9
	5,065.8	2,564.9	(2,700.0)	(17.6)	110.5	5,023.6

Market value movements comprise all realised and unrealised gains or losses on investments in the year, and in the case of cash deposits comprise foreign exchange movements.

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Net transaction costs included above were commission of £7k (2018: £11k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within investment funds. The amount of indirect costs is not separately provided to the Scheme.

## 10 Investments - financial assets and liabilities

	2019		2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Bonds	4,906.7	-	4,818.8	-
Pooled investment vehicles	721.3	-	825.9	-
Derivative contracts	365.5	689.9	377.8	696.7
Repurchase agreement liabilities	-	396.8	-	398.5
Cash instruments	55.0	-	57.9	-
AVCs investments	5.8	-	6.1	-
DC investments	6.0	-	4.5	-
Other financial assets and liabilities	37.2	10.1	35.6	4.3
Cash deposits	22.9	-	38.7	-
	6,120.4	1,096.8	6,165.3	1,099.5
<b>Total net financial assets</b>	5,023.6		5,065.8	

# Notes to the financial statements continued

## 10 Investments - financial assets and liabilities continued

	2019 £m	2018 £m
<b>Bonds</b>		
<b>Fixed interest securities</b>		
UK public sector quoted	2,227.2	2,296.2
Corporate quoted	1,419.3	1,118.6
Overseas public sector quoted	5.1	-
Other	68.2	52.1
<b>Index-linked securities</b>		
UK quoted	1,096.7	1,267.0
Other	90.2	84.9
	<b>4,906.7</b>	<b>4,818.8</b>

Included within investments above are assets of £757.0m (2018: £622.1m) available for use as collateral when required. As at the year-end, £327.4m (2018: £328.0m) was deployed as net collateral posted in favour of counterparties to derivative contracts and repurchase agreements open at the year-end.

	2019 £m	2018 £m
<b>Pooled investment vehicles</b>		
Fund of Hedge Funds	-	0.3
Bond funds	122.2	226.8
Equity funds	46.8	44.7
Dynamic Asset Allocation	255.2	250.0
Hedge fund	49.2	50.7
Loan fund	85.8	86.5
Cash funds	102.7	106.2
Capital Release Transactions fund	59.4	60.4
Unit trusts other	-	0.3
	<b>721.3</b>	<b>825.9</b>

As of 31 March 2019, the Scheme had £539.7m (2018: £639.1m) invested in pooled investment vehicles whose managers are registered in the United Kingdom. It also had £181.6m (2018: £186.8m) invested in pooled investment vehicles whose managers are not registered in the United Kingdom.

Where the investments are held in 'managed and unitised funds', the change in market value includes:

- expenses both implicit and explicit to the Scheme
- any reinvested income, where the income is not distributed.

	2019		2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Derivative contracts</b>				
Swaps	364.0	687.7	375.7	695.8
Futures contracts	0.1	0.5	0.1	0.5
Forward foreign exchange	1.4	1.7	2.0	0.4
	<b>365.5</b>	<b>689.9</b>	<b>377.8</b>	<b>696.7</b>
<b>Net derivative liabilities</b>		<b>324.4</b>		<b>318.9</b>

# Notes to the financial statements

## continued

### 10 Investments - financial assets and liabilities continued

#### Derivative contracts

The Trustee has authorised its investment managers to use derivatives for the purpose of efficient portfolio management, reducing potential mismatches between assets and liabilities and reducing investment risk.

#### Swaps

The Scheme's investment managers may use interest rate swaps, inflation swaps, futures, repurchase agreements and gilt total return swaps to reduce the potential mismatch between the Scheme's assets and its liabilities in respect of interest rates and inflation movements. They may also use credit default swaps to manage credit risk.

#### Interest rate swaps

Maturity years	No. of contracts	Pay fixed notional £m	Receive fixed notional £m	Assets £m	Liabilities £m
0-5	58	210.0	339.4	32.6	7.9
5-10	133	329.6	642.3	140.3	13.8
10-30	61	453.9	613.8	85.6	323.5
30-50	29	282.0	247.8	66.5	283.5
<b>Total</b>	<b>281</b>	<b>1,275.5</b>	<b>1,843.3</b>	<b>325.0</b>	<b>628.7</b>

#### Inflation swaps

Maturity years	No. of contracts	Receive RPI notional £m	Pay RPI notional £m	Assets £m	Liabilities £m
0-5	15	375.6	-	-	12.5
5-10	23	540.4	62.0	4.1	16.2
10-30	36	302.3	278.4	20.3	19.2
30-50	12	11.5	59.1	14.6	4.0
<b>Total</b>	<b>86</b>	<b>1,229.8</b>	<b>399.5</b>	<b>39.0</b>	<b>51.9</b>

#### Credit default swaps

Maturity years	No. of contracts	Buy protection notional £m	Sell protection notional £m	Assets £m	Liabilities £m
0-5	5	143.7	-	-	3.4
<b>Total</b>	<b>5</b>	<b>143.7</b>	<b>-</b>	<b>-</b>	<b>3.4</b>

#### Currency swaps

Maturity years	Pay/Receive currency	No. of contracts	Notional £m	Assets £m	Liabilities £m
0-5	Pay EUR/Receive GBP	2	39.2	-	3.7
<b>Total</b>		<b>2</b>	<b>39.2</b>	<b>-</b>	<b>3.7</b>

<b>Total swaps</b>				<b>364.0</b>	<b>687.7</b>
--------------------	--	--	--	--------------	--------------

# Notes to the financial statements continued

## 10 Investments - financial assets and liabilities continued

### Futures contracts

Maturity	Type of future	No. of contracts	Economic exposure £m	Assets £m	Liabilities £m
Under 3 months	UK gilt	1	5.9	0.1	-
Under 3 months	Overseas fixed interest	5	(43.5)	-	0.5
<b>Total</b>		<b>6</b>		<b>0.1</b>	<b>0.5</b>

### Forward foreign exchange

The Scheme is subject to currency risk in so far as assets are held in non-GBP currencies. The change in the value of those currencies relative to GBP may affect the income that the Scheme expects to receive from those investments as well as their value. This risk is mitigated by use of forward foreign exchange contracts.

Maturity	Pay/Receive currency	No. of contracts	Notional £m	Assets £m	Liabilities £m
Within 3 months	Pay GBP/Receive EUR	1	0.7	-	-
Within 3 months	Pay EUR/Receive GBP	14	185.8	1.3	0.2
Within 3 months	Pay GBP/Receive USD	1	5.7	-	-
Within 3 months	Pay USD/Receive GBP	11	161.7	0.1	1.5
<b>Total</b>		<b>27</b>	<b>353.9</b>	<b>1.4</b>	<b>1.7</b>

### Repurchase agreements

As at 31 March 2019

Nature	Underlying investment	Term	Nominal £m	Liability £m
Repo sell	UK Treasury gilt	Less than 12 months	244.4	396.8

The value of the gilts sold as part of the repurchase agreements was £415.9m. The Scheme held £20.5m of collateral posted by its repo counterparts.

### Cash instruments

	2019 £m	2018 £m
<b>Cash instruments</b>	<b>55.0</b>	<b>57.9</b>
<b>AVCs investments (see note 11)</b>	<b>5.8</b>	<b>6.1</b>
<b>DC investments (see note 11)</b>	<b>6.0</b>	<b>4.5</b>

### Other financial assets and liabilities

	2019		2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Accrued interest	36.7	-	32.8	-
Amounts due from/to brokers/managers	0.5	10.1	2.8	4.3
	<b>37.2</b>	<b>10.1</b>	<b>35.6</b>	<b>4.3</b>
<b>Net other financial assets</b>	<b>27.1</b>		<b>31.3</b>	

# Notes to the financial statements

## continued

### 10 Investments - financial assets and liabilities continued

#### Cash deposits

	2019 £m	2018 £m
Sterling	14.1	23.3
Foreign currency	8.8	15.4
	<b>22.9</b>	<b>38.7</b>

### 11 Investments for Money Purchase Benefits

These investments are held in pooled investments that are allocated to individual members. They arise from:

- Additional Voluntary Contributions (AVCs) made by members prior to the Scheme closing to future accrual;
- contributions to a Defined Contribution (DC) section of the scheme before it closed to new contributions and other legacy benefits that are now secured by Defined Contribution investments. The legacy benefits include parts of contributions made by DB members that could not be repaid when short service refunds were made and certain former Protected Rights. The investments held to secure the legacy benefits were included within Pooled Investment Vehicles in 2018.

Where applicable, Members receive an annual statement showing the amounts held for them and the movement in the year.

#### Funds

	AVCs £m	Defined Contribution £m	Total Investments held for Money Purchase Benefits £m
Members' funds at 31 March 2019	5.8	6.0	11.8
Members' funds at 31 March 2018	6.1	4.5	10.6

#### Money Purchase Funds at 31 March 2019 were managed by:

	AVCs £m	Defined Contribution £m	Total Investments held for Money Purchase Benefits £m
Legal & General	2.4	6.0	8.4
Prudential	1.7	-	1.7
Equitable Life	1.7	-	1.7
	<b>5.8</b>	<b>6.0</b>	<b>11.8</b>

### 12 Current assets

	2019 £m	2018 £m
Pensions paid in advance	-	15.5
Cash balances	26.5	23.2
Other debtors	0.8	0.7
	<b>27.3</b>	<b>39.4</b>

Pensions due on 1 April 2018 were paid in advance as that date fell on a weekend.

### 13 Current liabilities

	2019 £m	2018 £m
Other creditors	0.1	0.4
Unpaid benefits	0.7	0.8
Accrued expenses	5.4	6.6
	<b>6.2</b>	<b>7.8</b>

# Notes to the financial statements

## continued

### 14 Investment risks

#### Types of risk relating to investments

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 its 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 Scheme has exposure to these risks because of the level of investment returns that it is required to achieve to meet its funding objectives. The Trustee seeks to maintain investment risks, including credit risk and market risk, within agreed limits that are set taking into account the Scheme's strategic investment objectives. The 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 as part of regular reviews of the Investment Portfolio. The Trustee's investment strategy is set out in the Investment report.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Investment Manager	Style	Investment vehicle	Credit risk	Market risk			Holding £m	
				Currency	Interest rate	Other price	2019	2018
<b>Liability Matching Fund (LMF)</b>								
BlackRock		Segregated	○	○	●	○	2,768	3,015
<b>Investment Portfolio</b>								
AXA	IG bonds	Segregated	●	○	●	○	766	653
M&G	IG bonds	Segregated	●	○	●	○	423	392
Amundi	IG bonds	Segregated	●	○	●	○	312	148
M&G Sleeve run-off	IG bonds	Segregated	●	○	●	○	60	70
AXA Sleeve run-off	IG bonds	Segregated	●	○	●	○	9	17
AllianceBernstein	Broad bonds	Pooled	●	○	●	○	0	101
Amundi (Formerly Pioneer)	Broad bonds	Pooled	●	○	●	○	122	127
Barings	DAA	Pooled	○	○	○	●	202	197
BlackRock	DAA	Pooled	○	○	○	●	55	54
LGIM	Equity	Pooled	○	○	○	●	47	45
BlackRock (FIGA)	Hedge funds	Pooled	○	○	○	●	49	51
M&G	Loans	Pooled	●	○	●	○	86	86
AXA (PCS)	Reg. Cap	Pooled	●	○	●	○	59	60
Investment Portfolio							2,190	2,002
Cash							51	37
<b>Managed assets</b>							<b>5,009</b>	<b>5,054</b>
<b>DC &amp; AVC Investments</b>		Pooled	○	○	○	○	12	11
Net financial assets							5,021	5,065
<b>Net current assets and other</b>							24	33
Net assets of the Scheme							5,045	5,097

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

# Notes to the financial statements

## continued

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies or AVCs or DC investments, because these are not considered significant in relation to the overall investments of the Scheme.

### Overall framework for investment risk management

#### Overall approach for investment risk budgeting

The Trustee believes that the maturity of the Scheme and the impact of its size on the Company covenant together warrant a strong focus on managing risk and pursuing the chosen return target in a risk-controlled manner. It takes an integrated risk management approach.

The Trustee has a set a Strategic Target and Risk Framework that is used to assess the level of investment risk within the Scheme and its appropriateness given the Scheme's funding objectives and the Sponsor's financial strength.

The budget for investment risks is derived from striking a balance between three factors:

1. The need for generating investment returns, which is a function of the Scheme's funding objectives
2. The affordability of investment risks by the Sponsor, which is a function of its capacity to sustain a significant deterioration in the Scheme's funding level and contribute to its recovery
3. The investment environment, which may or may not favour taking investment risks.

Each of these factors is assessed using metrics that are regularly updated and reviewed using inputs from the Trustee's investment, actuarial and employer covenant advisers.

The Trustee seeks to control investment risks primarily by setting the following:

- A minimum holding in 'off-risk' assets such as cash and UK Government gilts, primarily held in its Liability Matching Fund
- Minimum interest rate risk and inflation risk coverage ratio to protect the funding level against the impact of changes in interest rates and inflation
- The permitted asset classes for the investment managers and applicable ranges
- Investment constraints and risk guidelines within the investment managers' mandates to avoid excessive concentration and risk taking
- Limits on counterparty exposure where the Scheme has entered into derivative instruments or gilt repurchase agreements, as detailed in note 10.

Given its maturity, the Scheme has to generate significant cash flows from its assets to fund benefit payments. The investment risks associated with this are managed through a liquidity management policy. The policy primarily aims at continuously matching the next few years of benefit payments with asset cash flows and holding a cash buffer to cover unexpected short-term outflows.

#### Governance of investment risk management

The Trustee Board has ultimate responsibility for investment risk management. The key parameters that determine the amount of investment risk that may be taken within the Scheme, including their distribution across asset classes, are set in the Statement of Investment Principles. The Trustee Board has delegated to the Investment Committee the management of investment risk within the parameters set in the Statement of Investment Principles. The Investment Committee may delegate some of its duties to the Asset and Liability Management Committee. The Executive Office, working with the Scheme's advisers and investment managers, is responsible for the ongoing monitoring of investment risk, for making recommendations to the Trustee Board, Investment Committee or the Asset and Liability Management Committee as appropriate, and for implementing the decisions.

The Trustee has appointed investment managers to manage the investments of the Scheme under agreed mandates. These mandates set out target asset allocations, benchmarks and risk tolerances, which are consistent with the risk limits set by the Trustee. The Trustee Board, Investment Committee and the Asset and Liability Management Committee receive regular reports on risk metrics and on their adherence to their respective limits.

# Notes to the financial statements

## continued

### Approach to risk measurement

The Trustee believes that investment risks are multi-faceted and that both quantitative and qualitative inputs are useful in the evaluation of such risks. It relies on analysis generated by its advisers, investment advisers and the Executive Office, using a combination of tools licensed from third parties or developed internally. The Trustee monitors investment risk by assessing the likelihood of potential future events and the scale of their potential impact on the Scheme's assets and funding level. It is typically achieved by measuring the funding level's sensitivity to potential market shocks and scenario analysis of funding level projections.

### Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, enters into derivatives, has cash balances and enters into repurchase agreements. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in pooled investment vehicles. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Credit risk arising on bonds held directly is mitigated by investing in UK Government gilts (58% of the Scheme's assets held directly and a further 8% through repurchase agreements) where the credit risk is minimal, or bonds held directly which are rated investment grade by at least one rating agency (a further 30% of the Scheme's assets). The allocation to bonds that are not rated or are rated sub-investment grade (2% of the Scheme's assets) and may be subject to higher credit risk is subject to limits in the investment managers' agreements. Credit risk in those mandates is mitigated by ongoing active management by the investment managers to avoid losses arising from downgrades and defaults. The allocations represent the position at year-end.

The Scheme is exposed to the risk of failure of its counterparties to derivatives and gilt repurchase agreements. The risk is mitigated by permitting the investment managers to transact with a broad set of counterparties and setting concentration limits within the investment managers' agreements. Collateral arrangements are also used to mitigate credit risk.

Direct credit risk arises in relation to pooled investment vehicles (PIV) held directly by the Scheme. Direct credit risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the relevant manager, the regulatory environments in which the PIV managers operate, and diversification of investments among a number of pooled arrangements. In respect of its investments in unit-linked insurance contracts on a pooled basis, the Trustee has selected Legal and General Assurance (Pensions Management) Limited (PMC), which is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and the Prudential Regulatory Authority and maintains capital (in excess of its liabilities) for its policy holders. Direct credit risk in relation to Legal and General Investment Management Limited (LGIM), PMC's investment manager, is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the rest of the Legal & General Group and the regulatory environment in which PMC and LGIM operate. A summary of PIV by type of arrangement is as follows:

	2019 £m	2018 £m
Unit-linked insurance contracts	47	45
Open-ended investment companies (OEIC)	493	493
Investment company with variable capital (SICAV)	122	227
Specialized investment fund under French Law	59	60
Total	721	826

Indirect credit risk arises in relation to underlying investments held in the pooled investment vehicles, which will include bonds, cash and derivatives. Credit arising from bonds and derivatives is concentrated in the broad bonds, loans and AXA PCS mandates and is mitigated by limits in the guidelines, in order to maintain a degree of diversification, and ongoing active management by the asset managers to avoid losses arising from downgrades and defaults. The risk arising from the derivatives is mitigated by counterparty risk diversification constraints and collateralisation for most of the pooled vehicles used.

### Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are not denominated in sterling, either as segregated investments or via pooled investment vehicles. The Trustee seeks to minimise currency risk within the Investment Grade Bonds mandates by setting a net overseas currency exposure of 10% or less for each mandate, taking into account currency hedging instruments. At the year-end, the exposure to non-sterling assets, net of any currency hedging, was less than 1% of the Scheme's total assets.

# Notes to the financial statements

## continued

The Trustee also holds sterling hedged share classes of the pooled funds it has invested into. A currency risk may remain within the pooled funds as a part of the investment strategy pursued by the managers of those pooled funds. It is mitigated by limits set in the guidelines of the pooled funds.

### Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's investments are held in cash, bonds and interest rate and inflation swaps (either as segregated investments or through pooled vehicles). The Scheme's actuarial liabilities are also sensitive to gilt yields and inflation. The Trustee seeks to contain the sensitivity of the Scheme's funding level to changes in gilt yields and inflation. This is achieved by setting targets for the ratio of the assets' sensitivity to gilt yields and inflation over the actuarial liabilities' sensitivity to gilt yields and inflation, the Interest Rate Coverage Ratio and Inflation Coverage Ratio respectively. The coverage ratios are translated into the guidelines of the managers of the LMF and the investment grade Bonds' mandate, to which they have to adhere within a degree of tolerance. The coverage ratios are regularly monitored and their target reviewed to take account of the Scheme's funding level and market conditions. At year-end, the target coverage ratios had been set at levels above 90%, which were achieved. Having a coverage ratio of less than 100% means that, if gilt yields fall or inflation rises, assuming other market variables are unchanged, the Scheme's funding level would deteriorate as the increase in value of the LMF and Investment Grade Bonds' mandates combined would not be sufficient to offset the increase in actuarial liabilities. Conversely, the Scheme's funding level would benefit from gilt yields rising or inflation expectations falling.

### Other price risk

Other price risk arises principally in relation to the Scheme's Investment Portfolio, which includes primarily equities held in pooled vehicles and hedge funds. The allocation to funds subject to other price risk was 7% at the year-end. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

## 15 Fair value determination

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

**Level 1:** The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the 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 2 assets consist mainly of:

- sovereign, corporate and asset-backed debt instruments
- managed funds investing in securities
- derivatives, and
- repurchase agreement liabilities.

Debt instruments are valued using prices provided by price aggregation services which source prices from authorised brokers and dealers. These debt instruments are readily realisable in liquid markets.

Holdings of managed funds are normally valued based on unit prices based on current net asset values of the underlying assets. Derivative assets and liabilities are valued using discounted cash flow and options pricing models. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, inflation rates, option volatilities and currency rates.

The valuation of repurchase agreement liabilities reflects amounts borrowed from counterparties.

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

Level 3 assets are loan funds and hedge funds with notice periods. Holdings of managed funds are normally valued based on unit prices based on current net asset values of the underlying assets.

# Notes to the financial statements

## continued

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

	At 31 March 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fixed interest securities	-	4,906.7	-	4,906.7
Pooled investment vehicles	-	527.0	194.3	721.3
Derivative contracts	(0.4)	(324.0)	-	(324.4)
Repurchase agreement liabilities	-	(396.8)	-	(396.8)
Cash instruments	55.0	-	-	55.0
AVCs investments	-	2.4	3.4	5.8
DC investments	-	6.0	-	6.0
Other financial assets and liabilities	27.1	-	-	27.1
Cash deposits	22.9	-	-	22.9
	104.6	4,721.3	197.7	5,023.6

	At 31 March 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fixed interest securities	-	4,818.8	-	4,818.8
Pooled investment vehicles	-	628.2	197.7	825.9
Derivative contracts	(0.4)	(318.5)	-	(318.9)
Repurchase agreement liabilities	-	(398.5)	-	(398.5)
Cash instruments	57.9	-	-	57.9
AVCs investments	-	0.9	5.2	6.1
DC investments	-	4.5	-	4.5
Other financial assets and liabilities	31.3	-	-	31.3
Cash deposits	38.7	-	-	38.7
	127.5	4,735.4	202.9	5,065.8

## 16 Employer-related investments

At the year-end, less than 0.1% (2018: 0.1%) of assets were invested in employer-related investments within the meaning of Section 40(2) of the Pensions Act 1995.

# Notes to the financial statements continued

## 17 Related party transactions

Four Trustee Directors receive a pension from the Scheme and two others are deferred pensioners. Seven Directors (including 20-20 Trustee Services Limited) receive remuneration from the Scheme. The total amount is shown in note 6. All Directors are reimbursed for out-of-pocket expenses related to their duties.

We calculate all benefits in accordance with the Scheme Rules.

There were a number of transactions agreed between the Sponsor and the Trustee during the year which were as follows:

- The Trustee charges Invensys Limited for the administration costs associated with the Defined Contribution section of the Scheme. This amounted to £42k during the year (2018: £41k), which was outstanding at the year end.
- Invensys Limited agreed to pay the Trustee a proportion of the costs associated with the Pension Increase Exchange project. This amounted to £14k (2018: £114k), of which £nil (2018: £41k) was outstanding at the year end.
- Schneider Electric provides office space to the Trustee for the Executive Office. The cost of the office space was £37k (2018: £37k)
- Group life insurance premiums are paid by Schneider Electric then recharged to the scheme. This amounted to £2k during the year (2018: £3k).

There have not been any payments made to Invensys Limited or any of its subsidiary companies out of Scheme funds in the past 12 months.

## 18 Valuation of annuity policies

FRS102 requires annuity policies to be included at fair value. However, disclosure at fair value is not required where the total value of annuities is not material to the accounts. The Trustee has reviewed its records and concluded the value of annuity policies held at the year end to be less than £5m. The value is not material in the context of the financial statements and the Trustee has therefore continued its previous policy of reporting annuity policies at nil value. To the extent that annuities are paid via the Scheme they are included within benefits payable and investment income.

## 19 Guaranteed Minimum Pension Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee is aware that the issue will affect the Scheme and has formed a working group to plan its approach to resolving this issue. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the trustees do not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. The liability for backdated amounts will be accounted for in the year in which the amounts payable are determined.

# Summary of contributions

## Invensys Pension Scheme

### Summary of contributions payable during the year ended 31 March 2019

During the year ended 31 March 2019, the contributions payable to the Scheme under the Schedule of Contributions applicable during the year were as follows:

	£k
Levy reimbursement	89.9
Total contributions under Schedule of Contributions and per note 3 of the financial statements	89.9



**K A O'Donovan**  
Chair of the Board

10 July 2019

# Actuary's certificate of Schedule of Contributions

## Name of scheme: Invensys Pension Scheme

### Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 March 2018 to continue to be met for the period for which the schedule is to be in force.

### Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 18 October 2018.

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



### Steve Leake

Fellow of the Institute and Faculty of Actuaries

XPS Pensions Limited

Tempus Court

Onslow Street

Guildford

Surrey GU1 4SS

18 October 2018

# Independent auditor's statement about contributions to the Trustee of the Invensys Pension Scheme

We have examined the summary of contributions to the Invensys Pension Scheme for the scheme year ended 31 March 2018 to which this statement is attached.

In our opinion contributions for the scheme year ended 31 March 2018 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the scheme actuary on 25 January 2016 and 18 October 2018.

## Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on page 50 have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedules of contributions.

## Respective responsibilities of Trustees and the auditor

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

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

## Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or the opinions we have formed.

/s/ Ernst & Young LLP  
Statutory Auditor  
London

10 July 2019

# Members' information

Please keep the Scheme informed if you change your address. You can write or telephone the Scheme Administrator using the details below.

## Scheme administration

XPS Administration  
36 Gallowgate  
Newcastle upon Tyne  
NE1 4TD

Phone: 0191 341 0600

Email: [invensyspensions@xpsgroup.co.uk](mailto:invensyspensions@xpsgroup.co.uk)

If you need more information about the Scheme or your own pension position, please contact XPS Administration at the above address.

The Scheme's website at [www.invensyspensions.co.uk](http://www.invensyspensions.co.uk) provides more detailed information on the Scheme and copies of historical newsletters.

## Events calendar

Date	Event
August 2019	Issue of Scheme Report & Accounts
September 2019	Issue of 2019 IPS News No2
February 2020	Issue of 2020 IPS News No1
31 March 2020	End of Scheme financial year
August 2020	Issue of Scheme Report & Accounts
September 2020	Issue of 2020 IPS News No2

## Website links

The links below have been chosen to provide you with information on pensions. Invensys Pensions is not responsible for the content or reliability of linked websites. Linking should not be taken as an endorsement of any kind. We cannot guarantee that these links will work all the time and we have no control over the availability of the linked pages.

### Association of British Insurers

[www.abi.org.uk](http://www.abi.org.uk)

### Association of Consulting Actuaries

[www.aca.org.uk](http://www.aca.org.uk)

### Department for Work and Pensions

[www.gov.uk/dwp](http://www.gov.uk/dwp)

### Financial Conduct Authority

[www.fca.org.uk](http://www.fca.org.uk)

### Institute and Faculty of Actuaries

[www.actuaries.org.uk](http://www.actuaries.org.uk)

### Pensions and Retirement Planning

[www.gov.uk/plan-retirement-incomedirect.gov.uk/](http://www.gov.uk/plan-retirement-incomedirect.gov.uk/)

### HM Revenue & Customs

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

### Schneider Electric

[www.schneider-electric.com](http://www.schneider-electric.com)

### The Pensions Advisory Service

[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

### Pensions Policy Institute

[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

### The Pensions Management Institute

[www.pensions-pmi.org.uk](http://www.pensions-pmi.org.uk)

### The Pensions Ombudsman

[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

### Pension Protection Fund

[www.ppf.co.uk](http://www.ppf.co.uk)

### The Pensions Regulator

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

# Glossary

**Active member** A member of a scheme who is presently accruing benefit under that scheme in respect of current service.

**Actuarial assumptions** The actuary's view of the future trends that will affect the Scheme's assets and liabilities.

**Actuarial certificate** The certificate required to be given by the actuary in certain circumstances, e.g. if there is a surplus or if there is a bulk transfer.

**Actuary** An actuary advises on financial questions involving probabilities relating to mortality and other contingencies. In relation to pension schemes, an actuary is a professional adviser who must be appointed by trustees under the Pensions Act 1995. The actuary assists the trustees (or managers) of a scheme on funding issues and conducts a regular actuarial valuation. Actuaries must be members of the Institute and Faculty of Actuaries.

**Additional Voluntary Contributions (AVCs)** Members can make AVCs to their occupational scheme. This enables them to have top-up benefits.

**Augmentation** The process by which a member or other person has his/her benefits increased by the Trustee, subject always to the consent of Invensys Limited as Founder of the Scheme and the payment of additional contributions as determined by the Trustee on the advice of the actuary.

**Bonds** A form of lending to a company, government or other entity. The borrowing entity pays regular interest on the bond and then repays the amount borrowed at a set date in the future.

**Broad Bond Funds** Funds investing in a variety of type of bonds. Investments would typically include bonds with a credit rating higher or lower than Investment Grade, or bonds issued by companies or governments in developed and developing economies.

**Bulk PIE** An offer made to pensioners to exchange some of their increasing pensions for a non-increasing pension.

**Company** The Company is Invensys Ltd, the sponsor and founder of the Scheme

**Contributions** The regular amounts paid into a scheme by a member and the regular and lump sum payments made by an employer to the scheme.

**Covenant** The promise by the Company that it will provide the funding for the Trustee to pay the benefits.

**Credit Spreads** A credit spread is the difference in yield between two bonds of similar maturity but different credit quality. Typically, the bond with the higher credit quality is issued by a government.

**Deed of amendment** A legal document that amends a scheme's trust deed and rules.

**Deferred member** A person who ceases to be an active member of a pension scheme, but does not receive his/her pension immediately.

**Deficit** The amount by which the value of future liabilities is greater than the value of the assets of a scheme.

**Derivatives** Investment assets and investment liabilities that derive their value from the price or rate of some underlying item.

**Equities** Stocks or any other security representing an ownership interest.

**Foreign exchange forward contracts** Contractual agreements to exchange specified currency amounts at a specific date in the future. The contracts are transacted in the over the counter market.

**Fully funded** The point when the value of a scheme's assets meets its future liabilities.

**Fully funded scheme** A scheme that has a 100% or greater funding level.

**Futures Contract** is a legal agreement to buy or sell a particular commodity or financial asset at a predetermined price at a specified time in the future.

**Gilts** are bonds issued by the UK Government to raise money. The investment is paid to the UK Government as a loan and the holder receives interest over a fixed period of time until the amount lent is repaid.

**Governance** The structure, behaviour, policies and procedures adopted by the Trustee to manage and control the scheme.

**Guarantee** A guarantee provided by Schneider Electric SA for £1.75bn to guarantee the obligations of the Scheme's participating employers.

**Guaranteed Minimum Pension** is the minimum pension which a United Kingdom occupational pension scheme has to provide for their members who were "contracted out" of the State Earnings-Related Pension Scheme (SERPS) when they were employed between 6 April 1978 and 5 April 1997.

**Investment Grade Bonds** Bonds with a rating from credit agencies such as Standard and Poor's or Moody's that suggest that they are highly likely to pay the interest owed and repay the amount borrowed when it is due.

**Mortality** The assumption made for the probability of death at each age and from which is derived a projection of how long a pension will be paid.

**Options** Contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

# Glossary

## continued

**Pension Protection Fund** A fund set up under the Pensions Act 2004 that will provide pension payments, at a reduced rate, for pension schemes of insolvent companies. **Pensioner** A person who is currently receiving a pension from a scheme.

**Repurchase agreement (also known as a repo)** The sale of securities, together with an agreement for the seller to buy back the securities at a pre-agreed later date and price.

**Reservoir Trust** A trust that was created at the time of the sale of Invensys Rail division. It held assets that, under certain circumstances, would transfer to the Scheme.

**Schedule of Contributions** A formal agreement between the Company and the Trustee, which states the level of contributions to be paid to the Scheme by the Company and the members in the future.

**Scheme** The Scheme is the Invensys Pension Scheme.

**Scheme Actuary** The named actuary appointed by the trustees or managers of an occupational pension scheme under Section 47 of the Pensions Act 1995.

**Scheme deficit/surplus** The difference between the assets and liabilities of a scheme as assessed by the actuary at a valuation using a series of assumptions, which may give different results depending on the basis of the assumptions.

**Sponsor** The company that establishes and/or manages a pension for participating employees. Invensys Limited is the Sponsor of the Invensys Pension Scheme.

**Surplus** The amount by which the value of a scheme's assets is greater than its future liabilities.

**Swaps** Contractual agreements between two parties to exchange streams of payments over time, based on specified notional amounts. Interest rate swaps relate to contracts that a scheme takes out with major brokers, in which the scheme either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In an inflation swap, the scheme pays or receives a fixed inflation rate in return for receiving or paying the actual inflation rate.

In a gilt total return swap, the scheme pays or receives a fixed or floating interest rate in return for receiving or paying the total return on a gilt specified in the contract.

In a credit default swap, the scheme pays or receives a premium in return for receiving or paying an amount if and when a credit event occurs, which may include a bankruptcy, a default, or a restructuring of an entity as specified in the contract.

**Technical Provisions** A prudent estimate, made on actuarial principles, of the future liabilities to meet the benefit payments to members in accordance with the scheme rules. These include pensions in payment (including those payable

to survivors of former members) and benefits accrued by other members that will become payable in future.

**Trustee** The Trustee is Invensys Pension Trustee Limited, the corporate trustee of the Scheme.

**Valuation** An exercise undertaken to assess a scheme's assets and to determine its ability to meet its future liabilities.

# Notes

## Website

Find out more about your pension scheme by visiting:  
[www.invensypensions.co.uk](http://www.invensypensions.co.uk)

## Invensys Pensions

XPS Administration  
36 Gallowgate  
Newcastle upon Tyne  
NE1 4TD

Phone: 0191 341 0600  
e-mail: [invensypensions@xpsgroup.co.uk](mailto:invensypensions@xpsgroup.co.uk)