

ISSUED

2011



THE CHEVIOT TRUST



# THE TRUSTEE'S REPORT TO MEMBERS

Year ended 31 December 2010

This report is in relation to your membership of either the **Money Purchase Scheme** or your firm's **Final Salary Scheme**. The report may also refer to benefits you have earned or contributions you have made in the past. All the schemes are managed by Cheviot, a non-profit making organisation, responsible to Cheviot Trustees Limited ("the Trustee").

If you are not sure which scheme relates to you, please check your last benefit statement or call the Pensions Administration team at Southend who will be happy to help.

We have changed the format of the report to focus on the key issues for members and pensioners and we hope you find it easier to read. Please let us know if there are any other items you would like us to focus on in the future.

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The Trustee comprises thirteen directors representing different stakeholders. Six are members or pensioners, six represent employers and Elspeth McKinnon is a co-opted director. Elspeth is also Chief Executive of the Cheviot Trust and is responsible for providing the directors with all the relevant information and advice they need when making decisions, for implementing the decisions of the Board and for the day-to-day administration of the schemes.

The directors all come from different firms and varied backgrounds. For example, there are lawyers, accountants, investment specialists, human resource professionals, and costs draftsmen. One director is a Deputy District Judge; another was previously a Justice of the Peace. Please see our website for profiles of all our directors.



*Although you probably don't look at your pension arrangements very often, you can rely on the Trustee Board to be looking at them for you on a very regular basis.*

Richard Rimmington, Chairman

The directors' responsibilities are extensive. Their primary obligation is to look after the interests of members and also their employers when relevant. This includes:

- ensuring your benefits are calculated correctly and your pension is paid on time;
- investing the assets;
- negotiating contributions with employers who sponsor final salary schemes to make sure schemes are as well funded as possible, and
- complying with all the statutes and regulations governing occupational pension schemes.

The full Trustee board meets quarterly. In addition, there are four Committees which specialise in particular areas: investment, finance, strategic and legal. Different groups of directors, depending on their expertise, attend each of the Committees. Most Committees meet at least quarterly.

Looking after the investments of members and firms is a very important part of what the Trustee does. There were many complex investment issues last year and the Investment Committee met nine times either in person or by conference call. The directors are advised on investment issues by Mike Faulkner and his team at P-Solve, part of the Punter Southall Group.



*Mike Faulkner recently headed the top ten in the asset management category in a survey of the 100 most influential people in the European financial markets carried out by the Financial News magazine.*

Whether you are in the **Money Purchase Scheme** or a **Final Salary Scheme**, the Trustee's investment objectives are very similar. We want to invest the assets so that they grow over the long term whilst avoiding too many fluctuations in value. It is not always possible to avoid the big drops but our strategy is designed to minimise their impact by investing in a range of investments which behave differently in different market conditions.

The Trustee considers what the balance between risk and stability should be both for members of the **Money Purchase Scheme** and for **Final Salary Schemes**.

In general, risk should only be taken if it is going to be rewarded by growth and therefore the more risk taken, the higher the likely growth. Growth or risk, comes at a cost though and the downside to taking more risk is that the fluctuations in returns are likely to be higher too.

I am pleased to say that, across all the schemes, the investment returns in 2010 were equal to, or higher than, the objective that the Trustee Board had set. Full details of the investment returns are set out in the Report and Accounts available on our website.



## INVESTMENTS

For members of the Unit Linked Section of the **Money Purchase Scheme** we currently offer three options for you to invest in over the long term, Growth, Moderate and Cautious. The options differ according to the level of risk and the amount of fluctuation in returns that members can expect.

The underlying investments for each option have recently been changed and are explained on the factsheet enclosed with this report. The range of underlying investments has been substantially increased. In addition, the options are now being managed much more dynamically. This means that the range of underlying investments is reviewed every month by the Trustee and its advisers and changes are made if necessary.

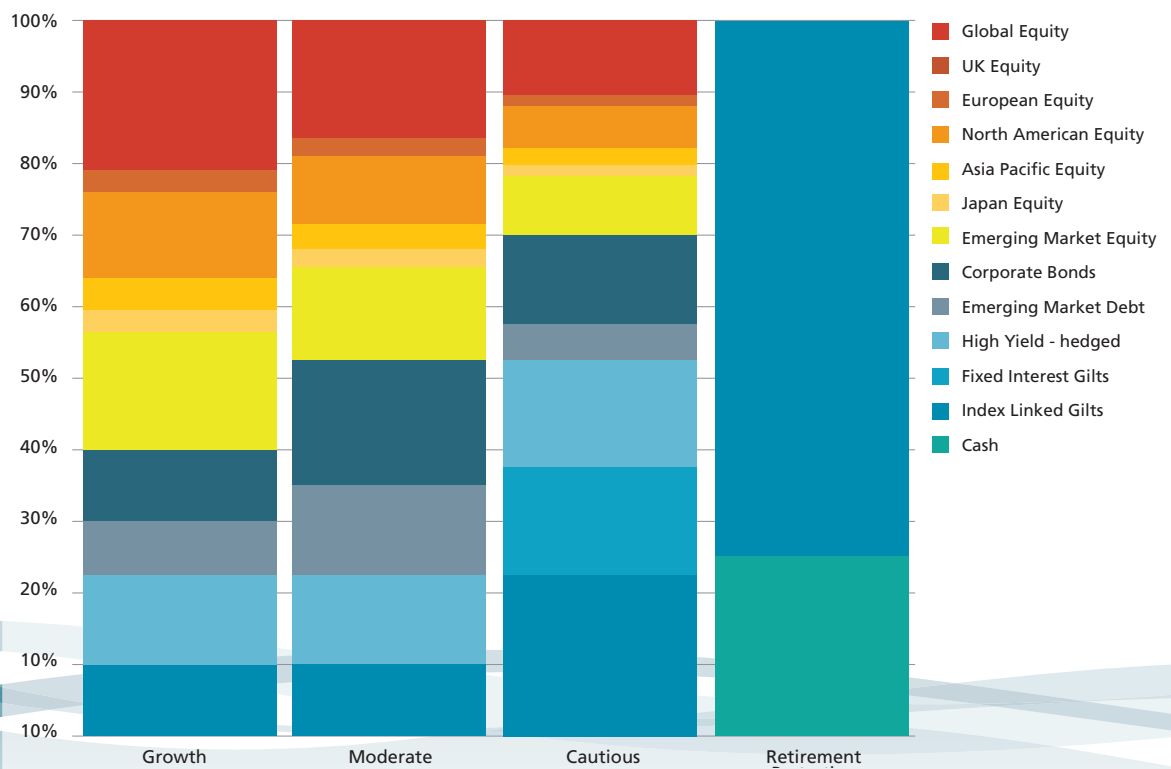
The investments at the end of July 2011 for each option are shown below. The more defensive

*The Trustee Board considers investment strategy every month in light of market movements.*

investments are shown in blue. Given the current market conditions, the balance of investments is more defensive that we would expect over the long term. The Retirement Protection Option is designed for members approaching retirement and aims to lock in the value of your account against the cost of buying a pension. It is not designed to produce long term growth.

The returns achieved by each Option during 2010 against their long term targets are shown below:

### UNDERLYING INVESTMENTS



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## INVESTMENTS

2011

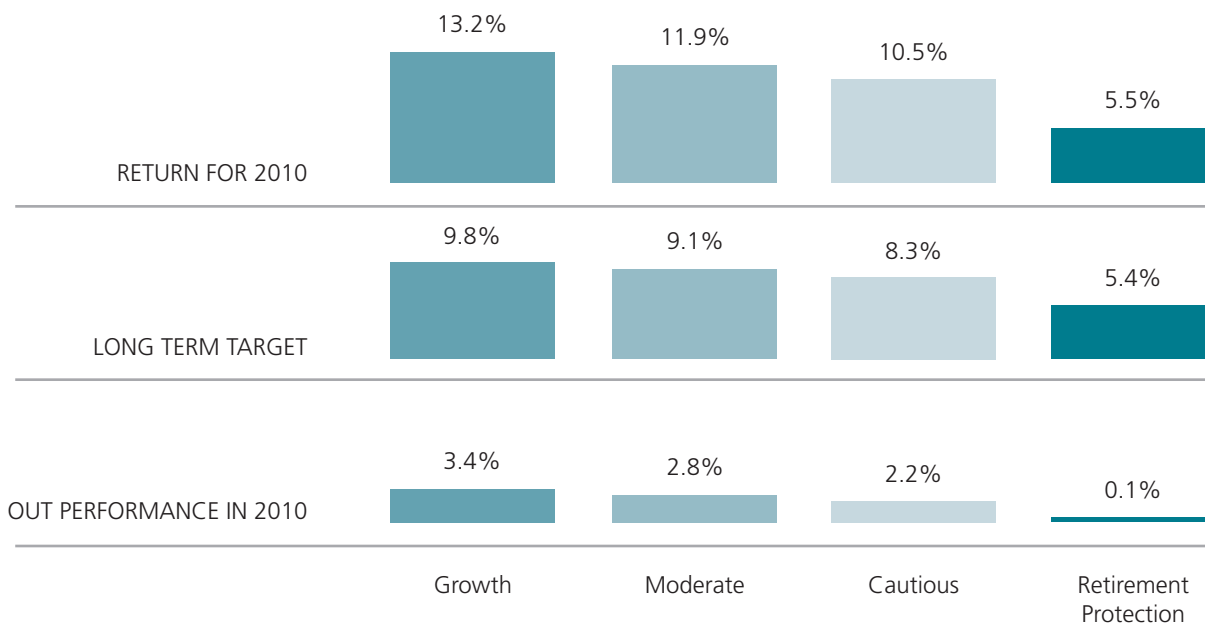
The investment strategy changes have only been made very recently so the effect of them is not reflected in the performance figures.

The With Profits Section closed to new contributions at the end of 2002. The returns to members of the With Profits Section are not directly linked to the investment return as some level of return is guaranteed, depending on when you paid your contributions. The member booklet has more information and is available on the website.

The return for the With Profits Section for 2010 was 19.5% against a long term target of 10.5%. This return has helped improve the funding position of the With Profits Section.

For **Final Salary Schemes**, the balance of the investments is different for each scheme but the underlying investment strategy is very similar. The Trustee, after discussion with the sponsoring employer, decides how much of each scheme's assets should be invested to achieve growth, and how much to achieve stability. The total return on the assets invested to produce growth during 2010 was 10.2% against a target of 4.2%.

The range of investments is adjusted for each scheme. You can find the details in your latest Summary Funding Statement or your scheme's accounts.



## REDUCING INVESTMENT RISK

In some cases, it is appropriate to reduce or minimise any investment risk by switching from return seeking assets, like shares, to bonds which provide more stability against the cost of providing a pension although with much less prospect of growth.

This could be appropriate if the scheme funding improves through better than expected investment returns for a **Final Salary Scheme** and it is desirable to lock in the gain. If investment risk has been reduced for your scheme, you will see an increased proportion of the scheme's assets invested in defensive assets on your next Summary Funding Statement.

Reducing investment risk may also be appropriate for **Money Purchase Scheme** members as you approach retirement. This will either be done at your request using the **Retirement Protection Option** or Cheviot will do it automatically for you through the **Lifestyling Fund**. If you leave it to Cheviot, you will see your funds automatically switching from the Growth, Moderate or Cautious Options into the **Lifestyling Fund** during the five years before you retire. The options are explained in more detail in the separate **Investment Options Factsheet** included with this report or available on the website.

## HOW MUCH WILL MY PENSION BE WHEN I RETIRE?

For members of the **Money Purchase Scheme**, this is the most important question and one which is difficult to answer because the cost of buying a pension changes and so what you could buy today may be different by the time you retire. We send you an annual benefit statement which shows how much your Cheviot account is worth and some estimates of what it will provide at retirement based on current market conditions. We also provide monthly updates to these statements online which you can access by registering for our online service.

Members of **Final Salary Schemes** will either receive an annual benefit statement or will have received a leaving service statement on leaving the firm or when your scheme was closed to future benefits. If you can't find your statement, just call us and we will send you another copy.

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### NEW WORKPLACE PENSIONS

You may have read in the press about the new pension requirements being introduced by the Government to ensure that everyone above a certain salary level makes provision for their retirement. This may mean that the contributions made by your employer increase if they are currently paying less than 3% per year. You may have to increase your contributions.

The new contributions have to go into either a government scheme (NEST) or to a scheme which meets certain criteria. We will be making sure that the **Money Purchase Scheme** meets those criteria so that you and your employer can carry on making contributions to Cheviot under the new requirements.

To find out when these requirements will come in for your employer and about the rates of contributions, please see the enclosed Workplace Pensions flyer, or the section on our website.

### RETIREMENT AGES

You may also have read about changes to state retirement ages. This is particularly worrying for members currently approaching retirement. If you want to know whether you are affected, please see the Retirement Age section on our website or call our office.

### THE BRIDGE CASE

For members of the With Profits Section of the **Money Purchase Scheme**, the Bridge appeal to the Supreme Court by the Department for Work and Pensions (DWP) was heard in June

2011. Judgment was handed down on 27 July 2011 and dismissed the appeal. This supports our analysis of the With Profits Section as providing largely money purchase benefits. The DWP has issued a statement suggesting they will be introducing legislation with retrospective effect in light of this. We will keep members and employers up to date on this issue via our website.

Although the funding position of the With Profits Section has improved, the Trustee is not able to consider awarding any bonuses to members or pensioners until the position is clear. The latest report from the actuary is available on the website.

### OTHER INFORMATION

More information about the schemes is available on our website **[www.cheviottrust.com](http://www.cheviottrust.com)**.

A summary of items available which you may find useful is set out on the back page, together with summary numbers from the 2010 accounts. Other information is available from our Southend office. If you do not have online access, please call us and we will send you the relevant documents.

The contact details for the Pensions Administration team are shown below. Once you start dealing with someone, that person will usually be able to deal with your query personally, and you can contact them on a direct telephone number.



**Current documentation** A new version of the Trust Deed (covering both **Money Purchase Scheme**, and the **Final Salary Schemes**) and **Money Purchase Scheme** rules was executed in March 2011 and is available online. This formal document sets out how the schemes are run and the benefits provided.

**Latest valuation** The latest **Money Purchase Scheme** valuation is available online. This shows the Scheme Actuary's latest funding review of the **Money Purchase Scheme**. If you would like a copy of the latest valuation for your final salary scheme, please contact us.

**Member booklet** The **Money Purchase Scheme** booklet is available online. It contains lots of useful information about the scheme. For a **Final Salary Scheme** booklet, please contact us.

**Latest accounts** The 2010 accounts are available online. These show the financial position of the Cheviot Trust at the end of 2010 and contain information about both the **Money Purchase Scheme** and the combined **Final Salary Schemes**. Individual final salary scheme accounts are available, please contact us.

**Statement of Investment Principles** Available online for both **Money Purchase Scheme** and **Final Salary Schemes**. Scheme specific schedules for final salary schemes are also available, please contact us.

**Forms** to change contribution rates, investment options or update your expression of wishes are available online.

**Summary Funding Statements** These are only provided for members of **Final Salary Schemes** and will be issued in September 2011 showing the position at the end of 2010.

**Complaints** Our Internal Dispute Resolution procedure is available online.

**Updates to employers** These cover topical pension issues and are issued regularly and available online.

**Investment articles** There are regular investment update articles available online from P-Solve (our investment adviser). Please follow the link from our website.

**Other topical articles** A variety of articles are available online from our advisers.

## FINANCIAL INFORMATION

### Fund Account (in millions)

	MPS	FSS	Total
<b>Opening Fund</b>	<b>158.4</b>	<b>105.7</b>	<b>264.1</b>
<b>PLUS</b>			
Contributions and transfers	5.2	6.9	12.1
Increase in market value of investments (including investment income)	27.3	11.7	39.0
<b>LESS</b>			
Benefits	7.3	3.9	11.2
Leavers	6.2	1.1	7.3
Expenses	1.7	1.3	3.0
<b>Closing Fund</b>	<b>175.7</b>	<b>118.0</b>	<b>293.7</b>



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