



# THE CHEVIOT TRUST

PENSIONS REGISTRY NUMBER 10169997

## Report and Accounts For the Year Ended 31 December 2005

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## Independent Advisers

Advisers to The Cheviot Trust during 2005 were as follows:

<b>Actuaries</b>	Phil Tranter of Mercer Human Resource Consulting Ltd (Money Purchase Scheme) Robert Sweet of Cartwright Consulting Ltd (Final Salary Schemes - up to 31 December 2005) Phil Tranter of Mercer Human Resource Consulting Ltd (Final Salary Schemes – from 1 January 2006)
<b>Investment Consultants</b>	PSolve, part of the Punter Southall group
<b>Auditors</b>	Horwath Clark Whitehill LLP (from 16 March 2005) Horwath Clark Whitehill (to 16 March 2005)
<b>Bankers</b>	National Westminster Bank Plc Kas Bank N.V.
<b>Investment Managers</b>	<ul style="list-style-type: none"><li>• Barclays Global Investors Limited (Money Purchase Scheme and Final Salary Schemes)</li><li>• Deutsche Asset Management Limited (Final Salary Schemes - Active Management – up to 1 November 2005)</li><li>• Legal and General (Money Purchase Scheme and Final Salary Schemes – Active Management)</li><li>• Invesco Limited (Money Purchase Scheme and Final Salary Schemes – from 14 October 2005)</li><li>• Newton Investment Management Limited (investment advisers as part of the Mellon Fund Managers Limited group) (Final Salary Schemes – Active Management – from 14 October 2005)</li></ul>
<b>Custodian</b>	Kas Bank N.V.
<b>Solicitors</b>	Allen & Overy

## Trustee's Report

The Cheviot Trust ("the Trust") is an industry-wide scheme established by The Law Society in 1930 for members of the legal profession providing:

- money purchase pension benefits through the Money Purchase Scheme and
- final salary pension benefits through the Final Salary Schemes

### Management of the Trust

In April 2005 we successfully completed the process whereby the two roles of the Trustee and Committee of Management were combined into one incorporated body, Cheviot Trustees Limited ('the Trustee Board'). Save for the Law Society's representative, all members of the Committee became directors of the new Trustee Board and we have co-opted Elspeth McKinnon on to the board in order to involve the Chief Executive more directly in the decision making process. The result is that all decisions are made by the same people as before (with one exception and the addition of Ms McKinnon) and we have streamlined the structure of the Trust and improved its ability to recover VAT without altering its identity as an organisation. Membership of the Trustee Board still comprises six employer-nominated and six employee-nominated representatives, with those two groups having the option to co-opt up to three further directors, chosen because of their expertise. Day-to-day management of the Trust continues to be carried out from the office in Southend-on-Sea, Essex, under the direction of the Chief Executive, Elspeth McKinnon and her management team.

Employer representatives are appointed by the Trustee Board. They continue in office until the representative resigns, ceases to be eligible or the other directors decide that the term of office should end. Member representatives are elected by the membership for a term of three years, unless the representative resigns, ceases to be a member or is prohibited by law from continuing as a member representative. Member representatives may put themselves forward for re-election.

The Trustee Board would like to thank the firms of all Trustee Board members for allowing them to contribute their time to the Trust. The Trustee Board would also like to express its thanks to its advisers for their professional and effective support during the year.

Information relating to the investment management and custodial arrangements for the Trust are included in the Investment Report on pages 8 to 12.

## **Potential implications of AON Trust Corporation v KPMG**

The recent KPMG case has raised some issues surrounding the Money Purchase Scheme which we are currently trying to clarify and resolve with the Department of Work and Pensions and the Pensions Regulator. The issues raised in that case relate to whether a pension scheme like the Money Purchase Scheme should be treated as a money purchase scheme or a defined benefit scheme for the purposes of the regulations governing occupational pension schemes. This could have a significant impact on the scheme and its employers. We will write to all members and firms as soon as possible when the position is clearer.

## **Financial development of the Trust**

Funds under management increased to £264.5m in 2005 from £235.9m in 2004, an increase of 12%. A net return on investments had an increase of £34.2m compared to an increase of £18.4m in 2004. However, the cost of providing the benefits is broadly based on the cost of bonds. The fall in bond yields during the period has led to an increase in the cost of providing the benefits. Therefore the improvement in equity prices has not led to a significant improvement in the funding position.

Contributions to the Trust increased overall to £9.5m in 2005 from £8.2m in 2004. Benefits payable, including those to leavers, decreased from £14.7m to £13.0m and administrative expenses increased from £2.2m to £2.3m.

## **Summary of investment decisions taken during the year**

The Trustee Board took three key investment decisions during 2005. All decisions were taken after consultation with the relevant employers and involved a change to the Statement of Investment Principles for both the Money Purchase Scheme and the Final Salary Schemes.

- (i) The Trustee Board decided to utilise the custodian's Short Term Investment Fund (STIF) for cash balances to maximise potential investment return. This commenced in April 2005. The average return from the STIF over the period of investment has been 0.7% above the cash return previously achieved on the cash deposits of the Trust's assets.
- (ii) The Trustee Board had selected the Global Select fund offered by Deutsche Asset Management (DeAM) for part of the active global option available for final salary schemes. The performance of this fund has been particularly strong over nine months to 30 September 2005 producing a return of 25.2% against a benchmark of 15.8%. It is estimated that this return added approximately £1.5m to the Scheme's assets. Given concerns about the changes in structure at DeAM and particularly the sale of the investment management business to Aberdeen Asset Management, the

Trustee Board decided to appoint new investment managers. The active global option was restructured to be invested 35% in Barclays Global Investors (Aquila Life UK Equity Index Fund), 35% Mellon Fund Managers Limited (Newton Global Opportunities Fund) and 30% in Invesco Limited (Invesco Total Return Global Equity Fund).

- (iii) BGI closed its Diversified Alternative Investment (DIVA) fund of hedge funds and the Trustee Board decided to reallocate assets to Invesco Limited to be invested in Invesco's Total Return Global Equity Fund which is targeted to return an absolute return of 4% over cash through investments in equities. The overall return from the DIVA fund had been positive during the period of investment although was poor during 2005.

### **Final salary schemes**

#### *Appointment of new Scheme Actuary*

One of the significant decisions the Trustee Board has made in relation to the final salary schemes is to change the Scheme Actuary appointment.

There are significant changes coming in from April 2006. Many of these changes affect both the Final Salary Schemes and the Money Purchase Scheme. The Trustee Board decided in light of this and other factors surrounding the management of the Trust, that it was both more efficient and more cost effective to appoint one actuary to both the Final Salary Schemes and the Money Purchase Scheme. This makes the management of both schemes easier and also avoids any duplication in relation to actuarial advice which would increase costs.

When determining the appointment of the Actuary the Trustee Board was particularly concerned to ensure that the actuary had sufficient resources to support the Trust through a particularly busy period. After considering both the currently appointed actuaries, the Trustee Board concluded that Mercers would be best able to support the Trust.

Phil Tranter has therefore been appointed as Scheme Actuary with effect from 1 January 2006. Robert Sweet has provided the Trust with an excellent service and support and the Trustee Board is very grateful to him for all his efforts over many years.

Phil and his team are based in Manchester and Leeds. They will be undertaking the valuations due as at 31 December 2005. These will be the first valuations being undertaken under the new regulations following the Pensions Act 2004 and the Finance Act 2004 so will follow a new procedure from previous years.

#### *Closure to future service*

A number of firms which participate in the final salary schemes have or are considering closing the scheme to future benefit accrual. These changes have been driven by the

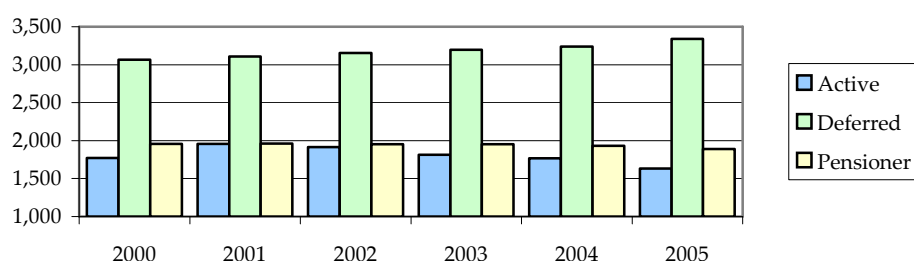
escalating costs of funding final salary schemes both through falls in bond yields and through increased life expectancy.

It is probably helpful to explain the Trustee Board's role in these cases. The rules of the Scheme do not give any firm the unilateral power to terminate future benefit accrual, so any change of this nature would have to be achieved by rule amendment and so involves the Trustee Board. The Trustee Board adopts a position of careful but constructive consideration of changes proposed to future service accrual, in that these are primarily pay issues to be resolved between the firm and its employees. The Trustee Board is however concerned to understand the reasons behind the proposed changes and to see that the firm explains its proposals to the members affected and undertakes appropriate consultation with them. It then ensures that whatever funding plans are in place remain appropriate post-scheme closure.

## Scheme Membership

### Money Purchase Scheme

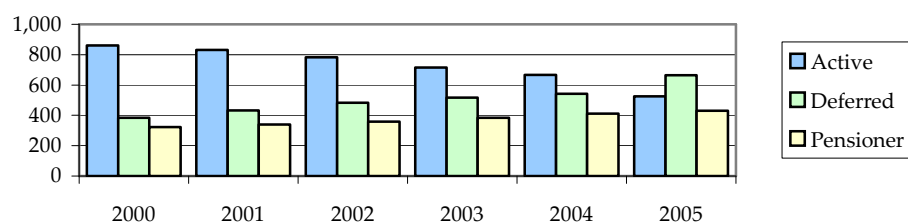
	Active	Deferred	Pensioner	Total	LAO*	Total
1 January 2005	1,768	3,239	1,932	6,939	1,571	8,510
Joiners	155	1	10	166	556	722
Change of status	(183)	174	27	18	(18)	-
Leavers	(108)	(73)	(78)	(259)	(264)	(523)
<b>31 December 2005</b>	<b>1,632</b>	<b>3,341</b>	<b>1,891</b>	<b>6,864</b>	<b>1,845</b>	<b>8,709</b>



\* LAO = Life assurance only members included in the Scheme solely for lump sum death in service benefits as at 31 December 2005

### Final Salary Scheme

	Active	Deferred	Pensioner	Total
1 January 2005	666	543	412	1,621
Joiners	13	-	7	20
Change of status	(149)	129	20	-
Leavers	(5)	(7)	(8)	(20)
<b>31 December 2005</b>	<b>525</b>	<b>665</b>	<b>431</b>	<b>1,621</b>



All membership statistics are prepared as at 31 December and do not take into account any changes processed after year end.

### **Scope of accounts**

These accounts show the overall position of the Trust and the breakdown between the Money Purchase Scheme and the Final Salary Schemes. The Trust Deed (and the requirements of the Pensions Act 1995) makes it necessary for each participating scheme in the Final Salary Schemes to have separately audited accounts. These have been prepared and they are being sent to each participating employer with this report. The Trust's auditors, Horwath Clark Whitehill LLP, are also the auditors to the individual participating schemes. Access to the Trust's accounts must be given to all participating scheme members of both the Money Purchase Scheme and the Final Salary Schemes and others who have a financial interest in the Trust.

### **Collection of contributions**

Procedures are in place to monitor the collection of contributions to ensure they are paid across to the Trust on an accurate and timely basis for both the Money Purchase Scheme and the Final Salary Schemes. Monthly schedules of contributions are issued to all employers participating in the Money Purchase Scheme which show the pensionable salary of each member and the contribution expected in respect of them.

If the contributions received do not correspond to those expected, the matter is raised with the employer. In addition, the benefit statements issued annually to members show pensionable salaries to enable members to carry out their own checks. Interim checks through letters to members are also made throughout the year. Schedules of Contributions as prescribed under Section 58 of the Pensions Act 1995 are in place for all Final Salary Schemes. Contributions are monitored on a monthly basis against those Schedules. A summary of contributions as required by Audit Practice Note 15 is included in the Compliance Statement on page 38.

### **Basis of preparation**

The accounts have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995.

### **Auditors**

Horwath Clark Whitehill LLP, the auditors to the Trust, established a limited liability partnership on 1 April 2004. Horwath Clark Whitehill resigned as auditors on 16 March 2005 and Horwath Clark Whitehill LLP were appointed as auditors on the same date.

## Statement of Investment Principles

The Trustee Board has produced a Statement of Investment Principles which incorporates the investment strategy, in accordance with Section 35 of the Pensions Act 1995. A copy can be obtained on request from The Cheviot Trust, see contact details.

### Contact for further information

For further information about the Trust, please write to:

Chief Executive's Office

The Cheviot Trust

Cheviot House

70 Baxter Avenue

Southend-on-Sea

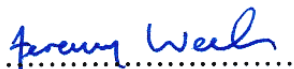
Essex SS2 6JA

Telephone: 01702 354024

Fax: 01702 354364

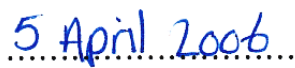
E-mail: [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com)

Signed on behalf of the Trustee Board



Jeremy Weeks

Chairman



Date

## Investment Report

### Review of investment performance

#### Money Purchase Scheme

There are five investment options available to the Members of the Money Purchase Section. The table below details the underlying approach for each of the strategies:

	Investment Strategy
Cautious	Invests 50% in equities and 50% in bonds until five years before retirement
Moderate	Invests 75% in equities and 25% in bonds until five years before retirement.
Growth	Invests entirely in equities until five years before retirement.
Retirement Protection	This option invests 70% in index linked bonds and 30% in cash
With Profits	65% in bonds and cash and 35% in equities and absolute return funds

The Retirement Protection Fund is only available to those within five years of retirement.

The With Profits option has been closed to all future contributions. Therefore, during the year, members were able to choose from the Cautious, Moderate and Growth "unit linked" options (and the Retirement Protection option if they were within five years of retirement).

#### Unit-Linked Options

The Unit Linked Options are currently managed by Barclays Global Investors ("BGI") in unitised accounts. The Scheme rules allow the members to alter their choices once a year without penalty. The three different "unit linked" options; Cautious, Moderate and Growth seek to address the various risk profiles of different members. As members near their retirement date their investments are switched progressively (known as "lifestyling") into lower risk investments (bonds and cash). The Cautious Fund is risk-averse with half of the assets invested in bonds until members near their retirement date. The Moderate Fund has 25% of its assets invested in bonds. The Growth Fund is wholly invested in equities. These funds switch in fixed amounts over the five years to retirement so that the fund on retirement will be invested 30% cash and 70% index-linked.

Over the twelve months ended 31 December 2005, the returns for each of these options, along with their respective market index benchmarks and objectives, were as follows:

	1 Year			
Option	Fund (%)	Benchmark (%)	Objective (%)	Objective
Growth	23.9	23.8	7.2	RPI + 5.00%
Moderate	20.5	20.4	6.5	RPI + 4.25%
Cautious	17.1	17.0	5.7	RPI + 3.50%
Retirement Protection	8.1	8.1	8.1	In line with benchmark

	3 Years			
Option	Fund (%)	Benchmark (%)	Objective (%)	Objective
Growth	19.5	19.5	7.8	RPI + 5.00%
Moderate	16.5	16.5	7.1	RPI + 4.25%
Cautious	13.5	13.4	6.3	RPI + 3.50%
Retirement Protection	7.3	7.3	7.3	In line with benchmark

All three strategies performed broadly in line with their respective benchmarks on a gross of fees basis. Over one and three year periods, the performance of the Growth, Moderate and Cautious options are all ahead of their overall objectives following the strong rise in equity markets.

### With Profits

The Trustee Board adopted the following strategy in 2002. It is now under review and likely to change shortly.

Asset Class	Weightings* (%)
Equities	29.4
• UK	16.3
• Overseas	13.1
Absolute Return Fund	5.6
Bonds and Cash	65.0
• Fixed Interest	49.6
• Index Linked	12.9
• Cash	2.5
<b>Total</b>	<b>100.0</b>

In 2003, the Trustee Board decided to arrange for the bonds and cash to be managed more directly in line with the liabilities of the With-Profits option. As such, a cashflow matching arrangement (i.e. where the investment manager focuses on delivering on a series of liability cashflows) was implemented with Legal & General Investment Management. This was implemented in October 2003.

The equity assets are managed passively through a series of index funds by BGI. The absolute return fund is actively managed. In May 2005, BGI announced that they were closing the Absolute Return Fund. Following a selection exercise, the Trustee Board appointed Invesco to manage this allocation going forward. Invesco took over the management of these funds in November 2005.

Over the period ending 31 December 2005, the returns for the With Profits option, along with its respective market index benchmark and objective, were as follows:

	1 Year			
Option	Fund (%)	Benchmark (%)	Objective (%)	Objective
With Profits	12.6	12.7	12.7	Gilts+1.5-2.0%

	3 Years			
Option	Fund (%)	Benchmark (%)	Objective (%)	Objective
With Profits	9.5	9.7	8.5	Gilts+1.5-2.0%

Over 2005, the With Profits Fund returned slightly behind its benchmark. However, returns are ahead of its objective over three years as equities performed well.

The Trustee Board has recently commenced a process of reviewing the structure of the With Profits Fund. This is scheduled to be completed in the first half of 2006.

## Final Salary Schemes

The Scheme investments are managed in a series of equity, fixed interest, and index linked options. These options are managed on both an active and a passive basis. In summary, these options are:

Option	Objective/Description
Active Global Equity Option	To outperform a benchmark comprising a range of UK and international equity market indices
Passive Global Equity Option	To track the return on a benchmark comprising a range of UK and international equity market indices
Active Fixed Interest Option	To outperform the FTSE Over 15 Year Gilt Index (an index based on longer dated government fixed interest securities)
Passive Fixed Interest Option	To track the return on the FTSE Over 15 Year Gilt Index (an index based on longer dated government fixed interest securities)
Active Index Linked Option	To outperform the FTSE Over 5 Year Index Linked Gilt Index (an index based on longer dated government index linked securities)
Passive Index Linked Option	To track the return on the FTSE Over 5 Year Index Linked Gilt Index (an index based on longer dated index linked securities)

In 2005, the Active Global Equity Option was reviewed following significant organisational changes within one of the underlying investment managers, Deutsche Asset Management ("DeAM"). This option was restructured in October 2005. The option is now structured as follows:

- 35% Newton Investment Management Global Opportunities Fund.
- 30% Invesco Asset Management Global Equity Fund
- 35% BGI Passive UK Equity Index Fund.

The passive options are managed entirely by BGI.

Over the twelve months ended 31 December 2005, the returns for each of these options, along with their respective market index benchmarks and objectives, were as follows:

	1 Year			
Option	Fund (%)	Benchmark (%)	Objective (%)	Objective
Equity				
Active	27.1	20.3	22.3	+ 2.0% p.a.
Passive	24.2	23.8	23.8	In line with benchmark
Fixed Interest				
Active	11.4	11.0	11.8	+ 0.75%p.a.
Passive	11.0	11.0	11.0	In line with benchmark
Index-linked				
Active	9.6	9.6	10.4	+ 0.75%p.a.
Passive	9.6	9.6	9.6	In line with benchmark

All of the passive options have performed in line with their benchmark and objective over the twelve month period to 31 December 2005. The Active Equity option outperformed its benchmark and objective over 2005 as DeAM achieved strong relative returns. The Active Fixed Interest and Index-linked options, managed by LGIM, underperformed their objectives over the period.

### Management Arrangements

#### *Final Salary Schemes:*

As part of the review of the Active Global Equity Option, Invesco Asset Management's Global Equity Fund was selected. This product is designed to achieve an absolute return in excess of cash, while investing in equities.

#### *With Profits option of the Money Purchase Scheme:*

The Trustee Board subsequently decided to recommend that Invesco was appointed as a replacement for the Absolute Return Fund, managed by BGI. These assets were transferred to Invesco in November 2005.

## Independent Auditors' Report

We have audited the financial statements on pages 17 to 38 which have been prepared under the accounting policies set out on pages 19 to 21.

This report is made solely to the Trustee Board in accordance with 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 Trustee Board those matters we are required to state to it in an auditors' 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 Trustee Board, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Trustee Board and auditors**

The Trustee Board's responsibility for obtaining an annual report, including audited financial statements prepared in accordance with applicable United Kingdom law and accounting standards, is set out in the Statement of Trustee Board's responsibilities on page 40.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustee Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Emphasis of matter**

Without qualifying our opinion we draw attention to the paragraph headed "Potential implications of AON Trust Corporation v KPMG" in the Trustees Report on page 3. As explained in that paragraph, the recent KPMG case has raised some issues surrounding whether a pension scheme like the Money Purchase Scheme of The Cheviot Trust, should be treated as a money purchase scheme for the purposes of the regulations governing occupational pension schemes. This could have a significant impact on the Trust and its employers.

### **Unqualified opinion**

In our opinion the financial statements show a true and fair view of the financial transactions of the Trust during the year ended 31 December 2005, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year, and contain the information specified in Regulation 3 of and the Schedule of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

*Horwath Clark Whitehill LLP*  
Horwath Clark Whitehill LLP  
Chartered Accountants and  
Registered Auditors  
London  
*12/4/06*

## Independent Auditors' Statement About Contributions

### **Independent auditors' statement about contributions under regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee Board of The Cheviot Trust**

We have examined the summary of contributions payable to The Cheviot Trust, for the year ended 31 December 2005, which is set out in the Compliance Statement on page 44.

This report is made solely to the Trustee Board, in accordance with 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 Trustee Board those matters we are required to state to them in an auditors' 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 Trustee Board as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Trustee Board and auditors**

As described on page 40 the Trustee Board is responsible for ensuring that there is prepared, maintained and from time to time revised, schedules of contributions and payment schedules which set out the rates and due dates of certain contributions payable towards the Trust by or on behalf of the employer and the active members of the Trust. The Trustee Board has a general responsibility for procuring that contributions are made to the Trust in accordance with the schedules of contributions and payment schedules.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and payment schedules and to report our opinion to you.

We read the other information contained in the annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

### **Basis of statement about contributions**

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions on page 44 have been paid in accordance with the relevant requirements. For this purpose the work that we carried out included

examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Trust and the timing of those payments under the schedules of contributions and payment schedules. Our statement about contributions is required to refer to those breaches of the schedules of contributions and payment schedules which come to our attention in the course of our work.

#### **Qualified statement about contributions – final salary schemes**

As explained in the compliance statement on pages 39 to 45, during the year there were a total of eleven breaches of the schedule of contributions. The total monetary amount of the breaches was £170,031. Of the £170,031, £149,739 was received one day late with the remainder being received up to 7 days late.

Except for the above, in our opinion contributions for the year ended 31 December 2005 as reported in the summary of contributions have been paid in accordance with the schedules of contributions certified by the actuary.

#### **Qualified statement about contributions – money purchase scheme**

As explained in the compliance statement on pages 39 to 45, during the year there were a total of forty breaches of the payment schedules. The total monetary amount of the breaches was £49,274.

Except for the above, in our opinion contributions for the year ended 31 December 2005 as reported in the summary of contributions have been paid in accordance with the payment schedules approved by the Trustee Board.

*Horwath Clark Whitehill LLP*

Horwath Clark Whitehill LLP  
Chartered Accountants and  
Registered Auditors  
London

*12/4/06*

## Fund Account

<i>for the year ended 31 December 2005</i>	<i>Note</i>	<b>2005 Final salary schemes £'000</b>	<b>2005 Money purchase scheme £'000</b>	<b>2005 Total £'000</b>	<b>2004 Total £'000</b>
<b>Contributions and benefits</b>					
Contributions receivable	2	4,975	4,530	9,505	8,226
Transfers in - Individual transfers	3	-	120	120	695
Life insurance death benefit		-	176	176	144
		<b>4,975</b>	<b>4,826</b>	<b>9,801</b>	<b>9,065</b>
Benefits payable	4	2,152	7,649	9,801	10,439
Payments to and on account of leavers	5	72	3,204	3,276	4,248
Premiums on death benefit life assurance		43	-	43	32
Administrative expenses	6	743	1,569	2,312	2,189
		<b>3,010</b>	<b>12,422</b>	<b>15,432</b>	<b>16,908</b>
<b>Net additions / (withdrawals) from dealings with members</b>		<b>1,965</b>	<b>(7,596)</b>	<b>(5,631)</b>	<b>(7,843)</b>
<b>Returns on investments</b>					
Investment income	8	12	4,923	4,935	4,880
Change in market value of investments	9, 10	13,898	15,620	29,518	13,610
Investment management expenses	11	(58)	(172)	(230)	(122)
<b>Net returns on investments</b>		<b>13,852</b>	<b>20,371</b>	<b>34,223</b>	<b>18,368</b>
<b>Net movement in the fund during the year</b>		<b>15,817</b>	<b>12,775</b>	<b>28,592</b>	<b>10,525</b>
<b>Net assets of the scheme:</b>					
At 1 January 2005		76,285	159,630	235,915	225,390
At 31 December 2005		<b>92,102</b>	<b>172,405</b>	<b>264,507</b>	<b>235,915</b>

## Net Assets Statement

at 31 December 2005

	Note	2005 £'000	2004 £'000
<b>Final Salary Schemes</b>			
<b>Investments</b>	9		
Pooled investment vehicles		87,696	72,726
Cash and short term deposits		2	1
AVC investments	9c	3,759	3,327
		<b>91,457</b>	<b>76,054</b>
<b>Current assets and liabilities</b>	12	<b>645</b>	<b>231</b>
<b>Net assets as at 31 December</b>		<b>92,102</b>	<b>76,285</b>

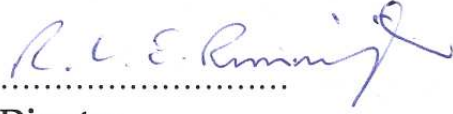
	Note	2005 £'000	2004 £'000
<b>Money Purchase Scheme</b>			
<b>Investments</b>	10		
Fixed interest securities		90,268	95,074
Pooled investment vehicles		77,791	60,982
Properties		1,532	1,370
Cash and short term deposits		4,623	3,048
AVC investments	10d	(3,759)	(3,327)
		<b>170,455</b>	<b>157,147</b>
Share of net assets of subsidiaries	14	240	139
		<b>170,695</b>	<b>157,286</b>
<b>Current assets and liabilities</b>	12	<b>1,650</b>	<b>2,272</b>
<b>Fixed assets</b>	15	<b>60</b>	<b>72</b>
<b>Net assets as at 31 December</b>		<b>172,405</b>	<b>159,630</b>
<b>Total net assets as at 31 December</b>		<b>264,507</b>	<b>235,915</b>

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

  
.....

Jeremy Weeks  
Chairman

Date: 5 April 2006  
.....

  
.....

Director

5 April 2006  
.....

## Notes to the Accounts

(forming part of the financial statements)

### 1. Accounting policies

The consolidated accounts have been prepared and audited in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes ("SORP").

The Final Salary Schemes of the Trust exist to pool the resources of the participating schemes for investment purposes. Each individual scheme participates in the investments of the Final Salary Schemes by way of investment units (see Note 9).

Contributions payable by each participating scheme in the Final Salary Schemes are determined, at each participating scheme level, after consultation with the Actuary to the Final Salary Schemes.

The consolidated accounts summarise the transactions of the Trust's Money Purchase Scheme and Final Salary Schemes and deal with the net assets of the Trust and its subsidiary undertakings. They do not take account of liabilities to pay pensions and other benefits which fall due after the accounting year. The actuarial position of each participating scheme, which does take account of such liabilities, is dealt with in separate actuarial statements. For the Final Salary Schemes, the relevant actuarial statement is attached to each participating scheme's accounts, and these accounts should be read in conjunction with those individual scheme's accounts.

The following accounting policies are adopted by the Trust:

#### (a) Consolidated accounts

The consolidated accounts comprise the financial statements of the Trust together with its subsidiary companies using the single-line equity method of accounting. Separate accounts excluding its subsidiaries have not been prepared for the Trust. No adjustments have been made to change the book value of the assets of the subsidiaries to market value as, in the opinion of the Trustee Board, book value equates to market value.

#### (b) Contributions

Contribution income reflects contributions payable in respect of earnings up to 31 December for both the Money Purchase Scheme and the Final Salary Schemes.

## Notes to the Accounts

Additional Voluntary Contributions (AVCs) are accounted for on an accruals basis in the same way as other contributions and the resulting investments are included in the net assets statement.

### Money Purchase Scheme

The rates of contributions for members and participating employers are governed by the Scheme rules.

### Final Salary Schemes

Contributions to all the participating Final Salary Schemes are made at rates recommended by the Actuary, who reviews each scheme at three-yearly intervals. There were 18 participating firms with final salary schemes during the year.

### *(c) Fixed assets and depreciation*

Depreciation is charged on a straight line basis at the following rates per annum:

	%
Freehold property held as an investment	Nil
Office fixtures and fittings	6.7
Improvements to premises	12.0
Office equipment	20.0
Computer equipment	33.3

### *(d) Investment income*

Income from pooled investment vehicles is reinvested and used to purchase additional units in the fund, and consequently is not shown separately in the Fund Account, but is included within the change in market value of investments.

### *(e) Investment management expenses*

Where investments are held in pooled investment vehicles the investment manager takes his fees from within the fund and consequently they are not shown separately in the Fund Account, but are included within the change in market value of investments.

## Notes to the Accounts

### *(f) Investments*

#### Money Purchase Scheme

Investments are included at market value with listed investments valued at mid-market prices, on recognised Stock Exchanges as at 31 December 2005. All other items are stated in the financial statements under the historical cost accounting rules. The aggregate increase in market value of investments is shown as movement under the 'Returns on investments' in the Fund Account and represents the change in market value of investments held during the year, part of which has been realised.

#### Final Salary Schemes

Investments are included at mid-market value. The aggregate increase in market value of investments is shown as movement under the 'Returns on investments' in the Fund Account and represents the change in market value of investments held during the year, part of which has been realised, together with investment income which is re-invested in the fund.

### *(g) Foreign currency*

Investments denominated in foreign currencies are translated into their sterling equivalent at the rates ruling at the year end.

### *(h) Benefits and transfers*

Benefits are accounted for on an accruals basis. Transfers to and from other schemes are accounted for on a cash basis, with the exception of bulk transfers where liability may be accepted before the funds are received, which are accounted for on an accruals basis.

## Notes to the Accounts

### 2. Contributions receivable

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Employers				
Normal	3,241	2,134	5,375	4,746
COMPS	-	25	25	28
Special*	1,047	15	1,062	105
Members				
Normal	479	2,068	2,547	2,598
COMPS	-	41	41	45
Additional voluntary contributions	208	220	428	533
DSS				
COMPS	-	27	27	171
	<b>4,975</b>	<b>4,530</b>	<b>9,505</b>	<b>8,226</b>

\*The special contributions to the final salary schemes have been made by three firms to improve the funding positions of the schemes.

### 3. Transfers in – Individual transfers

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Transfers from final salary schemes	-	57	57	281
Transfers from third party schemes	-	63	63	414
	-	120	120	695

## Notes to the Accounts

### 4. Benefits payable

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Pensions	1,846	6,445	8,291	8,194
Commutation of pensions	277	824	1,101	1,632
Payments on death	29	380	409	613
	<b>2,152</b>	<b>7,649</b>	<b>9,801</b>	<b>10,439</b>

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

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Refunds to members leaving service	3	14	17	8
Group transfers to other schemes	-	15	15	-
Individual transfers to other schemes	12	2,200	2,212	1,925
Purchase of annuities to match preserved benefits	-	975	975	2,034
AVCs transferred to money purchase	57	-	57	281
	<b>72</b>	<b>3,204</b>	<b>3,276</b>	<b>4,248</b>

## Notes to the Accounts

### 6. Administrative expenses

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Management expenses (see note 7)	537	1,569	2,106	2,051
Professional fees incurred on behalf of participating schemes	206	-	206	138
	<b>743</b>	<b>1,569</b>	<b>2,312</b>	<b>2,189</b>

### 7. Management expenses

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Staff salaries	164	499	663	779
Staff pension contributions	17	52	69	65
National Insurance and other staff costs	22	68	90	102
Staff training and recruitment	10	61	71	90
Accommodation charges	15	46	61	56
Printing and stationery	3	16	19	17
Postage and telephone	7	30	37	34
Computer expenses	20	59	79	90
Subscriptions and insurance	19	92	111	105
Travel and entertainment	5	28	33	35
Trustee Board expenses	16	93	109	116
Actuarial fees	31	149	180	230
Audit fees	-	57	57	48
Other professional fees	180	267	447	210
Depreciation	-	41	41	52
Miscellaneous	28	11	39	22
	<b>537</b>	<b>1,569</b>	<b>2,106</b>	<b>2,051</b>

## Notes to the Accounts

### 8. Investment income

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Income from fixed interest securities	-	4,622	4,622	4,696
Dividends from equities	-	11	11	-
Net rents from properties	-	107	107	107
Interest on cash deposits	12	83	95	27
Share of net profits of trading subsidiaries	-	100	100	8
Other	-	-	-	42
	12	4,923	4,935	4,880

The investments of the final salary schemes are invested in pooled vehicles in which the income is reinvested and therefore does not show as investment income in these accounts. The money purchase scheme has a segregated portfolio of bonds which pays income directly.

## Notes to the Accounts

### 9. Investments - final salary schemes

#### (a) Purchases, sales and change in value

	Market Value at 1 January 2005	Purchases at cost	Sales proceeds	Change in Market Value	Market Value at 31 December 2005
	£'000	£'000	£'000	£'000	£'000
Managed & unitised funds (BGI and DeAM)	72,726	34,412	(33,064)	13,622	87,696
Cash and short term deposits	1	1	-	-	2
AVC investments	3,327	213	(57)	276	3,759
<b>Total</b>	<b>76,054</b>	<b>34,626</b>	<b>(33,121)</b>	<b>13,898</b>	<b>91,457</b>

The change in the market value of investments during the period comprises all increases and decreases in the market value of investments held at any time during the period, including profits and losses realised on sales of investments during the year. All associated costs of purchase are included in the cost of acquisition.

## Notes to the Accounts

### (b) *Holdings – final salary schemes*

Final salary schemes assets are held as unitised funds as shown.

	2005 £'000	Unit mid market value 31 December 2005 £	Units 000's
UK Equity Index Fund (BGI)	15,591	4.781	3,261
CE Total Return Global Equity (Invesco)	13,641	108.550	126
Global Opportunities Fund (Newton)	17,095	1.196	14,293
Index Linked Bond Fund (L&G)	31,661	5.732	5,524
UK Fixed Interest Over 15 Year (L&G)	2,427	1.186	2,046
Global Equity Fund (BGI)	3,428	3.117	1,100
UK Index Linked Fund (BGI)	711	4.942	144
UK Fixed Interest Fund (BGI)	3,142	4.352	722
<b>Total</b>	<b>87,696</b>		

### (c) *Analysis of investments – final salary schemes*

	2005 £'000	2004 £'000
<b>Managed and unitised funds</b>		
UK unit trusts	87,696	72,726
<b>Cash deposits</b>		
Sterling	2	1
<b>AVC investments</b>		
Held in the money purchase scheme	3,759	3,327
<b>Total</b>	<b>91,457</b>	<b>76,054</b>

## Notes to the Accounts

*(d). Units*

As explained in Note 1, the individual Final Salary Schemes pool together their resources so that these may be invested jointly. Each individual scheme holds a number of units in the total assets of the Final Salary Schemes of the Trust.

The total number of units along with a summary of units held by each participating scheme as at 31 December 2005 is as follows:

Invesco	2005	2005
	CE Total Return Global Equity Fund Units	CE Total Return Global Equity Fund Value £'000
Beaumont & Son	5,222	567
Cobbetts	1,582	172
Dickinson Dees	5,398	586
Farrer & Co	16,632	1,805
Jones Day	5,674	616
Herbert Smith	5,485	595
Holman Fenwick & Willan	57,077	6,196
Latham & Co	17,622	1,913
Lawrence Graham	337	36
Simpson Millar	7,487	813
Stonehams	1,134	123
The Cheviot Trust	2,020	219
<b>Total</b>	<b>125,670</b>	<b>13,641</b>

## Notes to the Accounts

Newton	2005	2005
	Global Opportunities Fund Units	Global Opportunities Fund Value £'000
Beaumont & Son	593,486	710
Cobbetts	180,019	215
Dickinson Dees	611,823	732
Farrer & Co	1,889,275	2,260
Jones Day	645,033	772
Herbert Smith	622,874	745
Holman Fenwick & Willan	6,492,542	7,767
Latham & Co	2,004,928	2,398
Lawrence Graham	38,345	46
Simpson Millar	852,254	1,020
Stonehams	129,114	154
The Cheviot Trust	229,909	275
<b>Total</b>	<b>14,289,602</b>	<b>17,094</b>

Legal & General	2005	2005
	Fixed Interest Fund Units	Fixed Interest Fund Value £'000
Cobbetts	127,839	152
Dickinson Dees	421,043	499
Jones Day	1,021,167	1,211
Staffurth & Bray	202,504	240
Stonehams	273,715	325
<b>Total</b>	<b>2,046,268</b>	<b>2,427</b>

## Notes to the Accounts

Legal & General	2005	2005
	Index-linked Fund Units	Index-linked Fund Value £'000
Beaumont & Son	191,751	1,099
Cobbetts	104,265	598
Dickinson Dees	42,570	244
Farrer & Co	644,528	3,694
Jones Day	103,128	591
Herbert Smith	304,398	1,745
Holman Fenwick & Willan	1,684,725	9,657
Latham & Co	1,253,292	7,184
Lawrence Graham	73,889	424
Simpson Millar	948,841	5,439
Stonehams	5,741	33
The Cheviot Trust	166,590	955
<b>Total</b>	<b>5,523,718</b>	<b>31,663</b>

BGI	2005	2005
	Global Equity Fund Units	Global Equity Fund Value £'000
Moss Solicitors	77,299	241
Napthen Houghton Craven	128,416	400
Radcliffes	598,678	1,866
Seldon Ward & Nuttall	212,502	662
Wragge & Co	82,947	259
<b>Total</b>	<b>1,099,842</b>	<b>3,428</b>

## Notes to the Accounts

BGI	2005	2005
	Fixed Interest Fund	Fixed Interest Fund
	Units	Value £'000
Napthen Houghton Craven	41,703	206
Radcliffes	66,638	329
Seldon Ward & Nuttall	35,475	175
<b>Total</b>	<b>143,816</b>	<b>710</b>

BGI	2005	2005
	Index-linked Fund	Index-linked Fund
	Units	Value £'000
Moss Solicitors	192,306	837
Napthen Houghton Craven	6,448	28
Radcliffes	355,635	1,548
Seldon Ward & Nuttall	91,687	399
Wragge & Co	75,970	331
<b>Total</b>	<b>722,046</b>	<b>3,143</b>

## Notes to the Accounts

BGI	2005 UK Equity Index Units	2005 UK Equity Index Value £'000
Beaumont & Son	135,575	648
Cobbetts	41,058	196
Dickinson Dees	140,388	671
Farrer & Co	431,952	2,065
Jones Day	147,273	704
Herbert Smith	142,449	681
Holman Fenwick & Willan	1,480,931	7,080
Latham & Co	457,047	2,185
Lawrence Graham	8,772	42
Simpson Millar	194,178	928
Stonehams	29,403	141
The Cheviot Trust	52,415	251
<b>Total</b>	<b>3,261,441</b>	<b>15,592</b>

## Notes to the Accounts

### 10. Investments – money purchase scheme

#### (a) Purchases, sales and change in value

	Market Value at 1 January 2005	Purchases at cost	Sales proceeds	Change in Market Value	Market Value at 31 December 2005
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	95,074	14,106	(21,891)	2,979	90,268
Managed and unitised funds:					
- with profit fund	48,169	8,761	(8,775)	9,882	58,037
- unit linked options fund	12,813	4,841	(773)	2,873	19,754
Freehold property	1,370	-	-	162	1,532
AVCs held on behalf of Final Salary Schemes	(3,327)	(213)	57	(276)	(3,759)
<b>Total</b>	<b>154,099</b>	<b>27,495</b>	<b>(31,382)</b>	<b>15,620</b>	<b>165,832</b>

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. All associated costs of purchase are included in the cost of acquisition.

The Trust's property has been valued by Blanking Associates, Chartered Surveyors, on an open market existing use basis, as at 23 May 2005. Listed investments are valued at mid market prices on recognised Stock Exchanges as at 31 December 2005. None of the unit trusts invest in property.

The Trustee Board invests AVCs received from members of the Final Salary Schemes in the Money Purchase Scheme.

## Notes to the Accounts

*(b) Holdings – money purchase scheme (managed and unitised funds)*

The following investments in the money purchase scheme are held in index-tracking funds through an insurance policy. The listing below identifies the Aquila Life funds at BGI in which investments are held through this policy.

*(i) With profits fund*

	2005	Unit mid market value 31 December 2005	Units
	£'000	£	000's
Global Equity (BGI)	48,857	3.1165	15,677
Global Equity (Invesco)	9,180	108.5500	85
<b>Total</b>	<b>58,037</b>		

*(ii) Unit linked options*

	2005	Unit mid market value 31 December 2005	Units
	£'000	£	000's
UK Equities	7,680	4.7805	1607
Overseas Equities	5,299	2.6895	1970
Over 15 Years UK Gilts	3,438	4.9415	696
Over 5 Years Index- linked	3,033	4.3515	697
Cash	304	3.2776	93
<b>Total</b>	<b>19,754</b>		

## Notes to the Accounts

(c) *Concentration of investments - money purchase scheme*

The concentration of the money purchase scheme investments in the with profits fund is global equity 39% and fixed interest securities 61%.

(d) *Analysis of UK and overseas investments – money purchase scheme*

	2005 £'000	2004 £'000
Fixed Interest Securities	90,268	95,074
<b>Managed and unitised funds</b>		
UK unit trusts	77,791	60,982
<b>Properties</b>		
UK	1,532	1,370
<b>Cash deposits</b>		
Sterling	4,623	3,048
<b>Other</b>		
AVCs held on behalf of Final Salary Schemes	(3,759)	(3,327)
<b>Total</b>	<b>170,455</b>	<b>157,147</b>

11. **Investment management expenses**

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Investment managers fees	58	172	230	122
<b>Total</b>	<b>58</b>	<b>172</b>	<b>230</b>	<b>122</b>

## Notes to the Accounts

### 12. Current assets and liabilities

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Contributions due				
Employers	188	180	368	300
Employees	31	227	258	314
Cash balances	405	448	853	932
Funds held on behalf of participating schemes in liquidation	(7)	-	(7)	(7)
Investment income receivable	-	1,134	1,134	1,259
Prepayments and accrued income	33	199	232	195
Amounts due (to)/from subsidiaries (Note 13)	39	91	130	131
Other debtors	71	40	111	8
Accruals and deferred income	(85)	(438)	(523)	(459)
Other creditors including taxation and social security	(30)	(127)	(157)	(170)
<b>Total</b>	<b>645</b>	<b>1,754</b>	<b>2,399</b>	<b>2,503</b>

### 13. Amounts due (to)/from subsidiary undertakings

	2005 Final salary schemes £'000	2005 Money purchase scheme £'000	2005 Total £'000	2004 Total £'000
Repayable within one year:				
- Inter-company management expenses	39	91	130	131
<b>Total</b>	<b>39</b>	<b>91</b>	<b>130</b>	<b>131</b>

## Notes to the Accounts

### 14. Share of net assets of subsidiaries

The Trust owns 100% of the ordinary share capital of Cheviot Financial Planning Limited "CFPL", a company registered in England and Wales. The company provides independent financial advice to members of the legal profession. The company was an appointed representative of Investment Strategies (UK) Ltd, who provide regulatory support under the Financial Services and Markets Act 2000. As from 23 June 2005 the company became directly regulated by the Financial Services Authority and no longer a member of Investment Strategies (UK) Ltd.

The Trust owns 100% of the ordinary share capital of Cheviot Pension Services Limited "CPSL", a company registered in England and Wales. The company provides pension administration and consultancy services to third parties.

### 15. Fixed assets

	Improve premises	Fixtures & fittings	Office equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2005	165	52	37	248	502
Additions	-	5	-	24	29
Disposals	-	-	-	(11)	(11)
At 31 December 2005	165	57	37	261	520
<b>Depreciation</b>					
At 1 January 2005	165	46	24	195	430
Charge for year	-	2	5	34	41
Written back on disposal	-	-	-	(11)	(11)
At 31 December 2005	165	48	29	218	460
<b>Net book value</b>					
At 31 December 2005	-	9	8	43	60
At 31 December 2004	-	6	13	53	72

## Notes to the Accounts

### 16. Related party transactions

The Law Society was the trustee of The Cheviot Trust until 31 March 2005 and was a client of Cheviot Pension Services Limited and Cheviot Financial Planning during 2005.

For the three months ended 31 March 2005 The Law Society was charged by:

- Cheviot Pension Services Limited £66,594 (year ended 31 December 2004: £235,034)
- Cheviot Financial Planning Limited £30,220 (year ended 31 December 2004: £132,245)

For the three months ended 31 March 2005 at the year end The Law Society owed:

- Cheviot Pension Services Limited £nil (year ended 31 December 2004: £65,230)
- Cheviot Financial Planning Limited £nil (year ended 31 December 2004: £78,482)

The Cheviot Trust incurs expenses on behalf of its subsidiary companies, Cheviot Financial Planning Limited and Cheviot Pension Services Limited, which are recharged to those companies.

The Cheviot Trust charged:

- Cheviot Pension Services Limited £181,669 (2004: £222,520)
- Cheviot Financial Planning Limited £297,584 (2004: £244,628)

At the year end The Cheviot Trust was owed:

- Cheviot Pension Services Limited £45,203 (2004: £48,495)
- Cheviot Financial Planning Limited £84,607 (2004: £82,369)

Trustee Board expenses amounting to £109,000 were paid to participating employers or members of the Trustee Board during the year in respect of the services of directors of the Trustee Board (prior to 1 April 2005 - members of the Committee of Management).

### 17. Employer Related Investment

There were no employer related investments at any time during the year.

Contributions due at the year end were paid after the year end within the timescales set out in the schedules of contribution and payment schedule.

## Compliance Statement

### Trustee Board

The Trustee of the scheme is Cheviot Trustees Limited. The directors who served during the year were as follows:

<i>Name</i>	<i>Firm</i>	<i>Location</i>	<i>Representative</i>
J W R Weeks Chairman	Glanvilles	Fareham	Member
R L E Rimmington Vice Chairman	Formerly Cobbetts	Manchester	Employer
K P Byass	Moss Solicitors	Loughborough	Employer (previously Law Society)
J A Dungay	Formerly Thomas Eggar	Reigate	Member
I Gault	Herbert Smith	London	Employer
A Hunt	Formerly RadcliffesLeBrasseur	London	Member
M Jenkins (resigned 18/10/05)	Dickinson Dees	Newcastle-upon- Tyne	Employer
S Makin	Cobbetts	Manchester	Employer
D McConnell	Formerly Jacksons	Stockton-on-Tees	Employer
G I Mitchell	Seldon Ward & Nuttall	Bideford	Member
G Sandercock (resigned 31/03/05)	Granville – West	Pontypool	The Law Society
L Trott (resigned 10/03/06)	Edwin Coe	London	Member
E McKinnon (appointed 01/04/05)	The Cheviot Trust	Southend on Sea	Co-opted

At the end of 2005, there was a vacancy for one member representative and one employer representative. Members have been invited to put themselves forward for election for the member vacancy. The management has been seeking an employer representative during visits to participating employers.

## Statement of Trustee Board's responsibilities

The financial statements are the responsibility of the Trustee Board. Pension scheme regulations require trustees to make available to members, beneficiaries and certain other parties, audited financial statements for each year which:

- 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 that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustee Board has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

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

The Trustee Board is also responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions and payment schedule showing the rates of contributions payable to the Trust by or on behalf of the employer and the active members of the Trust and the dates on or before which such contributions are to be paid. The Trustee Board is also responsible for keeping records in respect of contributions received in respect of any active member of the Trust and for procuring that contributions are made to the Trust in accordance with the schedule of contributions and payment schedule.

## Trustee Board meetings in 2005

The following meetings were held during the year:

### Full Trustee Board

18 January (Investment)  
16 and 17 March  
6 and 7 June  
3 August  
21 and 22 September  
16 November (Investment)  
17 November (Trustee Knowledge and Understanding)  
14 and 15 December

### Working groups

2 March (Finance and Investment)  
7 September (Investment)  
16 November (Finance)  
30 November (Investment)

## Tax status of the scheme

The scheme is an exempt approved scheme and, to the Trustee Board's knowledge, there is no reason why such approval should be prejudiced or withdrawn.

## Calculation of transfer values

In accordance with The Occupational Pensions Schemes (Disclosure of Information) Regulations 1996, the Trustee Board reports that a member may be able to make a transfer payment either to the scheme of their new employer or to any other approved pension arrangement of their choice.

### Money Purchase Scheme

The calculation of the transfer value for the With Profits option makes little or no allowance for future bonuses. This means that if a member takes his or her benefits early, the amount available is currently less than the member's account. The amount available for transfer has been calculated on a "cash equivalent" basis. This is the amount required today to provide the member's account, including any future guaranteed returns, at the member's Normal Retirement Date. The Scheme Actuary calculates this amount on the basis of assumptions about investment returns between the date of the transfer and the member's Normal Retirement Date. This does not mean that the amount in members' accounts with Cheviot has been reduced. Account values will be unaffected by this revised policy if members remain invested until their Normal Retirement Date.

The transfer value in respect of the Cautious, Moderate, Growth and Retirement Protection options is the value of the member's account at the next available investment date, following receipt of the completed documentation in respect of the transfer request.

## Final Salary Schemes

A cash equivalent transfer value represents the actuarial value of the benefits which would otherwise be preserved under the scheme following a member's withdrawal with an entitlement to a deferred pension. It is calculated in accordance with statutory requirements and on a basis which is established by the scheme's Actuary following consultation with the Trustee Board. The calculation involves the projection of the benefits payable on retirement or death and then the valuation of these benefits having regard to the current market rates of return available on investments at the date of calculation. The Trustee Board has considered on a scheme by scheme basis whether the transfer value should include an allowance for discretionary benefits. In respect of five schemes, it has concluded that it would be appropriate to include an allowance for discretionary pension increases.

### **Pension increases - final salary schemes**

Increases to pensions in payment, other than increases required by statute, have been detailed in each participating scheme's accounts, where appropriate.

## **Valuations**

### Final Salary Schemes

Each individual scheme has its own actuarial valuation every three years. An actuarial statement that summarises the results of these valuations is attached to each scheme's accounts.

### Money Purchase Scheme

A funding review of the With Profits option is being completed at 31 December 2005 on the basis of the following assessment of its assets and liabilities.

#### *Assets*

The results are based largely on market values at 31 December 2005.

AVCs held on behalf of the Final Salary Schemes are a liability of the Money Purchase Scheme and included in members' account balances. They are therefore added to the total net assets to arrive at a total market value of £172.4m at 31 December 2005. Assets of approximately £19.8m in respect of funds invested in the unit linked options have been excluded from the valuation. The net market value of £152.6m of assets is being used for the valuation of the With Profits option.

### *Liabilities*

The market value of the scheme's assets will be compared with reserves for active and deferred members included on the basis of their cash equivalents as at 31 December 2005. A reserve, which had previously been created in respect of annuity guarantees for members who have not yet retired, is held. For pensioners, future pension payments will be discounted at interest rates which the Actuary considers appropriate for the liabilities.

### *Valuation results*

The Actuary has discussed the preliminary valuation results with the Trustee Board. These results showed that when the valuation is completed there will be no available funds for distribution as bonuses at this valuation. The Trustee Board, on the advice of the Scheme Actuary, continues to pursue a very cautious approach given the continuing effects of falling bond yields and improved life expectancy.

### **Returns to members**

For 2005, returns to members who have not yet retired will therefore be limited to the guaranteed rates of interest awarded.

No bonuses will be paid to with profits pensioners who retired before 1997. LPI pensioners will receive an RPI increase. With profit LPI pensioners will receive their guaranteed level of increase.

### *Interim annual bonus*

The level of this bonus continues to be nil.

### *Final bonus*

The level of the final bonus continues to be nil.

### **Money Purchase Scheme – Unit linked section**

For members in the Money Purchase Scheme unit linked section, investments are purchased by the Scheme and allocated to provide benefits to the individuals on whose behalf the corresponding contributions are paid. Accordingly the assets are designated to members and do not form a common pool of assets available for members generally. Members will each receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

## Breaches of contributions to the Scheme

### Summary of Contributions paid in year

During the year, the contributions paid to the Schemes by the Employer under the Schedules of Contributions and Payment Schedules were as follows

	£'000	£'000
Employer normal contributions	5,375	
Members normal contributions	2,547	
Total		<u>7,922</u>

The following amounts were not covered by the Schedules of Contributions and Payment Schedules

	£'000	£'000
Employer special contributions	1,062	
COMPS	93	
AVC's	428	
Total		<u>1,583</u>
Total contributions as per note 2 on page 22		<u>9,505</u>

### Final Salary Schemes

There were 11 breaches of the Schedules of Contributions during the year (2004: six breaches). These matters have all been resolved. The total amounts involved were £170,031 (2004: £979). Of the £170,031, £149,739 was received one day late with the remainder being received up to 7 days late.

### Money Purchase Scheme

There were 40 breaches of the payment schedules during the year (2004: thirty-nine breaches).

Of these, 30 related to contribution cheques not having been received for administrative reasons such as delays in posting and in processing the amount of contributions due. The remainder represent either one off payments or payments for a small number of individuals. The circumstances that have typically given rise to this situation are as follows:

- Late processing of joiners
- Errors in calculating contributions due in the case of maternity benefits
- Incorrectly advised salary levels
- Delays in processing amendments to contributions due for individual members

The delays in payment varied from one day to two months, although the majority were received within a few days, and amounted to £49,274 in total (2004: £42,303).

The Trustee Board was of the view that no compensation for late payment was due.

## The Myners Principles

Paul Myners' review of Institutional Investment in the UK recommended that trustees of occupational pension schemes review their working practices in relation to investment matters against a list of principles. The Government has endorsed this approach. The Trustee Board reviewed its practices against these principles. The principles set out below cover both the Final Salary Schemes and the Money Purchase Scheme.

The current position is set out below.

### 1. *Effective decision making*

Investment training for Trustee Board members is incorporated into Trustee Board meetings through presentations from management, advisers and fund managers. The effectiveness of training is assessed after every meeting. The Trustee Board receives investment advice from qualified professionals before taking any investment decisions. A monitoring schedule sets out the detail of all decisions taken by the Trustee Board together with the rationale and sets out the review process for each decision. The Trustee Board considers this to comply with Myners' requirement for a business plan.

The full Trustee Board takes all strategic decisions. An investment sub group meets at least twice a year, more often if required, to undertake detailed monitoring of the investment managers. Either the employing firms or the Trustee Board members themselves receive reimbursement for their time and for expenses at an agreed rate.

The Trustee Board considers it complies with this principle.

### 2. *Clear objectives*

The Trustee Board has considered in some depth the objectives for each fund and these are set out in the Statement of Investment Principles for both the Final Salary Schemes and the Money Purchase Scheme.

For the Money Purchase Scheme, the range of funds available is limited to facilitate a reasonably easy and accessible decision making process for members. The monitoring schedule (see above) requires an annual review of the options available. Details of the options are set out in the Members' Explanatory Booklet that is also regularly reviewed.

For the Final Salary Schemes, the Trustee Board discusses investment strategy with each sponsoring firm and the Scheme Actuary and provides a framework of investment funds, both actively and passively managed, for consideration.

The Trustee Board considers it complies with this principle.

3. *Focus on asset allocation*

The Trustee Board reviews the asset allocation of both the money purchase and final salary scheme regularly with the assistance of its professional advisers. Its training programme allows it to consider a wide variety of asset classes on an on going basis.

The Trustee Board considers it complies with this principle.

4. *Choice of a default fund (Money Purchase Scheme only)*

The Trustee Board does not offer a default fund to new members as it considers it important that members take their own investment decision. As mentioned above, the choices have been limited to facilitate this. The issue is subject to annual review.

The Trustee Board does not comply with the principle which suggests that a default option is the preferred route. It considered the issue in April 2006 and will continue to review the decision annually.

5. *Expert advice*

The Trustee Board uses professional investment advisers who are appointed separately from the actuarial advisers. All advice is provided on a fee basis. The performance of the investment advisers is reviewed at least annually as set out in the monitoring schedule.

The Trustee Board considers it complies with this principle.

6. *Explicit mandates*

Explicit mandates are in place with all investment managers. Details of the arrangements are set out in full in the Statement of Investment Principles.

The timetable for reviewing the mandates, including issues such as soft commission and transaction costs, are set out in the monitoring schedule.

The Trustee Board considers it complies with this principle.

7. *Activism*

The Trustee Board reviews each manager's approach to activism on an annual basis, as set out in the monitoring schedule. As most assets are invested in pooled vehicles, it is not generally possible for the Trustee Board to pursue an active policy directly. However, a manager's approach to activism is considered as part of any appointment process.

The Trustee Board considers it complies with this principle as far as possible, given its extensive use of pooled vehicles.

8. *Appropriate benchmarks*

The monitoring schedule sets out a review process for the various benchmarks set for managers' benchmarks. This review process includes consideration of whether the type of management utilised remains appropriate.

The Trustee Board considers it complies with this principle.

9. *Performance measurement*

Formal performance measurement reports are produced by the Trustee Board's investment advisers each quarter. The investment advisers are reviewed at least annually.

The Trustee Board has developed, with its investment advisers, mechanisms for measuring its own performance against its strategic benchmarks.

The Trustee Board considers it complies with this principle.

10. *Transparency*

The Statement of Investment Principles for both money purchase and final salary arrangements have been reviewed and amended to comply with this principle.

The Trustee Board considers it complies with this principle.

11. *Regular reporting*

The Trustee Board has considered whether to publish the Statement of Investment Principles to members on an annual basis. It has concluded that the level of detail now contained in the Statements, partly in response to principle 10, makes them less accessible for the membership as a whole. It has therefore decided to include a feature on the Statements in the summarised report to members (Money Purchase Scheme only) and produce a summarised version for publication on the website.

The Trustee Board does not therefore intend to comply with this principle.

## Actuarial Statement

The Cheviot Trust includes individual Final Salary Schemes, each of which has its own individual benefit and contribution structure. The financial statements show the total assets of the Final Salary Schemes as amounting to £92.1m on 31 December 2005. Each year actuarial valuations of a number of Final Salary Schemes are made and each Scheme is valued at least once every three years. I was appointed Scheme Actuary to the Final Salary Schemes with effect from 1 January 2006, and as such the actuarial valuations as at 31 December 2004 were completed by the previous Scheme Actuary, Robert Sweet of Cartwright Consulting Ltd. Please note that where this statement refers to the last valuation, it is referring to the valuation as at 31 December 2002 for those Schemes that are due valuations as at 31 December 2005.

It would not be practical to include in this report the separate actuarial statements for each Scheme. Each Scheme is issued with its own individual statement and copies are available on request in accordance with disclosure requirements. A statement has been issued for each Scheme as at its last valuation date, again by the previous Scheme Actuary.

For all Schemes, the statement expresses the former Scheme Actuary's opinion that, allowing for appropriate contributions, the resources of each Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due.

For all Schemes, calculations for the accrued liabilities were undertaken as at the last valuation date on the Minimum Funding Requirement (MFR) introduced by the Pensions Act 1995. In accordance with this legislation, on finalisation of the majority of the valuations Schedules of Contributions were prepared and actuarial certificates were provided expressing the former Scheme Actuary's opinion that the rates of contributions payable in accordance with the Schedule would be adequate for the purpose of securing the meeting of the MFR.

Five of the Schemes that had valuations as at 31 December 2004, completed by the previous Scheme Actuary, had not finalised the contribution rates going forward prior to me being appointed Scheme Actuary. The rates have since been agreed, Schedules of Contributions have been prepared and I have provided the necessary actuarial certification in relation to the Minimum funding requirement. Copies of these most recent certificates are available on request in accordance with disclosure requirements.

Compliance with the Minimum Funding Requirements does not necessarily mean that a Scheme's assets would have been sufficient to meet the cost of securing the members' accrued liabilities had that Scheme actually been wound up at the last valuation date, with the members' benefits being secured by the purchase of deferred and immediate annuities with an insurance company. Indeed, the MFR has now been replaced by a new funding

regime which will need to be complied with for all valuations after 22 September 2005. It is therefore, possible that in some cases the realisable value of the assets of a Scheme may not have been sufficient to provide the promised benefits in full.

Further details of the methods and assumptions used in each valuation are set out in each Scheme's valuation report and copies are available on request in accordance with disclosure requirements.

Philip Tranter

  
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Date

  
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Qualification:

Fellow of the Institute of Actuaries

Mercer Human Resource Consulting Limited