



Cheviot Pension

Pensions Registry Number 10169997

Annual Report and Accounts For the Year Ended 31 December 2021

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Trustee and Advisers

Trustee: Cheviot Trustees Limited

Employer Nominated Directors	Member Nominated Directors	Co-opted Directors
Ian Gault, Vice Chairman ¹ Stephen Jones ³ Gerald Kidd Martin Poore	Diane Elliott-Smith ² Frances Longmore ⁴ Giles Orton ⁵ Maralyn Thomas	Sir Derek Morris, Chairman Elspeth McKinnon

Scheme Actuary

Peter Black of XPS Pensions Group

Investment Advisers

River and Mercantile Solutions part of River and Mercantile Group plc⁶
Isio Group Limited

Auditor

Crowe U.K. LLP

Bankers

National Westminster Bank plc

Investment Managers

The Trustee has direct contractual relationships with the managers shown below. All Schemes and Sections invest in blended funds held on the Mobius Life Limited investment platform. This platform invests in the underlying managers. Details can be found in the Statements of Investment Principles available on the website.

Mackay Shields (until 25 June 2021)

Marshall Wace Asset Management Limited⁷

Mobius Life Limited

Phoenix Investment Adviser LLC

PIMCO Europe Limited

River and Mercantile Investment Limited

Royal London Asset Management Limited

Custodian

Caceis Bank

Solicitors

Arc Pensions Law LLP

Norton Rose Fulbright LLP (until 31 May 2021)

Pinsent Masons LLP

Covenant Adviser

PricewaterhouseCoopers LLP

¹ Re-appointed 17 June 2021.

² Re-appointed 15 December 2021 subject to the completion of the relevant checks. Re-appointment ratified 30 March 2022.

³ Appointed 14 April 2021.

⁴ Re-appointed 15 December 2021 subject to the completion of the relevant checks. Re-appointment ratified 30 March 2022.

⁵ Appointed 24 March 2021, previously a Co-opted director.

⁶ Purchased by Schroders group effective from 1 February 2022.

⁷ Merged with Lumyna on 21 January 2022.



Chair's review

Sir Derek Morris, Chairman

2021 continued to be dominated by the Covid-19 virus, its effects on the economy and on the pension funds which we manage. Despite the challenges, the Trust has continued to develop and improve its governance and services to members with the support of the skilful directors of the Trustee, Cheviot Trustees Limited, and the staff. 2022 has moved our focus to the war in Ukraine. The human cost is clearly shocking. The Trustee is focused on significant impact of the conflict on the geopolitical and economic environment and the investments held by the Trust.



Trustee issues

The Trustee Board has continued to meet virtually, conduct the business of the Trust and perform its oversight role. Everyone is now well versed in virtual meetings and it has in some ways improved the effectiveness of the Board by reducing travel costs and times and enabling advisers and staff to attend for part of the meeting if necessary. The directors' plans to meet in person in January fell by the omicron wayside but we hope to be able reconvene later in 2022 for some of our meetings although many will remain online.

Markets were calmer in 2021 and the Investment Committee met less often than during 2020. The normal quarterly meetings have been replaced by two meetings per quarter to avoid a lengthy virtual session. The directors focus on materially financial issues likely to impact risks and returns. Environmental, social and governance factors (otherwise known as ESG) can be financially material factors including climate change.

The Investment Committee has focused specifically on analysing the financial implications of climate related risks and opportunities to enable Cheviot to integrate them into our investment and business decisions. This includes reviewing and assessing the impact of climate change on investments both before investing and in reviewing performance, including ESG ratings and engagement, to assess the financial impact.

The Trustee has now agreed a bespoke net zero commitment which explicitly reflects the Trustee's fiduciary responsibilities as well as our ambition to contribute to the world's efforts to reduce global warming. You can read more about this in the Implementation Statement and the TCFD report⁸ available on our corporate website.⁹

Investment performance 2021

After a more settled first half of the year, the focus turned to increasing inflation and rises in the return from gilts. Most funds used for the final salary schemes and the With Profits Section were ahead of both short and long terms targets. Most core Money Purchase Section options were ahead or in line with short term targets and all were ahead of the long term targets.

In conclusion, our robust governance has stood us in good stead and enabled us to continue to provide a good service to members and employers.

Operational issues

The Cheviot in-house administration team is now well versed in working from home and has adapted to the various lock downs and working at home instructions during the year. The team remains accessible through our usual phone lines and email. Postal enquiries are still difficult when the office is closed and therefore we continue to encourage members to sign

⁸ Task Force on Climate-related Financial Disclosures

⁹ https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile_FILE/TCFD-report.pdf



up to electronic communications. It is important that members provide a personal email address to enable us to operate more effectively. Communications have moved largely online from April 2022.

Communications

Our new member website, www.mycheviotpension.com, was launched in June 2021. The member focused website is designed to be easier to navigate and includes a member guide booklet for members of the Money Purchase Section, together with factsheets covering the other pension arrangements provided within the Trust.

The new member portal, accessible through the member website, is now also available via an app. With robust security, it provides access to a pensions dashboard to help members of the Cheviot pension see their pension savings at a glance. It also supports the move to electronic communications as these will be delivered through the secure portal for members to access. We are working on providing access to members of the Final Salary Schemes in due course.

Cheviot pension benefit statements were redesigned in line with the simpler annual benefit statements being introduced by the Department for Work and Pensions. The statements can be printed on two sheets of paper and were accompanied by a factsheet which set out additional information.

The Report to Members included information about the new member website and benefit statements together with information about the new implementation statements which explains how the Trustee engages with investment managers on ESG issues. There was also a feature on ESG investment.

With Profits Section

The valuation of the With Profits Section at 31 December 2020 was signed in February 2022. A virtual meeting was held to explain the results to participating employers. Employers are not currently required to make contributions to the Section.

Authorised Master Trust

The Trustee submitted the annual return in respect of the Money Purchase Section by 31 March 2021 as required. The Pensions Regulator has confirmed it had no comments or questions on the return. The 2021 Annual Return was also submitted on time in March 2022. The Chair's Governance Statement for 2021, as required by the DC Code of Practice, is included on pages 45 to 71 of these accounts and sets out how the Section was managed during 2021.

Audit and Assurance Framework Report

The Report for the year ended 31 December 2021 was signed on 31 March 2022. These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a trustee governance level as well as those which relate to pensions and financial administration across the organisation. The auditors conducting the review did not identify any exceptions to the operation of the controls in place.

Sir Derek Morris

Sir Derek Morris
Chairman



Trustee's Report

Scheme constitution

The Cheviot Trust (Cheviot) has been providing occupational pensions since 1930. It is an innovative, not for profit organisation committed to providing straightforward and effective pension services to employers and members. It provides defined contribution and cash balance benefits through the **Cheviot Pension (Money Purchase and With Profits Sections)** and defined benefits through a series of individually funded schemes (**Final Salary Schemes**). All Sections benefit from shared governance, management, investment strategy and administration.

Management of the Trust

All Schemes are managed by Cheviot Trustees Limited. The structure of the Board is compliant with the governance requirements for Master Trusts. A detailed Governance Policy is in place and reviewed regularly. The Trustee uses a committee structure to undertake some of the governance requirements.

Four employer
representative
Directors

Trustees

The membership of the Cheviot Trustee Board currently comprises four employer nominated representatives, four member nominated representatives and two¹⁰ co-opted Directors. All Trustee Directors meet the fit and proper requirements of the Master Trust authorisation process. There are four professional trustees, including the Chair.

Four member
representative
Directors

Employer and Member representatives are currently appointed by the Trustee, following the relevant selection process, for a term of three years¹¹ or until a representative resigns, ceases to be eligible or the other Directors decide that the term of office should end. Directors may put themselves forward for re-appointment. Co-opted Directors are also appointed for a three year period.

Two co-opted
Directors

The term of one employer representative, Mr Ian Gault, expired in 2021. No additional candidates came forward and Mr Gault was reappointed in June 2021 after an open, fair and transparent process. A new employer representative, Stephen Jones, was appointed in April 2021 after completing the required training and fit and proper checks.

The term of two member representatives, Ms Diane Elliott-Smith and Ms Frances Longmore, expired at the end of 2021. No additional candidates came forward and Ms Elliott-Smith and Ms Longmore were re-appointed by the Board on 15 December 2021, subject to the completion of the relevant checks¹².

More information about the Trustees is available in the Chair's Statement on pages 45-71.

Audit Assurance reports

The Trust has obtained a type 2 Combined AAF 05/20 assurance report on Master Trusts and 01/20 internal controls assurance report across all Sections and Schemes and covers the period of reporting. These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a trustee governance level as well as those which relate to pensions and financial administration across the organisation.

¹⁰ One co-opted director was appointed as a member representative director on 24 March 2021.

¹¹ Or until replacement or re-appointment following the next appointment process under Article 7.7.4 after the expiry of the three year period.

¹² Completed January 2022 and ratified 30 March 2022.



Impact of COVID-19

The Cheviot in-house administration team is now well versed in working from home and has adapted to the various lock downs and working at home instructions during the year. It has now moved to a hybrid approach to working, balancing the benefits of being in the office with colleagues with the flexibility of working from home. The Trustee approved a campaign to encourage members to communicate electronically to reduce costs and our carbon footprint. Communications moved largely online in April 2022.

Trustee meetings in 2021

Four full Trustee Board meetings and seven conference calls were held during the year ended 31 December 2021. The Trustee operates a committee structure with six Committees. Each Committee has delegated powers from the Board to undertake certain business on its behalf. The Committee structure was refined during 2021 to provide more delegation to the Committees and facilitate focus on strategic issues at Board level.

The Trustee conducts its business through regular Board meetings and six Committees.

During 2021:

- The Finance and Operations Committee (formerly the Finance Committee) held four meetings;
- The Funding Committee held three meetings;
- The Investment Committee held nine meetings;
- The Legal Committee held four meetings;
- The Risk and Compliance Committee (formerly the Strategic Committee) held four meetings, and
- The Human Resources Committee held two meeting during the year.

Working parties are established for key projects.

Changes to the Trust Deed and Rules

The latest Trust Deed and Rules is dated 4 April 2017. Details of previous changes were set out in the Consolidated accounts for the relevant year.

A new Trust Deed and Rules is currently being drafted to bring the documentation up to date and in a more easily accessible format. It is expected to be signed later this year.

Cost Allocation

All generic costs are incurred by Cheviot Trustees Limited directly and then the appropriate share of those costs is invoiced to the relevant Scheme or Section, to provide transparency for both management and regulatory purposes. No change has been made to the underlying allocation basis between the Schemes and Sections for the year.

Costs incurred in respect of a specific Scheme or Section are charged directly to the relevant entity. Minimum fees are in place in respect of some professional services to ensure fairness between Schemes.

Financial statements

These financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.



The financial statements summarise the net assets of the Scheme. They do not take account of future obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the With Profits Section is shown in the Report on Actuarial Liabilities on page 37.

Financial developments in the year

The value of the net assets of the Trust as at 31 December 2021 is shown below. The 2020 numbers are shown in brackets. Further details can be found in the Fund Account.

	Cheviot Pension		Total
	Money Purchase Section	With Profits Section	
Assets at 31 December 2021	£161.4m (£142.9m)	£90.0m (£95.9m)	£251.4m (£238.8m)

The With Profits Section is relatively mature and members transfer out at retirement which has contributed to the significant reduction in assets.

Investment matters

Market Overview

Over the year to 31 December 2021 return-seeking asset classes performed extremely positively. Unprecedented levels of fiscal and monetary stimulus injected by central banks and governments around the world, the pace of the vaccination rollout programmes leading to reopening of economies had a positive effect on equity markets resulting in strong equity performance over the year. Gilt yields rose over the year and credit spreads tightened.

Strategy

The investment strategy is set out in the Statement of Investment Principles for each Scheme or Section. The With Profits Section Statement was updated in October 2020. The Money Purchase Section Statement was updated in October 2020. All statements are publicly available or can be obtained on request from Cheviot.

Each statement includes the Trustee's environmental, social and ethical policy, including associated voting rights with regards to assets which it holds directly on an annual basis. When selecting and monitoring an investment, the Trustee considers financially material factors. These are factors that could affect the long-term financial performance of investments and could (but did not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant.

The Trustee does not take non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) into account when making investment decisions on behalf of members.

Implementation statements for the With Profits and Money Purchase Sections, which set out how the Trustee has followed the policies in the Statements of Investment Principles, are available in Appendix 4 on page 72 which forms part of the Trustee's Report. Implementation Statements are included in each final salary scheme's audited accounts which also include the investment strategy for each scheme.

Statements
of
Investment
Principles
are available
on Cheviot's
website



With Profits Section strategy

The investment strategy approach for the With Profits Section of the Cheviot Pension is based on the combined covenant of the participating employers and includes a hedge against interest rate movements and inflation risks. The Investment Committee, which has significant delegated authority in relation to investment issues, implemented replacements to two of the existing derivative structures in early 2021. The third derivative in place was terminated later in the year and replaced with passive equity exposure. The derivative equity structures are designed to provide capped equity returns, whilst affording significant downside protection which protects the funding position of the Section.

Money Purchase Section strategy

The strategy for the core options used in the Cheviot Lifeplan¹³ is to target above inflation returns and, utilising a number of investment options, to provide a more stable journey for members as they progress through their lifetime of employment up to retirement. This is achieved through dynamic management of the underlying assets and by regularly reviewing investment manager performance.

The annual strategy review undertaken in May 2021 concluded that the range of options remained sufficiently broad in terms of member choice. The Trustee is working towards introducing an ESG fund to the self-select range. It also concluded that better alignment with the FCA's investment pathways at retirement would be helpful to members and are looking to introduce this in 2022.

Detailed investment performance information is shown in Appendix 1 – Investment Performance on page 41.

Management and custody of assets

Most assets are held on an investment platform with Mobius Life which provides custody services and invests in the underlying managers who manage the investments according to their written mandates. This structure enabled the Trustee to adopt a dynamic approach in managing return seeking assets. Asset allocation was reviewed at least monthly.

The With Profits Section also holds a portfolio of swaps to provide a liability hedge in respect of movements in interest rates and inflation. The custody of the swaps is managed by Caceis Bank.

Detailed investment performance information is shown in Appendix 1 – Investment Performance on page 41.

Environmental, social and governance factors

When selecting and monitoring an investment the Trustee will consider financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change.

The Trustee has been considering the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Trustee also considers those elements of the investment strategy where the fundamental investment objective is short term in nature and where taking account of ESG factors is unlikely to influence investment performance.

¹³ The default option for the purposes of the legislation

The Chair's Statement includes more information and is available online.

Most assets are held on an investment platform



Since the underlying investment funds used are pooled products (i.e. funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors or give directions on stewardship such as how voting rights are used.

The primary way the Trustee considers long term financial performance including ESG factors and stewardship is through advice from the Investment Adviser and its engagement with investment managers. This enables the Trustee to understand the managers' investment approach in relation to such matters (where appropriate).

Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. Such factors may also be important criteria for considering the replacement of a manager. Once a manager is appointed, the Trustee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and use its Investment Adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate).

More information about how the Trustee implements the policies in the Statement of Investment Principles is available in the Implementation Statements in Appendix 4 on page 72.

Non-financial material factors

The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) when making investment decisions on behalf of members as there is not likely to be a common view on any ethical matters amongst members; but makes available two funds, one consistent with Shariah principles and one reflecting a particular ethical approach, which aim to satisfy certain sets of beliefs. These are available to all members. The Investment Committee is also considering introducing an ESG fund for members to self-select. The Trustee has no plans to seek the views of the membership on ethical considerations at the current time.

Task Force on Climate-related Financial Disclosures

The Trustee has prepared a report setting out its approach to climate related financial disclosures as required by the Task Force on Climate-related Financial Disclosures (TCFD). This report can be found on the Cheviot Trust website https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile_FILE/TCFD-report.pdf

Change in legal advisers

The Trustee put the legal work out to tender in 2021. The process was managed by the Legal Committee. The Legal Committee agreed to expand the scope of work undertaken by Pinsent Masons LLP to include all core work and the scope of Arc Pensions Law to include transactional and With Profit Section work in addition to investment work. Norton Rose Fulbright LLP has ceased to act for the Trust.



Membership

Total membership of the Cheviot Pension, including Life Assurance Only members, was 7,549¹⁴ as at 31 December 2021. Individual members belong to one or more of the With Profits, Money Purchase and Life Cover Sections of the Cheviot Pension. Individual membership of each Section of the Cheviot Pension as at 31 December 2021 was as follows:

With Profits Section

31 December 2021				
	Active	Deferred	Pensioner	Total
	-	2,358	736	3,094

Money Purchase Section

31 December 2021				
	Active	Deferred	Pensioner	Total
	1,728	3,332	-	5,060

Life Cover Section

31 December 2021				
		With Pension benefits	Life Cover Only	Total
		201	526	727

Summary of contributions

A summary of contributions as required is on page 36.

Collection of contributions

Procedures are in place to monitor the collection of contributions to ensure they are paid across to Cheviot on an accurate and timely basis for the Cheviot Pension.

Employers are required to upload their schedules to a secure website. The schedule and contributions received are then checked and discrepancies raised with the employers.

Benefit statements issued annually to members show pensionable salaries to enable members to carry out their own checks. The contribution rates for members and participating employers are governed by the Scheme rules and vary between employers.

No contributions are currently due to the With Profits Section of the Cheviot Pension.

Pension increases

Since the provision of flexible benefits at retirement, including drawdown, the Money Purchase Section now pays both regular and irregular income to some members from their account. These payments are described as pensions in these accounts but are not guaranteed.

Pensions are paid from the With Profits Section in respect of members who retired before 1 July 2005. Pensioners selected the level of increase for their pension at retirement. The choices varied depending on the date of retirement but included increasing by discretionary bonuses, fixed increases and increases in line with Limited Price Indexation.

¹⁴ Members are only shown once even if they have benefits in more than one Section.



No bonuses have been awarded. Pensioners eligible for increases in line with Limited Price Indexation received an increase of 0.6% in July 2021. Fixed increases were paid in line with the Scheme Rules.

Transfer values

In accordance with the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996, members of the Cheviot Pension are able to make a transfer payment either to the Scheme of their new employer or to any other approved pension arrangement of their choice.

Cash equivalent transfer values paid during the year have been calculated and verified in accordance with the requirements of the Pensions Schemes Act 1993. No allowance has been made for discretionary increases in benefits.



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 end;
- 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; and
- are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis. 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 them 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 controls.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and, if necessary, revising schedules 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 schedules of contributions. Where breaches of the schedules occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

This Trustee's Report was approved by the Trustee on 29 July 2022 and signed on behalf of the Trustee by:

Sir Derek Morris

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Sir Derek Morris

Chairman



Independent Auditor's Report to the Trustee of the Cheviot Pension

Opinion

We have audited the financial statements of the Cheviot Pension ("the Scheme") for the year ended 31 December 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2021, 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; 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. 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

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, 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 intend to wind up the Scheme or has 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.
- Non-receipt of contributions due to the Scheme from the Employers. This is addressed by testing contributions due are paid to the Scheme in accordance with the Schedule of Contributions and Payment Schedules agreed between the Employers and the Trustee.
- Payment of large transfers out to invalid schemes or members. This is addressed through testing that for a sample there is evidence the receiving scheme is valid, the member identity is verified and of the authorisation of the amount and approval of the payment of the transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance



with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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 Regulation 3 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 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.

Crowe U.K. LLP

Crowe U.K. LLP

Statutory Auditor
London

Date: 29 July 2022



Fund Account

for the year ended 31 December 2021

		2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Total
	Note	£'000	£'000	£'000	£'000	£'000
Contributions and benefits						
Employer contributions		3,291	-	-	3,291	3,259
Employee contributions		3,262	-	-	3,262	3,003
Total contributions	5	6,553	-	-	6,553	6,262
Transfers in and other income	6	2,737	-	100	2,837	3,031
		9,290	-	100	9,390	9,293
Benefits payable	7	2,801	3,735	100	6,636	6,569
Payments to and on account of leavers	8	2,606	2,870	-	5,476	6,117
Administrative expenses	9	389	1,455	-	1,844	1,766
		5,796	8,060	100	13,956	14,452
Net additions/(withdrawals) from dealings with members						
		3,494	(8,060)	-	(4,566)	(5,159)
Returns on investments						
Investment income	10 12,	617	1,538	-	2,155	2,031
Change in market value of investments	13	14,306	950	-	15,256	11,869
Investment management expenses	15	-	(237)	-	(237)	(319)
Net returns on investments		14,923	2,251	-	17,174	13,581
Net movement in the fund during the year						
		18,417	(5,809)	-	12,608	8,422
Net assets of the scheme:						
At 1 January		142,953	95,853	-	238,806	230,384
At 31 December		161,370	90,044	-	251,414	238,806

The notes on pages 20 to 34 form part of these financial statements.



Statement of Net Assets (available for benefits)

at 31 December 2021

	Note	2021 £'000	2020 £'000
Money Purchase Section			
Investment assets			
Pooled investment vehicles	13	160,792	142,197
Other investment balances		41	13
		160,833	142,210
Current assets	16	624	828
Current liabilities	17	(87)	(85)
Net assets as at 31 December		161,370	142,953

	Note	2021 £'000	2,020 £'000
With Profits Section			
Investments			
Investment assets	12		
Pooled investment vehicles		60,760	59,277
Bonds		23,480	23,848
Derivatives		6,790	13,788
Accrued fixed interest on securities		66	194
Cash		26	23
		91,122	97,130
Investment liabilities			
Derivatives		(1,734)	(2,181)
		89,388	94,949
Current assets	16	811	1,191
Current liabilities	17	(155)	(287)
Net assets as at 31 December		90,044	95,853

	Note	2021 £'000	2,020 £'000
Life Cover Section			
Current assets	16	40	100
Current liabilities	17	(40)	(100)
Net assets as at 31 December		-	-
Total net assets as at 31 December		251,414	238,806



The notes on pages 20 to 34 form part of these financial statements.

These 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 liabilities to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the With Profits Section of the Scheme, which does take account of such liabilities, is dealt with in the Report on Actuarial Liabilities on page 37 and these financial statements should be read in conjunction with that report.

These financial statements were approved by the Trustee on 29 July 2022 and signed on behalf of the Trustee by:

Sir Derek Morris

.....

Sir Derek Morris

Chairman

Elsbeth McKinnon

.....

Elsbeth McKinnon

Director



Notes to the Financial Statements

(forming part of the financial statements)

1. Basis of preparation

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

The net assets of the Cheviot Pension are held in three sections, With Profits, Money Purchase and Life Cover. The financial statements break down the assets of the Cheviot Pension between the three sections.

2. Identification of the financial statements

The Scheme is established as a trust under English Law. The address for enquiries to the Scheme is on the front cover of these Annual Report and Accounts.

3. Tax status of the Scheme

The Scheme is an exempt approved scheme under Chapter 2, Part 4 of the Finance Act 2004 and is therefore exempt from income tax, capital gains tax and certain withholding taxes. To the Trustee's knowledge, there is no reason why such approval should be prejudiced or withdrawn.

4. Accounting policies

The following accounting policies are adopted by the Scheme:

(a) Scheme financial statements

The financial statements comprise the financial statements of the Scheme together with its subsidiary company using the single-line equity method of accounting, considered to be the fair value of the subsidiary. Separate financial statements excluding its subsidiary have not been prepared for the Scheme.

(b) Contributions

Contribution income reflects contributions receivable up to 31 December.

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.

The rates of contributions for members and participating employers of the Money Purchase Section are governed by the Scheme rules and vary between employers.

No contributions are currently due in respect of the With Profits Section.



(c) Investment income

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

Income from fixed interest securities (such as gilts), annuity income and interest receivable on cash deposits are all accounted for on an accruals basis.

Receipts or payments under swap contracts represent the difference between the swapped cashflows.

(d) Investment management expenses

Where investments are held in pooled investment vehicles, the investment manager takes his fees from the fund and consequently they are not shown separately in the Fund Account, but are included within the change in market value of investments. Other investment managers' expenses are accounted for on an accruals basis.

(e) Investments

Investments other than subsidiary undertakings are valued as follows:

- i. Fixed interest securities are valued at bid market values or the official closing price ruling at the year end date.
- ii. Pooled investment vehicles are valued at the bid market values for funds with bid/offer spreads, or a single price where there are no bid/offer spreads, as provided by the relevant investment manager on the last dealing day prior to the year-end date.
- iii. Swaps are valued at the net present value of future cash flows arising therefrom. The amounts included in the change in market value are the unrealised gains or losses on open contracts.
- iv. Options are valued at their mark to market value. If a quoted market price is not available on a recognised exchange the fair value is calculated using pricing models, where inputs are based on market data at the year end date.

(f) Financial Reserve

In order to meet the financial sustainability requirements for Master Trusts, there is a Financial Reserve in the Money Purchase Section of the Cheviot Pension. The Financial Reserve holds funds which are not allocated to a member's Money Purchase Account. The Trustee may at its discretion utilise any funds for the general purposes of the Money Purchase Section.

(g) Foreign currency

Investments denominated in foreign currencies are translated into their sterling equivalent at the rates applicable at the year-end. The functional and presentational currency is sterling.

(h) Benefits and transfers

Benefits, including the purchase of annuities, are accounted for on an accruals basis and are therefore reported on the later of the leaving date and the date on which any option is communicated to the Trustee. 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.



5. Contributions receivable

	2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Money Purchase	2020 With Profits	2020 Life Cover	2020 Cheviot Pension Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employers								
Normal	3,291	-	-	3,291	3,259	-	-	3,259
Employees								
Normal	3,235	-	-	3,235	2,967	-	-	2,967
AVCs	27	-	-	27	36	-	-	36
	6,553	-	-	6,553	6,262	-	-	6,262

6. Transfers in and other income

	2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Money Purchase	2020 With Profits	2020 Life Cover	2020 Cheviot Pension Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Individual transfers in from other schemes	787	-	-	787	783	-	-	783
Individual transfers between Sections	1,950	-	-	1,950	1,956	-	-	1,956
Claims on term insurance policies	-	-	100	100	-	-	292	292
	2,737	-	100	2,837	2,739	-	292	3,031

During the year, individuals transferred from the With Profits Section of the Cheviot Pension to the Money Purchase Section of the Cheviot Pension to enable them to access their retirement benefits flexibly.

7. Benefits payable

	2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Money Purchase	2020 With Profits	2020 Life Cover	2020 Cheviot Pension Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	218	2,797	-	3,015	177	3,007	-	3,184
Commutation of pensions	2,193	641	-	2,834	1,834	819	-	2,653
Payments on death	390	297	100	787	421	19	292	732
	2,801	3,735	100	6,636	2,432	3,845	292	6,569



8. Payments to and on account of leavers

	2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Money Purchase	2020 With Profits	2020 Life Cover	2020 Cheviot Pension Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Individual transfers to other schemes	2,323	2,870	-	5,193	2,247	3,712	-	5,959
Purchase of annuities	283	-	-	283	141	17	-	158
	2,606	2,870	-	5,476	2,388	3,729	-	6,117

An amount of £1,870k (2020: £1,982k) is included within the transfers to other schemes figure of £2,870k (2020: £3,712k), this was transferred to the Money Purchase Section of the Cheviot Pension to enable the members to access their retirement benefits flexibly.

9. Administrative expenses

	2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Money Purchase	2020 With Profits	2020 Life Cover	2020 Cheviot Pension Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Legal fees	7	1	-	8	14	17	-	31
Audit fees	34	28	-	62	30	24	-	54
Administration fees	282	1,247	-	1,529	244	1,167	-	1,411
Professional fees	22	149	-	171	22	160	-	182
Other expenses	2	7	-	9	2	8	-	10
Irrecoverable VAT	33	-	-	33	38	-	-	38
TPR Levy	9	23	-	32	8	32	-	40
	389	1,455	-	1,844	358	1,408	-	1,766

10. Investment income

	2021 Money Purchase	2021 With Profits	2021 Life Cover	2021 Cheviot Pension Total	2020 Money Purchase	2020 With Profits	2020 Life Cover	2020 Cheviot Pension Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income from fixed interest securities	-	1,538	-	1,538	-	1,086	-	1,086
Fee income deducted from investments	617	-	-	617	573	-	-	573
Other investment income	-	-	-	-	-	372	-	372
	617	1,538	-	2,155	573	1,458	-	2,031



The Money Purchase Section of the Cheviot Pension invests in blended funds on the Mobius Life investment platform. Charges of £617k (2020: £573k) were deducted from the blended funds during 2021 to meet Cheviot's administration, governance and professional adviser costs.

In 2019 the With Profits Section exited the JO Hambros fund. Subsequently the With Profits Section received dividends from JO Hambro of £372k. This is disclosed as other investment income.

11a. Fair value determination

The investments have been analysed according to the basis on which the fair value has been determined. The best evidence of fair value is a quoted price of an active security on a recognised exchange and thus falling into the top category, (Level 1). The greatest amount of judgement is involved where a fair value is based on valuation techniques and such investments fall into the bottom category (Level 3). The basis of the fair value hierarchy is described in more detail below:

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



11b. Fair Value Hierarchy Analysis

The Scheme's investments have been analysed using the above hierarchy categories as follows:

	At 31 December 2021			Total £'000
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	
Money Purchase Section:				
Pooled investment vehicles	-	160,792	-	160,792
Cash and cash in transit	41	-	-	41
With Profits Section:				
Pooled investment vehicles	-	60,760	-	60,760
Bonds	-	-	23,480	23,480
Derivatives	-	-	5,056	5,056
Cash and cash in transit	26	-	-	26
Accrued interest on fixed interest securities	66	-	-	66
	133	221,552	28,536	250,221

	At 31 December 2020			Total £'000
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	
Money Purchase Section:				
Pooled investment vehicles	-	142,197	-	142,197
Cash and cash in transit	13	-	-	13
With Profits Section:				
Pooled investment vehicles	-	59,277	-	59,277
Bonds	-	-	23,848	23,848
Derivatives	-	-	11,607	11,607
Cash and cash in transit	23	-	-	23
Accrued interest on fixed interest securities	194	-	-	194
	230	201,474	35,455	237,159

12. Investments – With Profits Section

(a) Purchases, sales and change in value

	Market Value at 1 January 2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Market Value at 31 December 2021 £'000
Pooled investment vehicles	59,277	6,515	(8,097)	3,065	60,760
Fixed interest securities	23,848	59,551	(59,079)	(840)	23,480
Derivative contracts	11,607	366	(5,642)	(1,275)	5,056
	94,732	66,432	(72,818)	950	89,296
Cash deposits	23				26
Accrued interest on fixed interest securities	194				66
Total	94,949				89,388

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.

Other than those disclosed in Investment Management Expenses, direct transaction costs of investment incurred during the year to 31 December 2021 were £0 (2020: £0). Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles, and are reflected within the change in market value of the investment.

(b) Holdings – With Profits Section (pooled investment vehicles)

		Value 31 December 2021 £'000	Value 31 December 2020 £'000
Mackay Shields	TALF 2.0 Opportunities Feeder Fund	-	1,766
Mobius Life	With Profits Investment Fund (blended)	25,865	22,565
Marshall Wace	Alternatives (equities)	5,533	5,218
Phoenix Investment Adviser LLC	Stressed Debt Fund	30	45
PIMCO	Diversified Income (bonds)	9,436	9,807
RLAM	Hedged Credit Fund (bonds)	19,896	19,876
Total		60,760	59,277

Concentration of Investments – With Profits Section

The concentration of assets held within the blended Investment Fund at Mobius Life was as follows:

	2021	2020
Equity	72.9%	72.7%
Bonds	12.0%	10.8%
Alternatives	9.1%	11.2%
Cash	6.0%	5.3%
TOTAL	100.0%	100.0%

The investments at the year end which are more than 5% of the total value of the net assets of the Scheme comprise:

	2021		2020	
Holding	£'000	%	£'000	%
Mobius LGIM North America Equity Index GBP Hedged	7,831	8.76	1,007	1.70
Mobius LGIM All Stocks Gilt Index	6,463	7.23	4,837	8.16
Marshall Wace Systematic Alpha UCITS Fund	5,534	6.19	5,219	8.80
Pimco Diversified Income Duration Hedge	9,436	10.56	9,807	16.54
Royal London Asset Management Duration Hedged Credit Fund	19,896	22.26	19,876	33.53

(c) Derivatives

At the year end the With Profits Section of the Cheviot Pension had the following derivatives:

	2021		2020	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps (Note c(i))	4,235	(1,734)	12,772	(2,211)
Equity Derivative Overlay Strategy (Note c(ii))				
- Equity Options	2,555	-	1,016	-
- Asset Swap	-	-	-	30
	6,790	(1,734)	13,788	(2,181)

Objectives and policies

The Trustees have authorised the use of derivatives by their investment managers as part of their investment strategy for the With Profits Section of the Cheviot Pension as follows:

The Global Equity Derivative Overlay strategy aims to achieve shaped equity market returns where extreme upside equity returns are forgone in return for the downside being limited against the majority of significant market falls. This is expected to provide a greater certainty of returns within the Investment Fund.

The Trustee aims to match the Liability Driven Investment (LDI) portfolio and the With Profits Section of the Cheviot Pension's long term liabilities, in particular in relation to their sensitivities to interest rate movements and inflation. The Trustee has entered into Over The Counter (OTC) interest rate swaps during the year, that extend the duration of the fixed income portfolio to better match the long term liabilities of the With Profits Section of the Cheviot Pension.

(c) (i) Swaps

The risk of bond prices increasing is managed via a liability hedge overlay, which uses a portfolio of interest rate swaps (derivative contracts) to mirror the projected movement in the liabilities over time based on the growth in accounts as measured by the Actuary. This overlay provides exposure of 100% of the value of the With Profits Section's liabilities as measured on an actuarial basis.

A portfolio of inflation swaps manages the risk of inflation rate increases. These swaps provide protection against 100% of the total economic exposure to inflation rate changes within the With Profits Section's liabilities.

Details of the contracts in place at 31 December 2021 are set out below. The notional principal of the swap is the amount used to determine the value of swapped interest or inflation receipts and payments.



	Expiration	Notional Principal £'000	Asset Value £'000	Liability Value £'000
Interest rate swaps				
Floating for fixed (LIBOR)	06 February 2024	2,500	19	-
Floating for fixed (LIBOR)	02 April 2024	5,500	-	(14)
Floating for fixed (LIBOR)	13 June 2024	17,700	345	-
Floating for fixed (LIBOR)	22 June 2025	1,180	-	(41)
Floating for fixed (LIBOR)	14 October 2025	9,470	-	(1,314)
Floating for fixed (LIBOR)	06 February 2029	6,000	132	-
Floating for fixed (LIBOR)	02 April 2029	9,700	45	-
Floating for fixed (LIBOR)	13 June 2029	4,500	3,159	-
Floating for fixed (LIBOR)	22 June 2030	1,260	-	(78)
Floating for fixed (LIBOR)	14 October 2030	4,100	-	(287)
Floating for fixed (LIBOR)	06 February 2034	2,500	116	-
Total Interest rate swaps 2021		64,410	3,816	(1,734)
Total Interest rate swaps 2020		81,614	12,692	(1,741)
	Expiration	Notional Principal £'000	Asset Value £'000	Liability Value £'000
Inflation rate swaps				
Floating for fixed (RPI)	18 October 2022	4,049	114	-
Floating for fixed (RPI)	24 February 2025	1,032	69	-
Floating for fixed (RPI)	18 October 2027	2,404	236	-
Total Inflation rate swaps 2021		7,485	419	-
Total Inflation rate swaps 2020		13,695	80	(470)
Total Swaps 2021		71,895	4,235	(1,734)
Total Swaps 2020		95,309	12,772	(2,211)

(c) (ii) Equity Derivative Overlay Strategy

Details of the contracts in place at 31 December 2021 are set out below:

	Expiration	Notional Principal £'000	Market Value £'000
Equity index options			
EDOS 9	12 February 2024	10,137	1,233
EDOS 10	12 February 2024	6,758	735
EDOS 11	13 May 2022	9,994	587
Total 2021			2,555
Total 2020			1,046



Both EDOSs comprise of an investment in gilts plus an asset swap (cash component) and a portfolio of equity options. The objective is to produce a return of at least 5% per annum in excess of the compounded six month sterling LIBOR return over the period.

(c) (iii) Collateral

Collateral held in the form of gilts of £5.3m (2020: £11.4m) was held at the year-end with Cheviot's Custodian in the event of a default by the counterparties to the swaps and equity overlay strategy. The collateral position is reviewed on a daily basis to ensure that exposure to default by the counterparty is kept to a minimum.

13. Investments - Money Purchase Section

	Market Value at 1 January 2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Market Value at 31 December 2021 £'000
Money Purchase Section:					
Pooled investment vehicles	141,653	26,410	(22,363)	14,306	160,006
Cash reserve	-	216	-	-	216
Financial reserve	544	26	-	-	570
	142,197	26,652	(22,363)	14,306	160,792
Other investment balances	13				41
Cash deposits	-				-
Total	142,210				160,833

As part of the Master Trust Application the Money Purchase Section is required to hold a Financial Reserve which is not allocated to members. This is invested within the Cash Fund £570k (2020: £544k).

The Money Purchase Section created a Cash Reserve during the year which is not allocated to members. This is invested within the Cash Fund £216k (2021: £0).

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. No associated costs are incurred on the sale of investments, with proceeds being calculated at the appropriate market rate on the day of disinvestment.

Investments held by the Section are allocated to provide benefits to the individuals on whose behalf contributions have been paid. The investments are unitised and the Section's administrator allocates investment units to members.

The assets of the Money Purchase Section of the Cheviot Pension are designated to members and do not form a common pool of assets available to members. Members' AVC funds are included within Pooled Investment Vehicles and are not separately identifiable.



(b) Holdings – Money Purchase Section (pooled investment vehicles)

		Value 31 December 2021 £'000	Value 31 December 2020 £'000
Mobius Life	Cheviot Growth (blended)	29,744	25,495
Mobius Life	Cheviot Moderate (blended)	71,499	63,144
Mobius Life	Cheviot Cautious (blended)	34,336	30,200
Mobius Life	Cheviot Retirement Planning (blended)	18,003	16,956
Mobius Life	Cash Fund (blended)	6,075	5,453
Mobius Life	Annuity Protection (blended)	360	349
Mobius Life	Mobius (Islamic Global Equity)	15	-
Mobius Life	Mobius (Ethical Global Equity)	13	4
Mobius Life	Mobius (UK Equity)	13	3
Mobius Life	Mobius (Emerging Markets)	41	2
Mobius Life	Mobius (Global Equity)	80	3
Mobius Life	Low Cost (blended)	613	588
Total		160,792	142,197

(c) Concentration of Investments – Money Purchase
Section

The concentration of assets held within the blended long term investment options at Mobius Life at 31 December 2021 is as follows:

	Growth	Moderate	Cautious	Retirement Planning	Cash	Annuity Protection	Low Cost
Equity	80.4%	69.6%	47.7%	47.7%	0.0%	0.0%	68.3%
Bonds	12.3%	15.8%	17.6%	17.6%	0.0%	0.0%	8.9%
Gilts	4.7%	9.4%	26.9%	26.9%	0.0%	100.0%	22.8%
Cash	2.6%	5.2%	7.8%	7.8%	100.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The concentration of assets held within the blended long term investment options at Mobius Life at 31 December 2020 is as follows:

	Growth	Moderate	Cautious	Retirement Planning	Cash	Annuity Protection	Low Cost
Equity	77.5%	64.8%	42.1%	42.1%	0.0%	0.0%	63.3%
Bonds	16.4%	23.0%	26.6%	26.6%	0.0%	0.0%	10.5%
Gilts	3.3%	6.5%	22.8%	22.8%	0.0%	100.0%	26.2%
Cash	2.8%	5.7%	8.5%	8.5%	100.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



The investments at the year end which are more than 5% of the total value of the net assets of the Scheme comprise:

Holding	2021		2020	
	£'000	%	£'000	%
BLK Life AQC Corporate Bond All Stocks	10,038	6.24	21,618	15.20
BLK IM Institutional Sterling Liquidity	8,681	5.40	8,198	5.77
BLK Life AQC Emerging Markets Equity	16,884	10.50	15,024	10.57
BNY Mellon Efficient US High Yield Beta Fund L Hedged Inc	13,813	6.77	9,632	6.77
L&G Life EE North America Equity Index - GBP Currency Hedged Fund	26,155	16.27	19,586	13.77
L&G Life S North America Equity Index Fund	26,705	16.61	19,543	13.74

14. Investment risk disclosures

Investment strategy

With Profits Section

The investment objective for the With Profits Section is to achieve a stable level of return which will enable the Trustee to pay all the promised benefits and reduce the level of on risk assets in the future. The Trustee takes into account the following risks; mortality risk, guaranteed returns on contributions, interest rate and inflation risk, sponsor risk and investment risk.

An Investment Fund/Matching Fund/Credit Fund structure is adopted for the management of asset allocation. The strategic allocation to each fund is reviewed as part of each triennial valuation or more frequently if necessary. The allocation is based on an assessment of the strength of the combined employers' covenant and advice from the Investment Adviser. The strategy is set out in the Statement of Investment Principles.

The asset allocation of the Investment and Credit Funds are reviewed at least monthly. The review process includes a review of the risks identified below.

Money Purchase Section

The primary investment objectives for the Money Purchase Section are to provide a range of suitable investment options for members to select both before and after retirement and to provide a default plan to take the appropriate level of risk for members depending on their age and planned retirement date.

The primary investment objective for each long and medium term investment option is to achieve an inflation-related return over a five year period. The secondary objective, other than for the Low Cost option, is to provide those returns with less fluctuation in value than the markets. The investment objective for the short term options is to achieve a return consistent with its stated asset class.

The asset allocation of the long and medium term investment options are reviewed at least monthly. The review process includes a review of the risks identified as inflation risk, pension conversion risk and capital protection risk.

Credit Risk

The Cheviot Pension is directly and indirectly exposed to credit risks through its holdings in pooled investment vehicles which hold bonds, derivatives (through exposure to the counterparties) and cash. The value of the underlying assets exposed to credit risk at the year-end was £95.2m (2020: £100.4m). The holdings are unrated as they are held in pooled investment vehicles. The majority of underlying assets are investment grade bonds (30%), high yield non-investment grade bonds (20%) and gilts (33%). The Trustee regularly monitors the underlying split.



The direct credit risk for all sections of the Scheme is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environment in which the pooled managers operate and the diversification of Trust assets across a number of pooled funds.

Pooled investment arrangements used by the Scheme comprise units in open ended credit investment funds of £34.9m (2020: £36.7m) and unit linked insurance contracts £186.6m (2020: £164.8m).

The With Profits Section is also exposed to direct credit risk in respect of the investments in fixed interest securities and derivatives. The credit risk for the fixed interest securities is mitigated by controls on the ratings of these holdings. Credit risk in respect of the derivatives held is reduced by collateral arrangements in place with the counterparty.

Currency Risk

The Cheviot Pension is indirectly exposed to currency risk through its holdings in pooled investment vehicles which include global equities and overseas bonds.

The value of the assets exposed to currency risk at the year-end for the With Profits Section of the Cheviot Pension was £14.5m global equities, £10.9m overseas bonds, (2020: £8.2m global equities and £16.5m overseas bonds) and for the Money Purchase Section of the Cheviot Pension was £93.8m global equities, £13.8m overseas bonds, (2020: £84.4m global equities and £9.6m overseas bonds).

The Trustee's policy for the With Profits Section of the Cheviot Pension is to hedge approximately 50% of the currency risk through investing in hedged pooled vehicles. The proportion of assets in hedged pooled vehicles at the year-end was 100% (2020: 89%).

The proportion of assets in hedged pooled investment vehicles in the Money Purchase Section of the Cheviot Pension was 50% (2020: 43%).

Interest rate and inflation rate risk

The Cheviot Pension is indirectly exposed to interest rate and inflation risk through its holdings in pooled vehicles which holds bonds and cash. It also holds swaps in pooled vehicles to offset the impact of interest rate and inflation on the cost of providing the benefits. The Cheviot Pension is also directly exposed to interest rate and inflation rate risk through directly held fixed interest securities and swaps in the With Profits Section.

	2021 £m	2020 £m
Money Purchase Section	53.0	53.0
With Profits Section	45.8	50.8
	98.8	103.8

Other Price Risk

The Cheviot Pension is indirectly exposed to other price risk through its holdings in pooled vehicles which hold equities. The value of the assets exposed to other price risk at the year-end was:

	2021 £m	2020 £m
Money Purchase Section	99.2	89.1
With Profits Section	14.9	8.5
	114.1	97.6



The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

The Trustee regards hedge funds as an asset class in their own right and do not monitor other price risk at the underlying investment level.

15. Investment management expenses

	2021 Money Purchase £'000	2021 With Profits £'000	2021 Life Cover £'000	2021 Cheviot Pension Total £'000	2020 Money Purchase £'000	2020 With Profits £'000	2020 Life Cover £'000	2020 Cheviot Pension Total £'000
Investment management fees	-	237	-	237	-	319	-	319
Total	-	237	-	237	-	319	-	319

Investment management fees for some investment holdings are paid by unit deduction or price adjustment and are not included above.

16. Current assets

	2021 Money Purchase £'000	2021 With Profits £'000	2021 Life Cover £'000	2021 Cheviot Pension Total £'000	2020 Money Purchase £'000	2020 With Profits £'000	2020 Life Cover £'000	2020 Cheviot Pension Total £'000
Contributions due								
Employers	229	-	-	229	210	-	-	210
Employees	229	-	-	229	204	-	-	204
Cash balances	113	693	-	806	308	1,037	-	1,345
Prepayments and accrued income	-	7	-	7	-	5	-	5
Other debtors	53	-	-	53	106	7	-	113
Amounts due from related parties (Note 18)	-	111	40	151	-	142	100	242
Total	624	811	40	1,475	828	1,191	100	2,119

Employer and employee contributions due at the year-end were subsequently paid to the Scheme in all material respects within the timescale set out in the relevant Payment Schedules.



17. Current liabilities

	2021 Money Purchase £'000	2021 With Profits £'000	2021 Life Cover £'000	2021 Cheviot Pension Total £'000	2020 Money Purchase £'000	2020 With Profits £'000	2020 Life Cover £'000	2020 Cheviot Pension Total £'000
Amounts due to related parties (Note 18)	(9)	-	-	(9)	(20)	-	-	(20)
Benefits payable								
Retirement	(4)	(14)	-	(18)	(11)	(9)	-	(20)
Other accruals	(46)	(85)	-	(131)	(39)	(116)	-	(155)
Other creditors including taxation and social security	(28)	(56)	(40)	(124)	(15)	(162)	(100)	(277)
Total	(87)	(155)	(40)	(282)	(85)	(287)	(100)	(472)

18. Related party transactions

All generic costs are incurred by Cheviot Trustees Limited directly and the relevant share of those costs invoiced to the relevant Scheme or Section.

Costs incurred in respect of a specific Scheme or Section will continue to be charged directly to the relevant entity.

At the year end Cheviot Trustees Limited was owed:

- Money Purchase Scheme £9k (2020: £20k)

At the year end the With Profits Section of the Cheviot Pension was owed:

- Cheviot Trustees Limited £111k (2020: £142k)

At the year end the Life Cover Section of the Cheviot Pension was owed:

- Cheviot Trustees Limited £40k (2020: £100k)

These amounts have been paid subsequent to the year end. There were no other related party transactions other than those disclosed in the financial statements.

19. Employer related investment

There were no employer related investments at the end of the year (2020: £0).



Independent auditor's statement about contributions to the Trustee of the Cheviot Pension

Statement about contributions payable under the Schedule of Contributions and Payment Schedules

We have examined the summary of contributions payable to the Cheviot Pension ("the Scheme"), for the year ended 31 December 2021 which is set out on page 36.

In our opinion contributions for the year ended 31 December 2021 as reported in the summary of contributions and payable under the Schedule of Contributions and Payment Schedules have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary in July 2018 in respect of the With Profits Section and with the Payment Schedules agreed with the participating employers in respect of the Money Purchase Section.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions and Payment Schedules. 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 Schedule of Contributions and Payment Schedules.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions and Payment Schedules which set out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employers and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employers in accordance with the Schedule of Contributions and Payment Schedules.

Auditor's responsibilities for the statement about contributions

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.

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, 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 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 statement about contributions 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 for the opinion we have formed.

Crowe U.K. LLP

Crowe U.K. LLP

Statutory Auditor

London

Date: 29 July 2022



Summary of Contributions

Summary of contributions payable in the year

During the year, the contributions payable to the Scheme by the Employers under the Schedule of Contributions and Payment Schedules were as follows:

	£'000
Employer normal contributions	3,291
Member normal contributions	3,235
Total	<u>6,526</u>

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

	£'000
AVCs	27
Total contributions as per note 5 on page 22	<u>6,553</u>

This Summary of Contributions was approved by the Trustee on 29 July 2022 and signed on behalf of the Trustee by:

Sir Derek Morris

.....

Sir Derek Morris
Chairman



Report on Actuarial Liabilities of the With Profits Section of the Cheviot Pension

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 ongoing liabilities. The ongoing liabilities represent the present value of the benefits members are entitled to, based on pensionable service at the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the With Profits Section of the Cheviot Pension was carried out as at 31 December 2020. This showed that on that date:

The value of the ongoing liabilities was: £95.5 million

The value of the assets at that date was: £95.9 million

The method and significant actuarial assumptions used to determine the liabilities are as follows:

The valuation has been carried out on a "market-related" basis. This means that assets are taken into account at their market value. For comparison with the assets, a consistent measure is needed for the liabilities that are expected to arise in respect of benefits already earned at the valuation date - otherwise known as the "ongoing liabilities".

A summary of the key assumptions used for the valuation is included in Appendix 2 – Actuarial Assumptions on page 43.



Schedule of Contributions and Actuarial Certificate



Schedule of contributions

The With Profits Section of the Cheviot Pension

This schedule of contributions has been prepared by the Board of Cheviot Trustees Limited (the "Trustee") after obtaining the advice of Peter Black the actuary to the Cheviot Pension (the "Scheme").

This schedule covers the period from 18th February 2022 to 18th February 2027.

Contributions by With Profits Employers

Shortfall in funding

The scheme funding valuation as at 31 December 2020 revealed a funding surplus. No contributions are required from the With Profits Employers¹ in respect of the scheme.

Expenses

The expenses of the Section, including the Pension Protection Fund levy, are met from the Section's assets.

The above contribution rates are subject to review at the next scheme funding valuation of the Section.

Signed on behalf of the Trustee

Date

18th February 2022

Elspeth McKinnon



Actuary's certification of schedule of contributions

The With Profits Section of the Cheviot Pension

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2020 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 February 2022.

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 Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature

Peter Black

Date

18 February 2022

Name

Peter Black

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

Tempus Court
Onslow Street
Guildford
GU1 4SS

Employer

XPS Pensions Limited



Schedule of Contributions – the Cheviot Pension

This schedule of contributions has been prepared by the Board of Cheviot Trustees Limited ("the Trustee") after obtaining the advice of Jonathan Punter the actuary to the Cheviot Pension ("the Scheme"). It sets out the contributions the With Profits Employers¹ must pay in respect of the With Profits Section of the Scheme ("the Section") and the dates these contributions must be paid to the Trustee.

This schedule covers contributions payable in the period from 1 July 2018 to 30 June 2023.

Contributions by With Profits Employers

Shortfall in funding

The scheme funding valuation as at 31 December 2017 revealed a funding surplus, and so no such contributions are payable.

Expenses

The expenses of the Section, including the Pension Protection Fund levy, are met from the Section's assets.

Notes

Nothing in this Schedule shall prevent any With Profits Employer paying contributions in addition to those payable in accordance with this Schedule.

The above contribution rates are subject to review at the next scheme funding valuation of the Section.

Signed on behalf of the Trustee *Elspeth McKinnon*

Date...25/6/2018



Appendix 1 – Investment Performance

The Money Purchase Section

The investment options available to members in 2021 were the existing Cheviot diversified and specialist funds plus three equity only funds, an Islamic fund and an ethical fund, all provided by external managers.

For those members who do not make an investment choice, the Cheviot Lifeplan switches between the core Cheviot options according to the member's planned retirement date.

Statements of Investment Principles are available on Cheviot's website.

Investment strategy

The three long term Cheviot options have the flexibility to invest in a variety of underlying funds holding different types of investments, including UK and overseas shares, corporate and government bonds, property and cash. This mix of investments is regularly reviewed by the Investment Committee and Investment Consultant and updated depending on market conditions and prospects. The mix of investments and vehicles used are compliant with the cap on investment charges (total charges must be capped at 0.75% p.a.). The Low Cost option has a static allocation to facilitate a lower annual management charge.

Each option seeks to achieve capital growth with more stability than equity markets. The stability or fluctuations of these returns and consequently the size of the long term returns varies according to the amount of risk taken. Each option has a clearly identified risk rating.

The Cautious option aims to provide stability with some growth. The Retirement Planning option was reviewed in late 2019 and the underlying asset allocation changed to reflect the Cautious option more closely with a separate allocation to cash for members in the three years before retirement. An additional cash element was added to the Retirement Planning option in Q2 2020 in light of the significant market falls and the need to protect the value of members' funds as they approached retirement. This has since been unwound.

Investment structure

The assets are held on Mobius Life's investment platform.

Investment performance

One, three and five year returns for each of these options, together with the long term objectives (based on CPI) are shown below.

	1 year		Annual return over 3 years ¹⁵		Annual return over 5 years		Objective
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
Growth	13.9	9.9	13.9	6.9	9.5	7.0	CPI + 4.50%
Moderate	11.5	8.9	11.4	5.9	7.8	6.0	CPI + 3.50%
Low Cost	12.5	12.2	n/a	n/a	n/a	n/a	CPI + 2.50%
Cautious	7.0	7.9	8.2	4.9	5.8	5.0	CPI + 2.50%
Retirement Planning	7.0	7.9	6.7	4.5	4.6	4.2	CPI + 2.50%
Annuity Planning	(4.7)	(4.91)	5.7	6.4	3.8	4.5	FTSE + 15Yr Index
Cash	(0.2)	0.0	0.2	0.3	0.2	0.3	7 day Sterling LBID

¹⁵ The performance of funds not showing 3 or 5 year figures have an inception date below the requirement.



The With Profits Section

Investment strategy

The With Profits Section splits its assets between an Investment Fund and a Matching Fund. The Investment Fund holds assets which are designed to contribute towards meeting the cost of the benefits. It is invested in a diversified range of investments to manage investment risk. Managers are appointed either directly or via the Mobius Life platform and are required to act within the terms of their appointment.

The Matching Fund holds lower risk assets which more closely match the cost of the benefits. The Matching Fund is invested in gilts, corporate bonds (through the Credit Fund) and swaps which are designed to minimize the impact of movements in interest and inflation rates on the funding level of the With Profits Section.

The swaps form a liability hedge, which is implemented by River & Mercantile Solutions Ltd to help manage the risks to which the Section's liabilities are exposed from interest rate and inflation movements. Over the year the liability hedge has risen in value reflecting the fact that interest rates have fallen. This will have offset most of the rise in the value of the liabilities caused by falling interest rates.

Investment structure

Most Investment Fund assets are held on the Mobius Life Limited platform which allows the Trustee to adopt a more dynamic approach to asset allocation. The Investment Fund also includes an allocation to one structured equity product, which is designed to protect the With Profits Section in the event of falling global equity markets.

One, three and five year returns for the With Profits Section, together with the long term objectives (based on Swaps) are shown below.

	1 year		Annual return over 3 years		Annual return over 5 years		Objective*
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
Investment Fund	7.4	3.9	6.0	4.1	4.4	4.0	Swaps + 2.7% p.a.
Credit Fund	4.6	1.6	4.0	1.8	3.5	1.9	SONIA + 1.3% p.a

*Swaps based objective is a liability related objective which reflects the profile of the With Profits Section.

Appendix 2 – Actuarial Assumptions

Scheme Funding Valuation Assumptions

Financial Assumptions

Sample rates for each assumption can be found in Appendix B.

Item	Derivation
Discount interest rate:	Bank of England gilt yield curve plus allowance for prudent level of outperformance expected from the Section's assets as recommended by the Section's investment adviser at each funding assessment, based on current strategic asset allocation to 31 December 2029 and de-risked allocation thereafter. At 31 December 2020 this was: <ul style="list-style-type: none"> - Until 31 December 2029: gilt curve + 2.8% per year - Thereafter: gilt curve + 0.1% per year for pensioners; gilt curve + 0.0% per year for deferred members.
RPI price inflation	Swap inflation curve
CPI price inflation	
- Before 2030	RPI inflation less 0.8% each year
- From 2030	RPI inflation without adjustment
Pension increases pre-retirement:	Guaranteed fixed increases as set out in the rules
Pension increases post-retirement:	Set using the relevant inflation curve and caps and collars appropriate to each type of increase

Demographic Assumptions

Sample rates for each assumption can be found in Appendix B.

Item	Assumption
Mortality pre-retirement	No allowance
Mortality post-retirement	106% of the S2PA table for males and 99% of the S2PA table for females projected in line with the latest available standard CMI model (CMI 2019 at 31 December 2020) with the default smoothing parameter, an initial addition of 0.2% per year and long-term improvement rate of 1.5% per year
New entrants to With Profits Section	No allowance
Withdrawals	No allowance
Ill health retirements	No allowance
Early retirement	No allowance
Late retirement	No allowance
Age difference of dependants	Males 3 years older than females
Commutation	No allowance
Proportion married	100% at retirement
Future bonuses	No allowance
Expenses:	<p>Non-investment expenses are assumed to be £1.3m per year until 31 December 2022, reducing thereafter by £0.1m per year to be £0.6m in 2029.</p> <p>The cost of windup and securing annuities with an insurer is assumed to be 2.5% of the outstanding liabilities on windup on 31 December 2029.</p>



Appendix 3 – Chair’s Governance Statement in respect of the Money Purchase Section of the Cheviot Pension



|

Money Purchase Section

of the Cheviot Pension
An authorised Master Trust

Chair’s Governance Statement

July 2022
For the year ended 31 December 2021



Chair's Governance Statement
Year ended 31 December 2021

Purpose

1. This statement explains how the governance requirements for the Money Purchase Section are met. The Money Purchase Section is part of the Cheviot Pension under the Cheviot Trust. The Cheviot Trust also includes defined benefit schemes and a cash balance section which are all managed by the same trustee, Cheviot Trustees Limited ("the Trustee").
2. This Statement is publicly available on the Cheviot website. Members are signposted to the Statement in relevant communications.
3. The Trustee obtained a type 2 report across all the sections and schemes for the 12-month period to 31 December 2021 against the Combined AAF 01/20 assurance reports on Master Trusts and 05/20 internal control assurance reports.¹ These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a Trustee governance level as well as those which relate to pensions and financial administration across the organisation.
4. The Money Purchase Section was authorised by the Pensions Regulator as a Master Trust in August 2019 following a robust review of its structure, financial stability, directors and systems and processes. Updated information was provided to the Pensions Regulator in the annual return in March 2021 and March 2022.

The Trustee

5. Cheviot Trustees Limited is a company limited by guarantee. The articles and the trust deed provide for the Trustee Board to consist of a minimum of six directors, with equal numbers of directors drawn from members (including pensioners) and employers. Currently, there are ten directors in total: four member directors, four employer directors and two co-opted directors.
6. All directors who were appointed or re-appointed to the Board during 2021 were subject to external fit and proper checks.² All other directors have completed declarations confirming that there is no change in circumstances that would affect their fit and proper status since the last assessment.

Appointments

7. **Member representatives** are drawn from the membership. The term of two member representatives, Ms Diane Elliott-Smith and Ms Frances Longmore, expired at the end of 2021. Both existing directors put themselves forward for re-appointment.
8. All members and pensioners were invited to put themselves forward for consideration as part of an open, fair and transparent process. The invitation linked to an information sheet about serving on the Board on the website. No additional candidates put themselves forward. The existing member directors were re-appointed by the Board on 15 December 2021, subject to the completion of the relevant checks³, based on their skills and competency.⁴
9. **Employer representatives** are nominated by Participating Employers and appointed by the Trustee Board. The term of one employer representative, Mr Ian Gault, expired in 2021. All employers were invited by email to put candidates forward as part of an open, fair and transparent process. The invitation included a link to an information sheet about serving on the Board on the website. No additional candidates were put forward. After consideration of his skills and competency, the Trustee Board re-appointed Mr Gault in June 2021. The

¹ The 2020 report was also based on the updated assurance controls.

² One member representative, Ms Maralyn Thomas, was reappointed in 2021. Mr Giles Orton was appointed as a member representative (having previously served as a co-opted director). A new employer representative, Mr Stephen Jones, was appointed in April 2021. Details of the process followed is set out in the previous Chair's statement.

³ Now completed.

⁴ Both candidates continue to be designated as non-affiliated as the reappointment process was open and transparent.



Chair's Governance Statement Year ended 31 December 2021

relevant external checks were completed.⁵

10. **Co-opted Directors** may be appointed to bring specific skills and experience to the Trustee Board. There are currently two co-opted Directors, the Chair and the Chief Executive.
11. The trust deed governing the Cheviot Trust requires that a majority of the directors, including the Chair, are non-affiliated as defined by the legislation.⁶ The current Chair, Sir Derek Morris, was designated as non-affiliated on his initial appointment in April 2017.⁷ The original appointment was made after a tender exercise involving several independent trustees and trustee companies was undertaken to identify suitable candidates and a series of interviews of those candidates conducted by the Performance Review Committee⁸ of the Trustee.⁹
12. Appendix 1 sets out how the requirement for non-affiliated directors is met. Three member representatives, two employer representatives and one co-opted director (the Chair) are designated as non-affiliated.

Trustee's knowledge and understanding

13. The Directors come from a wide range of backgrounds. All bring different skills to the Cheviot Pension. The Directors have also appointed suitably qualified and experienced advisers to complement their own knowledge and to ensure they have access to the required skills.

Analysis of skills

14. The Trustee operates six Committees to help it fulfil its functions. Skills analyses are carried out each year through self-evaluation questionnaires based on the Pensions Regulator's standard at an individual, Committee and Trustee level. The training plan is drafted to include any areas where skills need to be improved or additional adviser support is sought. The individual and combined skills analyses demonstrate the breadth and depth of experience on the Trustee
15. Four directors are professional trustees. They have completed the PMI's Award in Pension Trusteeship. The Chief Executive also holds this award. Sir Derek and Mr Orton have been awarded professional trustee accreditation from the Association of Professional Pension Trustees Limited. Ms Thomas has also completed the Certificate in Pension Trusteeship.

Training

16. An annual training plan is required by the Governance Policy. It reflects the annual skills analysis and documents how all the key areas will be addressed, including Cheviot specific training. All directors are encouraged to attend at least one external session per year.¹⁰ The Governance Policy requires all directors to complete at least twelve hours of training per year, including training at Board and Committee meetings.¹¹ Directors commit to completing the training, either at the relevant meetings or by personal study or a combination. Training slides are made available on the extranet. All Directors completed the required training hours in 2021.
17. An Education session for Directors is held at least once a year, usually in January following an analysis of skills in Q4. The session was held in January 2021 and allowed training to be undertaken outside the constraints of a Trustee Board meeting. This process is repeated each year. The Education session in January 2021 addressed

⁵ Mr Gault continues to be designated as non-affiliated as the appointment process was open and transparent.

⁶ Non-affiliated means independent of any undertaking which provides advisory, administration or investment or other services in respect of the Money Purchase Section

⁷ Reappointed in April 2020

⁸ Now renamed the HR Committee

⁹ Sir Derek's non-affiliation period expired in 2022 and he was reappointed on 1 July for the period to 31 March 2027, following a tender exercise, based on a review of the exercise in 2017. Three candidates from professional trustee candidates were considered by the Legal Committee against the criteria set by the Board for the appointment. This was considered a proportionate and focused approach, considering past experience of market participants, the Trust's structure and circumstances and the balance of skills and experience on the Board. This process was considered in detail and considered by the Board's legal advisers to constitute an open and transparent process having regard to TPR's guidance.

¹⁰ Includes online training.

¹¹ Professional trustees are required to undertake 25 hours per year.



Chair's Governance Statement
Year ended 31 December 2021



gaps identified in the skills analysis in Q4 2020.¹²

18. All Directors have completed the Pensions Regulator's trustee toolkit and regular training is provided on aspects of the Trustee Knowledge and Understanding requirements, including the Trust Deed and Rules, the Statement of Investment Principles and internal dispute resolution procedure.¹³ All Board papers include a cross reference to the appropriate provision in the trust deed or other document or policy if relevant.
19. Other training relevant to the Master Trust during 2021¹⁴ included:
- (i) Master Trust supervision
 - (ii) Scheme administration, including transaction processing, and member data
 - (iii) Risk management and internal controls
 - (iv) Changes in pensions legislation, including the Pension Schemes Act 2021
 - (v) Defined contribution strategy review including value for members, member outcomes, decisions at retirement and default investment strategies
 - (vi) DC Code of practice and the draft combined code of practice
 - (vii) Management and assessment of advisers
 - (viii) Investment issues including implementation statements and DC Code of Practice
 - (ix) The implications of climate change on investment strategy and the TCFD requirements
 - (x) Cyber security
 - (xi) Assessing Board effectiveness
20. All directors are members of the Pensions Management Institute and receive regular updates and opportunities for further training. Three directors are also members of the Association of Pension Lawyers.
21. Three Directors¹⁵ serve on industry groups and several attended external virtual conferences during the year. A co-opted Director is a member of the Pensions and Lifetime Savings Association's Master Trust Committee. A member representative writes technical articles for publication.

Conclusion

22. Based on the skills analysis undertaken and training provided, the Trustee Board considers that the Directors' combined knowledge and understanding together with the legal, covenant, investment and actuarial advice which they receive, enables them to properly exercise their functions in relation to the Cheviot Trust as set out in the Governance Policy and relevant legislation and guidance and to monitor these activities through the Strategic Plan. The combined knowledge and understanding includes:
- a working knowledge of the core scheme documents (the Trust Deed and Rules, the Statement of Investment Principles, and the Governance Policy),
 - sufficient knowledge and understanding of the law relating to pensions and trusts and
 - sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational pension schemes.

Board effectiveness

23. The Trustee Board reviews its own effectiveness as a group regularly and pursue any actions that flow from the conclusions. All directors completed a questionnaire based on the TPR's template in advance of the June 2021 Board meeting. The combined results were then discussed at that meeting. No changes were proposed following the discussion which included consideration of the following issues:
- The difficulty of improving diversity although this was not felt to detract from decision making
 - The importance of the standard and timeliness of the Board papers, particularly the headers provided

¹² A further session was held in January 2022 based on the skills analysis in December 2021.

¹³ January 2021

¹⁴ Some training was presented at Committee meetings but made available to all Directors.

¹⁵ Elspeth McKinnon, Ian Gault, Maralyn Thomas



Chair's Governance Statement
Year ended 31 December 2021



which directed attention to the key points of each paper to support effective decision making

- The usefulness of breakout groups when considering difficult issues
- The ongoing reporting of the Strategic plan to focus less on operational issues.

Governance

24. The directors view governance as a core function. There is a clearly articulated governance policy, reviewed at least annually,¹⁶ setting out the roles and responsibilities of the directors and the different Committees, together with clear policies regarding delegations, decision making powers, conflicts of interest, data protection, reporting requirements and appointment of advisers. A strategic and operational plan is reviewed quarterly together with a Governance report. Performance of the Trust as a whole, including the Trustee, is measured against these documents. Risks are a standing item on each Committee and Board meeting. All core documents and board papers, including training, are readily available to Directors on Cheviot's extranet.

Committee structure

25. A committee structure is used to provide more focus on key areas. Each Committee has written terms of reference which include delegated powers from the Trustee Board. Actions and risks relevant to each Committee are standing items on the relevant agendas. The structure was changed during 2021 to facilitate more focus on strategic issues at Board level by:
- (i) Changing the remit of the Strategic Committee to Risk and Compliance issues and widening its scope to include regulatory documents, GDPR and key communications
 - (ii) Widening the scope of the Finance Committee to include operational issues
 - (iii) Formalising the terms of reference of the Human Resources Committee to include all HR and employment issues and establishing a reporting line to the Finance Committee
 - (iv) Widening the delegation to the Funding and Legal Committee in respect of DB schemes.
26. Four full Trustee Board meetings and seven conference calls were held during the year ended 31 December 2021. The Finance and Operations, Funding and Risk and Compliance Committees each held four meetings, the Investment Committee held eight meetings,¹⁷ the Legal Committee held five meetings,¹⁸ and the Human Resources Committee¹⁹ held two meetings during the year.

Feedback from members

27. The Money Purchase Section provides benefits across more than 68 employers which are non-associated and based in multiple locations across the country. Of the membership of 5,060 membership, approximately 34% are active members and making contributions.²⁰
28. Meetings for members only attract a very small number of attendees given the diversity of employers and location. We have therefore concluded that it is not currently an appropriate mechanism for encouraging engagement with members but will keep it under review. Our approach to encouraging feedback is therefore based on regular communications and the website. Approximately 40% of members receive electronic communications,²¹ with the rest receiving information by post. The open rate for the benefit statement email in 2021 was around 61%.

¹⁶ The Governance Policy was reviewed in December 2021. The Committee structure was significantly revised in June and September 2021 to delegate more authority to the Committees. The Policy has subsequently been further reviewed in 2022 to clarify some elements of the delegation provisions.

¹⁷ The usual quarterly meetings were split over two meetings to mitigate the impact of virtual meetings.

¹⁸ Including two focused on the tender for legal service which was undertaken during 2021.

¹⁹ Previously called the Performance Review Committee which now has an extended brief to consider HR issues.

²⁰ Figures as at 31 December 2021.

²¹ This has increased to 76% in March 2022 following a communication exercise with members.



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29. The Trust issues a report each year²² to all members which includes topical and relevant items and encourages members to pass on feedback about how the Trust is managed.²³ We also include contact details on the website which enables members to write to a specific email address: people@cheviottrust.com. Any comments are considered by Cheviot staff and significant feedback reported to the Trustee if appropriate.
30. The focus in the 2021 report was Cheviot's new member website and dashboard. A new member focused website was launched in 2021, designed to be easy to navigate and encourage engagement with members. The 2020 benefit statements²⁴ were revised to provide simpler and more accessible information in line with the DPW statutory guidance. They were made available through the new member dashboard, accessed through the new member website. To ensure security, all members received a hard copy of the log in details for the new dashboard which has two factor authentication. The Board continues to monitor the response to this new service.
31. Following the launch of the new dashboard, a campaign to encourage members to communicate electronically to reduce costs and our carbon footprint has been completed.

Core financial transactions

32. The Directors have agreed written financial authorities²⁵ and service level requirements²⁶ with the internal administration team²⁷ to ensure that core financial transactions are processed promptly and accurately. This includes service standards for responses to member enquiries, transfers to and from the scheme, other benefit payments from the scheme to or in respect of members, investment switches, investment of contributions, lifestyle switches and reconciliation of member unit holdings to the investment manager.
33. The Trustee has put processes in place to ensure that core financial transactions are processed accurately and in a timely manner, including daily monitoring of bank accounts, clear processes for managing contributions and appropriate authorisation of investment and banking transactions (which includes at least two signatories).

Monitoring process

34. A quarterly Governance report on performance against service level requirements is presented to each full Trustee Board meeting, measuring the timeliness and accuracy of the processing of transactions, switches, contributions received and the investment of those contributions, member statistics, accuracy of benefit payments, contributions received late from employers, reconciliation of member unit holdings and a communications report.
35. The administration aspects of the Governance report are based on automated and robust management information reporting from the administration system and enables any slippage in service standards to be discussed and plans to improve service standards to be agreed if necessary. The auditors reviewed key elements of the Governance report as part of their audit process and produced a detailed report which was reviewed by the Finance Committee. No substantive or systemic issues were identified.
36. Based on this management information, the Board reviews and discusses any slippage in service standards as necessary. All service standards were met during 2021. Some postal communications were slightly delayed as the office was closed from time to time due to COVID rates. The move to electronic communications has now been completed, facilitated by the new member website and portal which provides access with a robust level of security.

Conclusion

37. The service standards have agreed with the administrators have been met during 2021. The regular reports

²² The latest report was published in August 2021.

²³ Report to Members 2021, page 2.

²⁴ Issued in 2021

²⁵ The financial authorities were updated in November 2021 and ensure appropriate controls, including dual authorisation, for all financial transactions.

²⁶ The service level requirements were reviewed as part of the Governance Policy in December 2021. Bank accounts are monitored daily.

²⁷ The administrators are directly employed by the Trustee.



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enable the Board to monitor service standards and identify any issues which need to be remedied. No such issues arose during 2021. The launch of the new member website and the secure member portal enables members to make basic changes to their records.

38. As a result of the provision of detailed management information, and the confirmation from the Trust's auditors that there were no material issues identified in the reports, the Directors are satisfied that core financial transactions were processed promptly and accurately and reported in line with the agreed service level requirements in all material respects during 2020. This is kept under close review.

Investment issues

39. For members of a defined contribution scheme, the absolute returns delivered by the investment strategy are the most important element in delivering the best possible outcome at retirement. The Directors recognise that stable returns are also highly valued by members. The absolute returns and the stability of those returns are reflected in the Trustee Board's investment strategy.

Investment governance

40. Investment governance is critical to the success of the investment strategy. It is delegated to an Investment Committee which met eight times during 2021. Although the investment options are expressed simply to members to make them easy to understand, the underlying strategy is much more sophisticated and includes approximately 20 different underlying funds. The asset allocation is managed actively. It is reviewed at least monthly and more often if warranted by market conditions.

Investment performance

41. The Investment Committee and Trustee Board reviews investment performance quarterly against performance targets set for each option which include both return and stability targets, risk budgets and market conditions. The dynamic asset allocation approach has delivered more stable performance within the parameters set by the Directors and returns above the long-term targets over three and five years for both long term and medium-term funds.²⁸ The short-term funds performed broadly in line with the asset benchmarks.

Investment platform provider

42. All the funds are held on Mobius Life's investment platform to facilitate the Trustee's dynamic asset allocation strategy. All funds trade daily. The HSBC Islamic Global Equity Index Fund trading prices are available one day later than the other funds.

Range of options

43. No new funds were introduced in 2021. The range includes five diversified investment options, three equity funds and four specialist funds.²⁹ The investment information available on the member website explains details of the options and provides quarterly performance information.³⁰ The diversified options target returns above inflation to reflect the need for funds to grow in real terms to deliver an adequate retirement income for members. The equity and specialist options target market returns in the relevant asset class. Performance is reviewed against these objectives quarterly to ensure returns are consistent with the objectives for each fund. These options allow members to access the most appropriate investment strategy for their individual circumstances and preferences.

The Cheviot Lifeplan

44. For those members who do not wish to select their own investment options, Cheviot provides the Cheviot Lifeplan,³¹ which aims to provide members with an adequate retirement income in as smooth a manner as

²⁸ As at 31 December 2021.

²⁹ The specialist funds and the equity funds are provided by external managers except for Cheviot Cash fund.

³⁰ Or links to the performance information for external funds.

³¹ The default option for the purposes of the legislation.



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possible – taking risk where it is best rewarded and offering protection when it is most needed.

45. It uses four of the diversified options to transition members through their membership, reducing risk as they approach their target retirement date by introducing an allocation to the Cash Fund. The target retirement date is set by the member or defaults to the member's State Pension Age. It also provides a post retirement option to cater for members who want to access their benefits flexibly. Since April 2015, a significant proportion of members accessing their benefits have taken advantage of the flexible benefits offered within the Trust.

Strategy review

46. A review of the investment options and Cheviot Lifeplan's objectives and design is completed annually. This review is conducted by the Investment Committee and is reported to the Trustee Board.
47. The annual strategic review took place in May 2021. It involved reviewing the performance and strategy of the Cheviot Lifeplan based on the Trustee's aims, objectives and investment approach as set out in the Statement of Investment Principles. It included the following related items:
- (i) Whether members were likely to receive "good"³² retirement outcomes based on their current holdings and future expected returns
 - (ii) Whether the investment return assumptions behind each of the blends remained reasonable
 - (iii) Whether members' investment needs were met through the range of options available to them both pre and post retirement.³³
48. As a result of this review, the Investment Committee concluded that:
- (i) the range of options remained sufficiently broad in terms of the choice offered to members and in comparison, to other Master Trusts.
 - (ii) introducing an ESG fund to the self-select range would be positive, but the messaging would need to be carefully managed to avoid suggesting that the other funds do not take ESG into account.
 - (iii) the return expectations for each element of the Cheviot Lifeplan remained reasonable driven by the equity holdings.
 - (iv) most members were likely to receive good retirement outcomes, based on three different measures of "good".³⁴
 - (v) closer alignment to the FCA pathways would be helpful, including providing a growth only option.

Implementation of strategic changes

49. The introduction of an ESG equity option for members to select has been delayed due to the constraints of the investment platform. The investment platform only had one suitable fund available which did not meet the due diligence tests by River and Mercantile. A different option has been selected and will be made available when it is accessible on the platform.
50. Work continues to align the retirement options to the FCA pathways and is expected to be implemented in 2022.

Statement of Investment Principles

51. The Statement of Investment Principles was reviewed in 2021 but no changes were required following the strategic review. We expect to revise it in 2022 to reflect the introduction of the ESG option and the change in retirement options. The current Statement dated October 2020 is attached to this Chair's Statement. It is publicly available online.

³² Whilst the definition of "good" is unique to each member depending on their retirement goals, the Investment Committee assessed it against the UK Living Wage, the Pensions Commission's Target Replacement Ratio and the PLSA's Retirement Living Standards.

³³ Retirement in this context is when a member takes their tax-free cash as this is when the investment priorities change.

³⁴ Living Wage, Replacement Ratio and PLSA Retirement Living Standards, all at April 2021.



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Value for members

52. All charges are borne by members. A key responsibility of the Trustee is to provide good value for money for members.
53. The Trustee appointed consultants³⁵ to carry out an assessment of the Money Purchase Section's services based on their knowledge of the market and operation of other trustee boards, and using a framework provided by the Pensions Regulator. This considered the cost paid by members for a list of features and services in three core areas of scheme management as set out in the DC code of practice (governance and management, investment, administration and communication). The quality of the services was assessed through establishing whether the Money Purchase Section's services are suitable, relevant and valuable to members and whether each of the services had performed effectively.
54. The Investment Committee has delegated powers to review the assessment. The Committee concluded that services provided in each area were high quality and overall provided good value for members in the three key areas of governance and management, investment, administration and communications services. These services made a positive contribution to member outcomes.
55. The overall charge was within the range identified by Schroders Solutions but at the high end, given the discounting available by the largest providers in the Master Trust market. The Trustee continues to focus on reducing overall charges, having reduced charges in both 2020 and 2021. Value for members is a standing item on all agendas to ensure that any items which may affect it going forward are recognised and considered in that context.

Charges and costs

56. The Cheviot Lifeplan meets the requirements of the charge cap. The charge cap is a limit set by the Government on the amount that can be charged to members of a pension scheme.³⁶ The actual charges depend on how close the member is to retirement.
57. All funds available to members during 2021 (either through the Cheviot Lifeplan or through individual choice) are identified in the table below which includes details of charges in 2021. Charges include investment management, additional expenses, governance, administration, consultant fees and legal fees. Transaction costs, the fees incurred in buying and selling investments, are excluded. Estimated transaction costs in 2021 are set out in Appendix 2.

Investment options used in the Lifeplan ³⁷	Charge	Charge from 1.7.2021	Other Investment options available	Charge	Charge from 1.7.2021
Cheviot Growth	0.70%	0.65%	Cheviot Low Cost	0.45%	0.45%
Cheviot Moderate	0.70%	0.65%	Cheviot Annuity Planning	0.50%	0.50%
Cheviot Cautious	0.70%	0.65%	HSBC Shariah	0.70%	0.65%
Cheviot Retirement Planning	0.65%	0.65%	LIGM Ethical	0.70%	0.65%
Cheviot Cash	0.25%	0.25%	LGIM UK Equity Index Fund	0.45%	0.45%
			LGIM World Equity Fund (50% GBP hedged)	0.45%	0.45%
			Blackrock Aquila Connect Emerging Markets Fund	0.45%	0.45%

58. Details of the charges are available to members and employers via the website. Members' benefit statements include a worked example of how to calculate charges for their own funds.

³⁵ Schroders Solutions, Investment Consultants

³⁶ The cap applies to scheme and investment administration charges, excluding transaction costs.

³⁷ The Lifeplan is the default arrangement. These funds are also available for members to self-select.



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include a worked example of how to calculate charges for their own funds.

59. The estimated cumulative impact on members' savings of both charges and other costs is shown in Appendix 3.³⁸ The Trustee considered the results and concluded that they are reasonable in the context of the investment strategy objectives and having regard to the guidance issued by the Department for Work and Pensions issued in October 2021.³⁹
60. Cheviot performance information is shown **after** charges and costs so members can see the actual performance of each option as reflected in their own account value. No changes are therefore required to comply with the 2021 changes in regulations.⁴⁰ Performance (calculated using the method provided by the DWP guidance) over one, three and five years for the funds in which members were invested or have been able to invest during the scheme year is shown below.

	1 year		Annual return over 3 years ⁴¹		Annual return over 5 years		Objective
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
Growth	13.9	9.9	13.9	6.9	9.5	7.0	CPI + 4.50%
Moderate	11.5	8.9	11.4	5.9	7.8	6.0	CPI + 3.50%
Low Cost	12.5	12.2	n/a	n/a	n/a	n/a	CPI + 2.50%
Cautious	7.0	7.9	8.2	4.9	5.8	5.0	CPI + 2.50%
Retirement Planning	7.0	7.9	6.7	4.5	4.6	4.2	CPI + 2.50%
Annuity Planning	(4.7)	(4.91)	5.7	6.4	3.8	4.5	FTSE + 15Yr Index
Cash	(0.2)	0.0	0.2	0.3	0.2	0.3	7 day Sterling LBID
HSBC Shariah	22.8	23.6	n/a	n/a	n/a	n/a	In line with Shariah benchmark
LGIM Ethical	24.0	24.7	n/a	n/a	n/a	n/a	In line with ethical benchmark
LGIM UK Equity Index Fund	18.1	18.3	n/a	n/a	n/a	n/a	In line with FTSE All-Share Index
LGIM World Equity Fund (50% GBP hedged)	22.1	13.3	n/a	n/a	n/a	n/a	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged
Blackrock Aquila Connect Emerging Markets Fund	-2.7	-2.3	n/a	n/a	n/a	n/a	In line with MSCI Emerging Markets Index

Source: Schroders Solutions, Bloomberg, Old Mutual Wealth, Mobius Life, LGIM, Blackrock, HSBC

Conclusion

61. The Directors are confident that the Trust is managed effectively on behalf of members and employers as described in this Statement and in compliance with relevant statutory provisions and other guidance.

Sir Derek Morris

Sir Derek Morris
Chair, Cheviot Trustees Limited

28 July 2022

³⁸ Based on latest available information

³⁹ The assumptions were considered and agreed by the Investment Committee in September 2019.

⁴⁰ Occupational Pension Schemes (Administration, Investment, Shares and Governance (Amendment)) Regulations 2021. ⁴¹ Funds marked "n/a" represent periods before the funds were added to the scheme. Past performance is not a guide to future returns.



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Appendix 1

Confirmation of non-affiliated status

Non-affiliated means independent of any undertaking which provides advisory, administration, investment or other services in respect of the Money Purchase Section. All directors are asked to confirm their non-affiliation status annually. As six of the ten Directors (including the Chair) are designated non-affiliated, the requirement that a majority of the Directors, including the Chair, are non-affiliated has been met.

Name	Position	Affiliation status	Non-affiliated since	Last appointed
Sir Derek Morris	Chair and co-opted Director	Sir Derek has certified that he meets the non-affiliated requirements.	April 2017	July 2022
Mr Ian Gault	Employer Director and Vice Chair	Mr Gault has certified that he meets the non-affiliated requirements.	1 February 2021	June 2021
Ms Diane Elliott-Smith	Member Director	Ms Elliott-Smith has certified that she meets the non-affiliated requirements	January 2019	January 2022
Ms Frances Longmore	Member Director	Ms Longmore has certified that she meets the non-affiliated requirements	January 2019	January 2022
Mr Gerald Kidd	Employer Director	Mr Kidd has certified that he meets the non-affiliated requirements.	June 2015	December 2020
Mr Giles Orton	Member Director	Mr Orton has certified that he meets the non-affiliated requirements.	September 2018 (as a co-opted Director)	March 2021 (as a member Director).



Appendix 2

Impact of Transaction Costs

1. Day-to-day trading costs are incurred when the manager of an underlying fund buys and sells investments within their pooled fund and are reflected in the fund's performance. The transaction costs are in addition to the published annual management charge.
2. The table below sets out transaction costs for each option for 2021 invested through the Mobius Life platform in 2020. Mobius Life has sourced transaction costs from the underlying fund managers. Each underlying fund manager provides data in 12-month periods. Transaction costs are not fully available for 2021 and reflect the latest available information, with the majority of costs covering the 12 month period to 30 September 2021. It is likely that transaction costs will usually include some estimated costs; and finalised figures will be disclosed retrospectively in next year's report. The Trustee and its advisers continue to press investment managers for more timely reporting.
3. Members will experience varying levels of cost depending on which options they are invested in (either through the Cheviot Lifeplan or through individual choice). Similar costs to those shown are expected to continue in the future. A negative cost means that the fund benefited from transaction activity of other investors, rather than incurring a transaction cost.
4. The actual transaction costs for 2021 are included for comparison purposes where available, having regard to the Department for Work and Pensions' guidance (and any future guidance).⁴²

Investment option	Costs in 2021	Costs in 2020
Investment options used in the Lifeplan⁴³ and available for members to select		
Cheviot Growth	-0.01%	0.05%
Cheviot Moderate	-0.03%	0.04%
Cheviot Cautious	-0.04%	0.01%
Cheviot Retirement Planning	0.03%	0.01%
Cheviot Cash	-0.02%	-0.02%
Investment options for members to select		
Cheviot Low Cost	-0.01%	0.05%
Cheviot Annuity Planning	0.03%	0.42%
HSBC Islamic Global Equity	0.02%	0.02%
L&G Ethical Global Equity	0.04%	0.13%
BlackRock Aquila Connect Emerging Markets Fund	-0.04%	0.09%
Cheviot Global Equity Fund	-0.04%	0.07%
L&G UK Equity Index Fund	0.01%	-0.03%

Source: 2021 transaction costs Mobius Life. 2020 transaction costs, Mobius Life. These figures represent the latest available information as at the time of publication.

Most of the blended funds have reported negative transaction costs over the 2021 scheme year (therefore resulting in a positive impact), compared to the majority reporting a positive cost in 2020. There was no single factor which resulted in a different impact year-to-year. The difference was a function of manager cash flows, trading activity and general changes to the cost of trading.

5. The Investment Committee has reviewed the estimated transaction costs for each investment option and underlying funds and are comfortable the costs are reasonable, noting two underlying funds where the

⁴² The full transaction costs were not available in the 2020 Chair's Statement but were based on an annual cost to 30 September 2019.

⁴³ The Lifeplan is the default arrangement.



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Appendix 2

costs are particularly high. The Trustee believes that these higher costs are acceptable, given the returns associated with them. The sources of the higher costs have been identified as:

- a. *L&G Asia Pacific ex Japan Developed Equity Index GBP Hedged (Lifeplan and Cheviot Low Cost)* has higher transaction costs than other equity funds, due primarily to the cost of currency hedging in Asia Pacific regions.
- b. *BlackRock iShares Global Property Securities Equity Index fund (Cheviot Low Cost)* also has higher transaction costs primarily due to the increased complexity of the underlying transactions of the fund's holdings.



Appendix 3

Cumulative costs

Cheviot Lifeplan

The level of transaction costs depends on which investment option is selected. The Cheviot Lifeplan automatically switches members between options through their working life to manage investment risk on their behalf. The chart below shows an illustrative example⁴⁴ of the effect over time of the application of both the fixed charges and the variable costs on the value of a member's estimated account at their Target Retirement Date⁴⁵. It assumes that the account is invested in the Cheviot Lifeplan for the whole period. The after charges figure therefore include the automatic switching process of the Lifeplan, transaction costs (shown in Appendix 2) and the ongoing annual management charge (shown in para 62). Costs can change over time.

The figures are based on a number of assumptions based on the Cheviot membership:

- Starting pension account of £10,000.
- Inflation of 2.5% each year.⁴⁶
- Member salary of £25,000
- Salary and contributions increase each year by 1% over inflation.
- Combined contributions from member and employer of 12% each year.
- Cheviot reduced the AMC on most funds by 0.05% with effect from July 2021. It is assumed that these reduced AMCs will apply in the future.
- Transaction costs used are an average of the last three years of data in respect of the underlying pooled fund where available and are assumed to continue for future years. This is expected to be representative of the costs incurred by Cheviot members.
- Investment return growth in line with the targets set by the Trustee.⁴⁷

Cheviot Lifeplan
Projected pension pot in today's terms

Years	Before charges	After costs and charges ⁴⁸
1	£13,800	£13,700
3	£21,400	£21,100
5	£29,700	£29,100
10	£54,600	£52,400
15	£85,700	£80,800
20	£120,800	£111,800
25	£163,000	£148,000
30	£213,800	£190,400
35	£272,700	£237,700
40	£331,400	£282,400

For example, if you invest for 20 years prior to your Target Retirement Date (e.g. age 45 if your Target Retirement Date is your 65 birthday), the projections show you will have a pot of approximately £111,800 at Target Retirement Date after all charges have been deducted.⁴⁹ Before charges, the projected pot size is £120,800, meaning the projected impact of costs and charges over the twenty-year period is £9,000.

The estimated costs of switching funds as part of the Cheviot Lifeplan over a 40 year membership averages 0.01% per annum on a worse case basis, and assuming that the fund is cashed in at retirement. The Trustee considers this cost to be reasonable and necessary in the context of the Lifeplan's objectives.

⁴⁴ Having regard to the guidance issued by Department for Work and Pensions in September 2018

⁴⁵ Target Retirement Date is the date when a member plans to start to access their pension savings

⁴⁶ In today's terms this means that the impact of estimated future inflation has been taken into account

⁴⁷ The accumulation rates are calculated in line with Actuarial Standard Technical Memorandum (ASTM). Growth +4.5% p.a., Moderate 3.5% p.a., Cautious, 2.5% p.a., Retirement Planning 2.5% p.a., Cash 0% p.a., Annuity Planning 0% p.a., Low Cost 2.5% p.a. (all returns net of inflation), HSBC Islamic Global Equity, L&G Ethical Global Equity, L&G UK Equity, L&G World Equity, BlackRock Aquila Connect Emerging Markets, all 4.5%...

⁴⁸ This shows the net projected fund after all costs and charges have been deducted.

⁴⁹ Based on the assumptions set out above.



Appendix 3

Individual fund costs

Some members prefer to choose their own investment option to meet their plans for retirement. The chart below shows an illustrative example of the effect over time of the application of the costs and charges for each individual option and are based on the same assumptions as shown above for the Cheviot Lifeplan, but assuming that the member stays invested in the same option through the period. The 'After costs and charges' column shows the net projected fund after all costs and charges, including transaction costs, have been deducted.

FUNDS USED IN THE CHEVIOT LIFEPLAN

YRS	Growth		Moderate		Cautious		Retirement Planning		Cash	
	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,800	£13,700	£13,700	£13,600	£13,600	£13,500	£13,600	£13,500	£13,200	£13,200
3	£21,400	£21,100	£20,900	£20,600	£20,400	£20,100	£20,400	£20,100	£19,300	£19,200
5	£29,700	£29,100	£28,700	£28,100	£27,700	£27,100	£27,700	£27,100	£25,400	£25,200
10	£54,600	£52,400	£51,300	£49,300	£48,200	£46,400	£48,200	£46,300	£41,400	£40,800
15	£86,400	£81,400	£78,900	£74,500	£72,200	£68,200	£72,200	£68,100	£58,100	£57,000
20	£126,700	£117,200	£112,500	£104,300	£100,100	£93,000	£100,100	£92,800	£75,600	£73,800
25	£177,600	£161,200	£153,100	£139,400	£132,500	£121,100	£132,500	£120,700	£94,100	£91,300
30	£241,700	£215,000	£202,100	£180,700	£170,000	£152,700	£170,000	£152,100	£113,400	£109,400
35	£322,300	£280,400	£261,200	£228,700	£213,300	£188,000	£213,300	£187,100	£133,700	£128,200
40	£423,400	£359,500	£332,200	£284,500	£263,300	£227,400	£263,300	£226,200	£155,000	£147,500



Appendix 3

OTHER FUNDS AVAILABLE

YRS	Annuity Planning		Low Cost		HSBC Islamic Global Equity		L&G Ethical Global Equity		BlackRock Aquila Connect Emerging Markets Fund Cash		L&G World Equity Index Fund (50% GBP Hedged)		L&G UK Equity Index Fund	
	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,200	£13,200	£13,600	£13,500	£13,800	£13,700	£13,800	£13,700	£13,800	£13,700	£13,800	£13,700	£13,800	£13,800
3	£19,300	£19,200	£20,400	£20,200	£21,400	£21,000	£21,400	£21,000	£21,400	£21,100	£21,400	£21,100	£21,400	£21,200
5	£25,400	£25,300	£27,700	£27,300	£29,700	£29,000	£29,700	£29,000	£29,700	£29,200	£29,700	£29,300	£29,700	£29,300
10	£41,400	£40,700	£48,200	£46,900	£54,600	£52,400	£54,600	£52,200	£54,600	£53,000	£54,600	£53,100	£54,600	£53,100
15	£58,100	£56,400	£72,200	£69,300	£86,400	£81,300	£86,400	£80,800	£86,400	£82,700	£86,400	£82,800	£86,400	£83,000
20	£75,600	£72,800	£100,100	£94,900	£126,700	£116,900	£126,700	£116,100	£126,700	£119,700	£126,700	£119,800	£126,700	£120,200
25	£94,100	£90,300	£132,500	£124,100	£177,600	£160,600	£177,600	£159,200	£177,600	£165,400	£177,600	£165,700	£177,600	£166,300
30	£113,400	£109,200	£170,000	£157,200	£241,700	£214,100	£241,700	£211,900	£241,700	£221,800	£241,700	£222,300	£241,700	£223,200
35	£133,700	£129,500	£213,300	£194,500	£322,300	£278,900	£322,300	£275,600	£322,300	£290,800	£322,300	£291,500	£322,300	£293,000
40	£155,000	£151,300	£263,300	£236,300	£423,400	£357,400	£423,400	£352,500	£423,400	£375,100	£423,400	£376,100	£423,400	£378,300



Appendix 4



the Cheviot **trust**

Statement of Investment Principles Money Purchase Section of the Cheviot Pension

October 2020

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

1. Introduction

- 1.1 This Statement describes the investment strategy and policies of the Trustee of the Money Purchase Section of the Cheviot Pension. It reflects the legislative requirements³⁰ and forms the basis for the decision-making process in relation to investment strategy.
- 1.2 The Trustee has obtained and considered written advice from the Investment Adviser and Scheme Actuary, both of which the Trustee believes are qualified by their ability in, and practical experience of financial matters and have the appropriate knowledge and experience of, the management of investments of pension schemes. The Trustee also consulted its lawyers and employers about this Statement.
- 1.3 The Trustee will also obtain and consider advice (as required by law) before making any future changes in investment strategy or investment options, and before revising this Statement.
- 1.4 Information about the Trustee, the directors' knowledge and understanding and the governance structure is available in the Chair's Governance Statement, available online.

2. Investment objectives

- 2.1 The primary objectives of the Trustee for the Money Purchase Section are:
 - i. To provide a default plan, called the Cheviot Lifeplan to provide members with an "adequate" retirement income³¹ in as smooth a manner as possible, taking risk where it is most rewarded and protection where it is most needed. The Cheviot Lifeplan is based on a range of investment options and strategies which are also available to members who wish to choose their own investment approach.
 - ii. To provide a range of investment options that members can select.
 - iii. To provide an element of stability in investment returns. The Trustee believes that stable returns are more valuable to members than volatile returns. This is reflected in how risk is measured, both by fluctuations in returns, and historic and prospective falls in value.
 - iv. To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.
 - v. To provide investment options for members who wish to invest in line with stock markets.
 - vi. To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.
 - vii. As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.

³⁰ Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

³¹ Measured by reference to the UK Living Wage and the Pension Commission's Target Replacement Ratio.

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

- 2.2 The implementation of the policies in this statement are intended to ensure assets are invested in the best interests of members by seeking to secure an appropriate level of risk for the member depending on their age and planned retirement date, including the Cheviot Lifeplan, whilst allowing members to make their own decisions if they choose to.

The Cheviot Lifeplan

- 2.3 The Cheviot Lifeplan is available for those members who do not wish to make an investment choice. All members who are auto enrolled will be automatically invested in the Cheviot Lifeplan. By transitioning members automatically through the investment options, the Cheviot Lifeplan aims to maximise long term returns by taking more risk early on and reducing the level of risk as members get closer to retirement. The approach reflects that most members take a 25% cash sum at retirement and that very few members are currently choosing to purchase an annuity.
- 2.4 The Cheviot Lifeplan continues after retirement for members choosing to take their benefits over a period of years, either as a series of lump sums or through drawing down a regular income. Members can change their investment option at any time.
- 2.5 Three growth funds, one retirement planning fund and a cash fund⁵² are used in the Cheviot Lifeplan to provide suitable investment options for members throughout their membership, targeting expected returns of each option. The date of retirement is based on the member's target retirement date, or State Pension Age if no target retirement date has been set.

Fund objectives

- 2.6 A list of available funds at the date of this Statement with the relevant risk rating and expected target returns is set out in Appendix A⁵³. These objectives are reviewed annually by the Investment Committee against the likely investment outcomes of the options.
- 2.7 The primary investment objectives for the key funds in the Cheviot Lifeplan⁵⁴ are to achieve inflation-related returns over a full market cycle of about five years. The secondary investment objective is to provide these returns with less fluctuation in value than the market⁵⁵.
- 2.8 The primary investment objective for other options is to achieve a return consistent with the stated objective related to that asset class.
- 2.9 The Trustee also provides alternative strategies based on a combination of other fund options. The expected returns for these strategies are based on the underlying funds.
3. Risk

⁵² See Appendix A.

⁵³ A current list of fund options can be requested by emailing ceo@cheviottrust.com and is available on the website.

⁵⁴ See Appendix A.

⁵⁵ The Low Cost option does not have this secondary objective as it is focused on lower fees.

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

- 3.1 The Trustee recognises that members face three key risks.
- i. Inflation risk – that the purchasing power or cash value of their fund is not maintained
 - ii. Accumulation risk – that funds do not grow as anticipated
 - iii. Pension conversion risk – that the value of their fund does not keep pace with the cost of providing a pension
 - iv. Capital protection risk – that the value of their fund to provide a cash lump sum falls.
 - v. Security of assets risk - Funds on the investment platform are invested through a long-term insurance policy with Mobius Life Limited. The Trustees are satisfied that the assets are as safe as possible whilst still enabling them to manage the assets using a range of underlying managers.
- 3.2 The Trustee has considered these risks (and other relevant risks such as market risk, counterparty risk, operational risk, environmental/social/governance risk or the risk of failing to provide value for members) when designing the Cheviot Lifeplan and a range of investment options for members to select.
- 3.3 Risks are measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategy reviews. The Trustee identifies, evaluates, manages and monitors risks to the Money Purchase Section, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting, risks are measured against risk tolerance and market conditions to check whether the performance of each investment option remains in line with the agreed risk objectives.
4. Investment strategy
- 4.1 When setting the investment strategy, the Trustee will consider, among other things, the suitability of the investments, the need for diversification, the suitability of the fund managers, how members have taken their benefits historically, how the Trustee expects members to take their benefits in the future and compliance with legal requirements.
- 4.2 The range of options available for members varies from time to time and details of the current options and the underlying asset allocation are available online or on request from Cheviot.
- 4.3 All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets in order to reduce investment risk, which can include (but are not limited to) assets such as developed market equities, emerging market equities, UK or other sovereign bonds, corporate bonds, high yield bonds, real estate and money market instruments. The balance between different kinds of investments reflects the risk profiles of each option. Asset allocation is reviewed at least monthly and changes are actioned as soon as practical.

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

5. Other issues

Environmental, social and governance factors

- 5.1 When selecting and monitoring an investment the Trustee will consider financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change.
- 5.2 The Trustee has been considering the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. It is working to provide more information about how it includes consideration of these factors in its decision making. The Trustee is also considering those elements of the investment strategy where the investment objective is short term in nature and where taking account of ESG factors is unlikely to influence investment performance.
- 5.3 The Trustee is working with the Investment Adviser to understand the new information and assessment tools which are being developed to assist the Trustee to assess the commitment and performance of managers in relation to long term financial factors deriving from ESG. This will help the Trustee when making decisions where ESG factors are relevant and monitor performance to encourage change where appropriate.
- 5.4 Since the underlying investment funds used are pooled products (i.e. funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors, or give directions on stewardship such as how voting rights are used. As the Trustee does not have voting rights in respect of its investments in pooled products, it relies on the managers' engagement with the underlying funds in respect of matters including the approach to performance, strategy, capital structure, conflict management, risks, ESG impact and corporate governance. The Trustee does not currently engage in any formal way with other pooled fund investors in order to exert pressure on managers.
- 5.5 The primary way the Trustee considers long term financial performance including ESG factors and stewardship is through advice from the Investment Adviser and its engagement with investment managers. This enables the Trustee to understand the managers' investment approach in relation to such matters (where appropriate).
- 5.6 Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. Such factors may also be important criteria for considering the replacement of a manager. Once a manager is appointed, the Trustee can monitor ongoing compliance with ESG and other factors like stewardship as a part of overall performance and use its Investment Consultant's engagement with the managers on the Trustee's behalf in its decision making (where appropriate).

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

Non-financially material factors

- 5.7 The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) when making investment decisions on behalf of members as there is not likely to be a common view on any ethical matters amongst members; but makes available two funds, one consistent with Sharia principles and one reflecting a particular ethical approach, which aim to satisfy certain sets of beliefs. These are available to all members. Given this, the Trustee has no plans to seek the views of the membership on ethical considerations at the current time.

Responsible investing

- 5.8 The Trustee is supportive of the UN Principles for Responsible Investing and the UK Stewardship Code and considers whether managers are signatories and adhere to them.

Asset manager review

- 5.9 As part of the appointment of the investment managers, the Trustee has entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of the activities of each investment manager and pooled investment vehicle, their charging basis and other relevant matters. The Trustee has a limited ability to renegotiate commercial terms with such vehicles. The key mechanism by which the Trustee can influence managers in this context is its ability to decide whether to invest or disinvest in the manager's fund.
- 5.10 The Trustee and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as quarterly performance reviews (including understanding key drivers of performance). The Investment Advisor and Trustee review the governance structures of the investment managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested. The Trustee's arrangements with its investment managers are ongoing, with their duration subject to the Trustee's reviews of its managers. The Trustee's ability to terminate a manager's mandate is facilitated by the liquid nature of the Trustee's investments. The Trustee's regular reviews involve an assessment of whether the manager's performance and remuneration are in line with the Trustee's aims and objectives including the policies in this document.
- 5.11 Where it can be determined, the Trustee and Investment Advisor assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives on an annual basis. The Trustee periodically review the overall value-for-money of using the Investment Advisor and investment managers. Information in relation to costs associated with investing is included in annual fee review considered by the Trustee. The Trustee expect the investment managers:

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement/pooled fund investment documentation, and
 - to assess and make decisions based on the medium- to long-term financial and non-financial performance (meaning relevant governance functions that can ultimately drive financial performance and enable trustee oversight) of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Plan's performance, which are reflected and measured relative to the Trustee's long-term performance objectives, and managers are incentivised to do so, as if managers' funds do not deliver in line with the expected risk and return policy, managers are aware that the Trustee will consider disinvesting. In addition, managers are aware that by failing to respond to the Investment Adviser's engagement on the Trustee's behalf, the manager risks being removed from the Investment Adviser's buy list.
- 5.12 The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Advisor is required to prevent or manage conflicts of interest. The Investment Advisor's Conflict of Interest policy is available publicly.⁵⁶
- 5.13 The Trustee oversees the turnover costs (where available) incurred by the investment managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Advisor's expectations. Information in relation to costs associated with investing is included in annual fee review considered by the Trustee. The Trustee does not have a defined targeted portfolio turnover or turnover range but monitors portfolio turnover on a quarterly basis to ensure that this is in line with each particular mandate. Where there are material deviations the Trustee engages with investment managers to understand the rationale for such deviations and take appropriate action.

Liquidity

- 5.14 Where practicable the Trustee will invest in assets that can be quickly realised (i.e. bought and sold) to allow it to invest or disinvest in each on a daily basis, recognising that contributions need to be invested promptly and members expect to be able to access or transfer their funds quickly. In practice the Trustee facilitates investments and disinvestments at least twice a week.

⁵⁶ https://riverandmercantile.com/Asp/uploadedFiles/File/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

Review of Statement of Investment Principles

- 5.15 The Trustee's investment policy and the investment options offered to members and described in this Statement comply with the relevant legislation and are reviewed each year. During the year, the Trustee may add, change or remove investment options in accordance with the policies in this statement. This Statement will be reviewed at least every year or when a significant change to investment strategy or policy is made. Any new investment options will be reflected in the next review of this Statement.
- 5.16 This statement is published on the Cheviot Trust website.

Signed on behalf of Cheviot Trustees Limited

Elspeth McKinnon

Date : 1 October 2020

The investment funds which currently make up the Cheviot Lifeplan⁵⁷ and self-select fund options are set out in the tables below. The funds used in the Cheviot Lifeplan⁵⁸ have specific targets for stability of returns measured against the market which are reviewed by the Investment Committee each quarter. Any changes in options will be reflected when the Statement of Investment Principles is reviewed. An up to date list of fund options is always available from ceo@cheviottrust.com. The range of self-select funds and alternative retirement strategies are set out on the next page.

Cheviot Lifeplan

Fund	Long Term Objective	Risk rating (out of 6)
Pre-retirement⁵⁹		
Cheviot Growth	CPI + 4% - 5%	5
Cheviot Moderate	CPI + 3% - 4%	4
Cheviot Cautious	CPI + 2% - 3%	3
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash (25% of total fund)	In line with cash benchmark	1
Post-Retirement		
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash (10% of total fund)	In line with cash benchmark	1

The Cheviot Lifeplan transitions members' savings through different funds through their membership based on a date selected by the member (Target Retirement Date) or State Pension Age if no date has been set. The move between funds takes five years until the last transition before retirement when the switch is completed over two years. The change to post retirement takes place when members take their tax-free cash. The chart below shows where funds are invested at different times.

More than 25 years from retirement	Cheviot Growth
20 years from retirement	Cheviot Moderate
5 years from retirement	Cheviot Cautious
1 year from retirement	75% Cheviot Retirement Planning 25% Cheviot Cash
Post retirement	90% Cheviot Retirement Planning 10% Cheviot Cash

⁵⁷ The default fund for the purposes of the legislation.

⁵⁸ Other than the Cheviot Cash option.

⁵⁹ Retirement is defined as when a member takes their tax-free cash.

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

Self- Select options

Fund	Long Term Objective ₁	Risk rating (out of 6)
Cheviot Growth	CPI + 4% - 5%	5
Cheviot Moderate	CPI + 3% - 4%	4
Cheviot Cautious	CPI + 2% - 3%	3
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash	In line with cash benchmark	1
Cheviot Low Cost	CPI + 2% - 3%	4
HSBC Shariah	In line with Shariah benchmark	6
LGIM Ethical	In line with ethical benchmark	6
LGIM UK Equity Index Fund	In line with FTSE All-Share Index	6
LGIM World Equity Fund (50% GBP hedged)	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged	6
Blackrock Aquila Connect Emerging Markets Fund	In line with MSCI Emerging Markets Index	6

STATEMENT OF INVESTMENT PRINCIPLES MONEY PURCHASE SECTION

APPENDIX B

ADDITIONAL FUNDS FOR NAMED EMPLOYERS

The Trustee may agree with certain employers to provide access for their employees or former employees to specific additional funds to those set out in Appendix A. These funds will be governed under the same arrangements as the Cheviot arrangements but access to these funds is restricted to employees or ex-employees of named employers.

The Trustee will regularly review these additional options against their objectives and may change or withdraw them in future if necessary. The additional options are currently as set out below. Any changes in options will be reflected when the Statement of Investment Principles is reviewed. An up to date list of fund options is always available from ceo@cheviottrust.com.

Fund	Long Term Objective	Risk rating (out of 6)
Blended funds		
R&M Long Term Growth Fund	CPI + 5%	4
R&M Stable Growth Fund	CPI + 4%	3.5
R&M Cautious Growth Fund	CPI + 3%	3
R&M Fixed Annuity Protection Fund	Match the movement in the price of fixed annuities (investing in a mix of government and corporate bonds)	2
R&M Cash Fund	Match a cash return	1



Appendix 4 – Implementation Statements

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the Cheviot **trust**

Implementation Statement Money Purchase Section

July 2022



Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles (the Statement) dated September 2021, has been followed during the Scheme year ending 31 December 2021¹. It includes details of how the Cheviot Lifeplan (the default option) meets the needs of members and how the ESG (environmental, social and governance) and engagement policies have been implemented and voting behaviour carried out on behalf of the Scheme.

Review of the Statement of Investment Principles

2. No investments made in the year were inconsistent with the Statement. The Investment Committee (the Committee) has delegated powers to consider investment issues and reviews the Statement annually. It agrees any changes in the context of the annual strategic review of the Money Purchase Section, with advice from the investment and legal advisers. The Statement will be updated when the changes agreed as part of the strategic review are implemented (expected to be mid 2022). A consultation exercise with employers will be completed before the Statement is signed.
3. The current Statement is available on both the corporate and member focused Cheviot websites.²

Investment objectives

4. The primary objectives of the Trustee for the Money Purchase Section as set out in the Statement are set out below with a description of how they were implemented during 2021.

Objective	Implementation
To provide a default plan, called the Cheviot Lifeplan to provide members with an "adequate" retirement income³ in as smooth a manner as possible, taking risk where it is most rewarded and protection where it is most needed. The Cheviot Lifeplan is based on a range of investment options and strategies which are also available to members who wish to choose their own investment approach.	A strategic review of the Cheviot Lifeplan ⁴ is completed annually by the Investment Committee, through delegated powers from the Trustee. The review in 2021 was completed in May and included a detailed analysis of the likely retirement outcomes against three measures: the UK Living Wage, the Pension Commission's Target Replacement Ratio and the PLSA's retirement living standards. The Committee concluded that the Lifeplan continued to meet its objectives.
To provide a range of investment options that members can select.	The review of options that members can select was reviewed against the needs of members
To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.	Following the review of options, the Committee agreed to introduce an ESG equity fund when a suitable fund was available on the investment platform. We expect this option to be available in mid-2022.
To provide investment options for members who wish to invest in line with stock markets.	Three equity only funds are available to members. A fourth, the ESG equity fund, will be introduced in 2022.

¹ It has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and guidance published by the Pensions Regulator.

² www.cheviottrust.com/www.mycheviotpension.com

³ Measured by reference to the UK Living Wage, the Pension Commission's Target Replacement Ratio and the PLSA's retirement living standards.

⁴ The default option for the purposes of the legislation



Objective	Implementation
To provide an element of stability in investment returns. The Trustee believes that stable returns are more valuable to members than volatile returns. This is reflected in how risk is measured, both by fluctuations in returns, and historic and prospective falls in value.	The core options used in the Cheviot Lifeplan are structured to target more stable returns than the market. The funds are reviewed against stability targets each quarter by the Investment Committee.
To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.	Any incidents of contributions being invested in the wrong options are remedied and reported to the Trustee in a quarterly Governance Report. The Governance Report also includes details of performance against service standards for all core financial transactions.
As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.	All options are able to deal daily. The Islamic fund is traded separately to other transactions as the unit prices are available one day after the other options which causes disruption. A very small number of members participate in this option.
The implementation of the policies in this statement (SIP) are intended to ensure assets are invested in the best interests of members by seeking to secure an appropriate level of risk for the member depending on their age and planned retirement date, including the Cheviot Lifeplan, whilst allowing members to make their own decisions if they choose to.	<p>The options were reviewed as part of the strategic review. The Trustee concluded that all options have clear risk ratings and those within the Cheviot Lifeplan are used to reduce risk in respect of members' tax free cash as members approach their planned retirement date, whilst recognising that most members leave the remainder of their fund invested after accessing the cash.</p> <p>The Committee reviewed the transition into cash as members approached retirement and the returns available for the period of transition. It concluded that the transition should be completed at the member's Target Retirement Date rather than one year before to improve available returns by leaving assets invested for longer.</p> <p>The post retirement options were also reviewed in light of member behaviour. The Committee concluded that the cash allowance should be reduced from 10% to 5%, reflecting member behaviour and to encourage a prudent level of drawdown.</p> <p>These changes will be implemented after the strategic review in May 2022 which will be focusing on the implications of the current high level of inflation on the current investment targets.</p>

Ongoing investment governance

- Investment governance is delegated to the Investment Committee including the provision of key documents such as this Implementation Statement.



6. The Investment Committee held eight meetings during 2021. The Investment Committee received detailed information on the performance of the investment strategy quarterly against its long term targets and risk measures and discussed it with the investment advisers.⁵ This information was formally reported to each quarterly Trustee meeting.
7. The primary investment objectives for the growth funds in the Cheviot Lifeplan are to achieve inflation-related returns over a full market cycle of about five years. The secondary investment objective is to provide these returns with less fluctuation in value than the market. Both these objectives were met during 2021. The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the investment advisers. The quarterly reviews of the other investment options confirmed that they achieved a return consistent with the stated objective.
8. Investment performance for the year is available in the Cheviot Pension accounts which also include details of the underlying investments and how they were assessed and valued for the accounts. No illiquid assets are held within the Money Purchase Section. The Investment Committee is satisfied, on advice from the investment advisers, that the nature, disposition, marketability, security and valuation of the Scheme's assets are in line with the investment objectives and strategy, risk controls and return expectations.
9. Advisers are held to account and their performance assessed and reviewed regularly. Quarterly reports are provided to the full Board on each adviser. The investment adviser was reviewed in detail in early 2021 against detailed objectives. An external advisor provided a review of performance in April 2022.
10. The investment adviser reviewed the underlying managers during the Scheme year and made a brief performance assessment against the key managers each quarter. The investment adviser provided an annual more detailed review which included benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. Operational due diligence reviews, along with many areas, included a review of the governance structure, portfolio turnover, conflicts of interest, ESG and stewardship policies.
11. ESG training was provided by the investment advisers part of the annual ESG review of managers. The legal advisers provide quarterly updates explaining new requirements and how they may impact Cheviot. Several Committee meetings during 2021 focused specifically on the requirements set by the Task Force on Climate-related Financial Disclosures (TCFD).
12. The Committee updated its investment beliefs to reflect the impact of climate change on assets, including physical, transition and social risks and opportunities, the Paris Agreement and issues around engagement and influence. A Climate Change Policy was developed. It included the governance structures, including training and assessment of the capabilities of its advisers and service providers on climate related risks and opportunities, a strategic for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. Both the investment beliefs and the Policy were discussed and agreed by the Trustee in September 2021.

Risks

13. All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets to reduce investment risk, which can include (but are not limited to) assets such as developed market equities, emerging market equities, UK or other sovereign bonds, corporate bonds, high yield bonds, real estate,

⁵ Formerly River and Mercantile Solutions, now Schroders Solution following its acquisition of the R&M Solutions team.



and money market instruments. The balance between different kinds of investments reflects the risk profiles of each option.

14. During the Scheme year, risks were measured and managed as part of regular investment strategic governance, asset allocation reviews and investment strategic reviews. The Investment Committee reviewed the relevant risks each quarter and identified, evaluated, managed and monitored risks, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting from the investment adviser, risks are measured against risk tolerance and market conditions to check whether the performance of each investment option remains in line with the agreed risk objectives. The risk and return tolerances were considered as part of the strategic review in May 2021 considering whether the target returns were still achievable.
15. The Committee held an additional meeting in 2021 to enable it to consider the issues of Climate Change and TCFD in detail. As part of this session, it received training on the risk and opportunities associated with climate change and identified several specific risks which were incorporated into the risk register. These additional risks were rated red (the highest level of risk) given the uncertainty of the situation, the current likelihood of a failed transition and the resultant financial impact.

Transitions

16. Asset allocation changes were implemented by the administration team, in conjunction with the investment platform provider and investment adviser.

Investment Platform provider

17. The Trustee invests the Scheme's assets through an investment platform of pooled funds with Mobius Life. As a result, the Trustee is constrained in its ability to directly influence the underlying investment managers who make the day to day investment decisions.
18. The Scheme's investment advisor is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The next review will be completed in the first half of 2022. The last review did not reveal any issues which impacted Cheviot directly. The Investment Committee remain comfortable that the policies on the exercise of rights in relation to the investments and engagement activities have been followed but will review this when the next due diligence report is available.

Value for members

19. The Trustee appointed consultants to carry out an annual assessment of the Money Purchase Section's services during 2021. The assessment was reviewed by the Investment Committee in February 2022. The assessment was completed by Schroders Solutions, based on its knowledge of the market and operation of other trustee boards and the framework provided by the Pensions Regulator. The quality of the services was assessed through establishing whether the Money Purchase Section's services were suitable, relevant and provided value to members and whether each of the services had performed effectively. The assessment also identifies, in conjunction with the Committee, areas where future actions could further improve the value provided.
20. The Committee has delegated powers to review the assessment. It concluded that services provided were high quality and provided value for members in the three key areas of governance and management, investment and administration and communications services. These services made a positive contribution to member outcomes.



21. The overall charge was within the range identified by Schroders Solutions but at the high end, given the discounting available by the largest providers in the Master Trust market. The Trustee continues to focus on reducing overall charges, having reduced charges in both 2020 and 2021.

Environmental, social and governance factors

22. When selecting and monitoring an investment the Investment Committee considers financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change. The Investment Committee reviews their ESG policy and any relevant information regularly.
23. The Investment Committee has considered the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Investment Committee is also considering those elements of the investment strategy where the fundamental investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.
24. Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. This includes alignment with the Trustee's investment strategy. A long-term approach is taken to setting risk and return targets and when assessing manager performance against those targets. The fee structure for each manager is based on a percentage of assets managed. The manager is therefore incentivised to grow assets in line with the set objectives. Such factors may also be important criteria for considering the replacement of a manager. Ultimately, the assets would be disinvested from any manager which is not considered to be in line with the agreed strategy.
25. Once a manager is appointed, the Investment Committee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and uses its Investment Adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate). Most of the appointed managers take ESG factors into account as part of their investment process.
26. For example, as mentioned above in para 4, the Committee decided to add an ESG focused equity fund to the Trust's self-select range. A particular fund was considered for inclusion and ESG metrics were provided for that fund. ESG issues were clearly very significant in the selection of this fund and contributed to the subsequent decision not to invest. An alternative fund has been selected, after the ESG metrics were reviewed, and is expected to be available later in 2022.
27. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy.
28. The Investment Committee does not at present take account of non-financially material factors when making investment decisions on behalf of members but makes two funds available which aim to satisfy certain sets of beliefs (Sharia principles and a particular ethical approach).

Engagement and stewardship

29. The Trustee is supportive of the UN Principles for Responsible Investing the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders is a PRI signatory and were rated A+ by the PRI in 2019 for the fifth year for its overall strategy and governance in relation to sustainable investment. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.



30. Since the underlying investment funds used in the Money Purchase Section are pooled products (i.e. funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors or give directions on stewardship such as how voting rights are used. The performance of each manager is included in the governance report from the investment advisers as well as commentary on any issues which have arisen.
31. Despite the lack of contractual relationship, working with our investment advisers, the Trustee has reviewed those funds with more than 2.5% of the Money Purchase Section's assets and asked the investment platform provider for information about their voting activity.
32. The platform provider (Mobius Life) did not vote on behalf of the Trustees. This is due to their policy not to vote at the fund level as they cannot represent all their underlying investors that way. This is common practice in the industry. Mobius actively engages with asset managers and is in support of the UK Stewardship code. Mobius contacts each of the asset managers they invest with on an annual basis to ensure they are complying with Mobius' governance requirements at a company level and in their investment approach. The Trustees are satisfied that the level of engagement demonstrated by Mobius is appropriate.
33. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1.⁶ Both equity managers show meaningful engagement practices.

Conclusion

34. The Investment Committee, on behalf of the Trustee under its delegated powers, considers that it has followed the policies set out in the Statement of Investment Principles without any significant deviations.

Sir Derek Morris

Sir Derek Morris
Chair, Cheviot Trustees Limited
29 July 2022

⁶ Information based on data available from Mobius.



Appendix 1

Voting and Engagement Summary

The Investment Committee has considered the voting and engagement summary provided by its investment advisers in relation to the engagement and voting activities of the underlying managers of the Section's pooled funds. Both primary equity managers show strong and meaningful engagement practices making use of proxy voting so that they can participate in as close to 100% of votes as possible.

As there are multiple underlying funds used in the Cheviot Lifeplan, the analysis includes allocations which are c.2.5% of assets or higher within any of the Lifeplan's blended funds as at 31 December 2021. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have voting data to be considered. The funds reviewed are set out below.

Asset class	Fund name	Maximum allocation within default investment strategy
Equity	LGIM North America Equity Index	16.6%
	LGIM North America Equity Index (GBP Hedged)	16.3%
	LGIM Europe ex UK Equity Index (GBP Hedged)	4.6%
	LGIM UK Equity Index	3.4%
	LGIM Japan Equity Index – (GBP Hedged)	3.0%
	BlackRock European Equity Index Fund	4.5%
	BlackRock Emerging Market Index Funds	10.5%
	BNY Mellon Efficient US High Yield Beta Fund (GBP Hedged)	8.6%
Bonds	BlackRock Aquila Connect Corporate Bond Index Fund All Stocks	6.2%
	BlackRock Aquila Connect Over 15 Year UK Gilt	2.6%
	LGIM All Stocks Gilts	4.3%
Cash	LGIM All Stocks Index Linked Gilts	4.4%
	BlackRock Institutional Sterling Liquidity Fund	5.4%

Over the year to 31 December 2021, the platform provider, Mobius Life, did not undertake any voting activity in respect of the pooled funds held on its investment platform as a matter of policy. This is common practice in the industry.

Voting and engagement activity undertaken by the underlying investment managers is set out in the following sections.

Equity managers

Summary for LGIM

LGIM's Investment Stewardship team uses Institutional Shareholder Service's "ProxyExchange" electronic voting platform to electronically vote client's shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

During 2021, LGIM engaged with 665 companies globally, voted on over 66,000 resolutions and opposed 4,700 director elections due to governance concerns. It continued and increased their progressive stance on income inequality, diversity and board independence.

The voting behaviour is shown in the chart below and demonstrates LGIM's policy of active engagement and willingness to vote against management if it is considered necessary. LGIM provided meaningful examples of their engagement policy.



.LGIM Passive Funds 31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Asia Pacific (ex-Japan) Developed Equity Index	330	2361	100%	74%	26%	0%
Europe (ex-UK) Equity Index - GBP Currency Hedged	504	8502	100%	84%	16%	0%
Japan Equity Index - GBP Currency Hedged	448	5366	100%	86%	14%	0%
North America Equity Index - GBP Currency Hedged	625	7766	100%	71%	29%	0%
North America Equity Index – Unhedged	625	7766	100%	71%	29%	0%
UK Equity Index	598	8169	100%	92%	8%	0%

LGIM's Most Significant Engagement Examples

Amazon.com, Inc:

LGIM voted against a high-profile resolution where the company proposed to re-elect current CEO and Director Jeffrey P. Bezos as Chair of the Board.

The rationale for the voting decision was:

- LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they are voting against all combined board chair/CEO roles.
- LGIM have published a guide for boards on the separation of the roles of chair and CEO, and have reinforced their position on leadership structures across their stewardship activities – e.g., via individual corporate engagements and director conferences.

Around 95% of shareholders supported the resolution. The meeting result shows evidence on LGIM's greater emphasis on the topic of corporate governance. LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

SoftBank Corp:

LGIM voted against a high-profile resolution where the company proposed a change in articles to allow virtual-only AGMs beyond the temporary regulatory relief effective for 2 years from June 2021. The voting decision was communicated directly to the company before the Annual General Meeting ("AGM").

The rationale for the voting decision was:

- Japanese companies remain able to hold virtual meetings using temporary regulatory relief (without amending articles) for two years, but the passage of this proposal would authorize the company to hold virtual meetings permanently, without further need to consult shareholders, even after the current health crisis is resolved.
- The proposed language fails to specify situations under which virtual meetings will be held, raising concerns that meaningful exchange between the company and shareholders could be hindered, especially in controversial situations such as when shareholder proposals are submitted, a proxy fight is waged, or a corporate scandal occurs. LGIM voted against resolution 1 to signal its concerns.

About 94% of shareholders supported the resolution.

LGIM considers this vote significant as it highlights the challenges of factoring in the impact of the COVID situation into the corporate governance practices going forwards.



Summary for Blackrock

BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

The statistics for Blackrock demonstrate its level of engagement and voting policies, including voting against management where considered appropriate. Blackrock provided meaningful and helpful examples of key votes and examples of engagement, focused on climate related risks and opportunities.

Blackrock Passive Funds 31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	3841	33497	100%	89%	10%	2%
European Equity Index Fund	443	6924	99%	85%	14%	1%

Most significant vote(s) and examples of Engagement

Huadian Power International:

BlackRock voted against a high profile resolution where the company proposed an acquisition of three coal-fired power projects.

The rationale for this voting decision was:

- Because the company trades at a significant discount to its net asset value, the acquisition of the three coal-fired power plants was priced at a 36% premium to the net asset value (NAV) of the assets themselves. This was a striking contrast to the market valuation of the company itself.
- The deep discount of the company's valuation in relation to its NAV may reflect mounting investor concerns regarding the quality and environmental impact of coal-fired power assets in China. These concerns include declining thermal utilisation hours, government policies that aim to reduce coal consumption and, expected rising operating expenses due to the launch of the national emissions trading scheme (ETS) in July 2021, among other factors. However, such considerations do not appear to have been reflected in the pricing of the transaction.

BlackRock considers this vote significant as it highlights the risks involved in the transition to low carbon economies and the potential financial implications to companies that do not recognise this.

Total SE (Total):

Blackrock voted for a high-profile resolution approving the company's sustainable development and energy transition plan.

The rationale for this voting decision was:

- The resolution met BlackRock's expectations that companies have clear policies and action plans to manage climate risk, this resolution provided a roadmap toward the company's stated climate ambitions and targets.
- Total's 2050 net zero targets appear to be consistent with the goals of the Paris Agreement, and BlackRock believes that the strategy strikes a reasonable balance between ambition and pragmatism as it relates to the global energy transition.

Bond managers

BNY Mellon - Efficient US High Yield Beta Fund (GBP Hedged)

No significant votes or examples were reported during the year.

BlackRock – Aquila Connect Corporate Bond Index Fund All Stocks

No significant votes or examples were reported during the year.

BlackRock – Aquila Connect Over 15 Year UK Gilt



Implementation statement 2022 - Money Purchase Section

No significant votes or examples were reported during the year.

Legal and General Investment Management (LGIM) – Over 15 Year Index-Linked Gilts Index

No significant votes or examples were reported during the year.

Cash manager

BlackRock Institutional Sterling Liquidity Fund

Due to the nature of this Fund's investments, it does not utilise vote proxies.



the Cheviot **trust**

Implementation Statement With Profits Section

July 2022

Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles (the Statement) has been followed during the Scheme year ending 31 December 2021, focusing on how the ESG (environmental, social and governance) and engagement policies have been implemented and voting behaviour carried out on behalf of the Scheme.

Review of the Statement of Investment Principles

2. No investments made in the year were inconsistent with the Statement. The Investment Committee (the Committee) has delegated powers to consider investment issues and reviews the Statement annually. It agrees any changes in the context of the annual strategic review of the With Profits Section, with advice from the investment and legal advisers. The Statement was updated in May 2022 to reflect the triennial valuation undertaken as at December 2020. A consultation exercise with employers was completed before the Statement was signed.
3. The current Statement is available on the both the corporate and member focused Cheviot websites.¹

Ongoing investment governance

4. Investment governance is delegated to the Investment Committee including the provision of key documents such as this implementation statement.
5. The Investment Committee held eight meetings during 2021. The Investment Committee received detailed information on the performance of the investment strategy quarterly against its long term targets and risk measures and discussed it with the investment advisers.² This information was formally reported to each quarterly Trustee meeting.
6. The Cheviot pension accounts include details of the underlying investments and how they were assessed and valued for the accounts. No illiquid assets were held in the With Profits Section at the year end. The Investment Committee is satisfied, on advice from the investment advisers, that the nature, disposition, marketability, security, and valuation of the Scheme's assets are in line with the investment objectives and strategy, risk controls and return expectations.
7. Advisers are held to account and their performance assessed and reviewed regularly. Quarterly reports are provided to the full Board on each adviser. The investment adviser was reviewed in detail in early 2022 against detailed objectives. An external advisor provided a review of performance in April 2022.
8. The investment adviser reviewed the underlying managers during the Scheme year and made a brief performance assessment against the key managers each quarter. The investment adviser provided an annual more detailed review which included benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. Operational due diligence reviews, along with many areas, included a review of the governance structure, portfolio turnover, conflicts of interest, ESG and stewardship policies.
9. ESG training was provided by the investment advisers as part of the annual ESG review of managers. The legal advisers provide quarterly updates explaining new requirements and how they may impact Cheviot. Several Committee meetings during 2021 focused specifically on the requirements set by the Task Force on Climate-related Financial Disclosures (TCFD).

¹ www.cheviottrust.com/www.mycheviotpension.com

² Formerly River and Mercantile Solutions, now Schroders Solution following its acquisition of the R&M Solutions team.

Implementation statement 2022 – With Profits Section

10. The Committee updated its investment beliefs to reflect the impact of climate change on assets, including physical, transition and social risks and opportunities, the Paris Agreement and issues around engagement and influence. A Climate Change Policy was developed. It included the governance structures, including training and assessment of the capabilities of its advisers and service providers on climate related risks and opportunities, a strategic for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. Both the investment beliefs and the Policy were discussed and agreed by the Trustee in September 2021.

Risks

11. During the Scheme year, risks were measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategic reviews. The Investment Committee reviewed the relevant risks each quarter and identified, evaluated, managed, and monitored risks, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting from the investment adviser, risks are measured against risk tolerance and market conditions to check whether the performance of each fund remained in line with the agreed risk objectives.
12. The Committee held an additional meeting in 2021 to enable it to consider the issues of Climate Change and TCFD in detail. As part of this session, it received training on the risk and opportunities associated with climate change and identified several specific risks which were incorporated into the risk register. These additional risks were rated red (the highest level of risk) given the uncertainty of the situation, the current likelihood of a failed transition and the resultant financial impact.

Investment Platform provider

13. The Trustee invests assets through an investment platform of pooled funds with Mobius Life. As a result, the Trustee is constrained in its ability to directly influence the underlying investment managers who make the day to day investment decisions.
14. The Scheme's investment adviser is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The next review will be completed in the first half of 2022. The last review did not reveal any issues which impacted Cheviot directly.

Environmental, social and governance factors

15. When selecting and monitoring an investment the Investment Committee considers financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change. The Investment Committee reviews their ESG policy and any relevant information regularly.
16. The Investment Committee has considered the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Investment Committee is also considering those elements of the investment strategy where the fundamental investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.
17. Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. This includes alignment with the Trustee's investment strategy.

Implementation statement 2022 – With Profits Section

18. A long-term approach is taken to setting risk and return targets and when assessing manager performance against those targets. The fee structure for each manager is based on a percentage of assets managed. The manager is therefore incentivised to grow assets in line with the set objectives. Such factors may also be important criteria for considering the replacement of a manager. Ultimately, the assets would be disinvested from any manager which is not considered to be in line with the agreed strategy.
19. Once a manager is appointed, the Investment Committee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and uses its investment adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate). Most of the appointed managers take ESG factors into account as part of their investment process. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy.

Engagement and stewardship

20. The Trustee is supportive of the UN Principles for Responsible Investing the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders is a PRI signatory and were rated A+ by the PRI in 2019 for the fifth year for its overall strategy and governance in relation to sustainable investment. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.
21. Since the underlying return seeking investment funds used in the With Profits Section are pooled products (i.e., funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors or give directions on stewardship such as how voting rights are used. The performance of each manager is included in the governance report from the investment advisers as well as commentary on any issues which have arisen.
22. Despite the lack of contractual relationship, working with our investment advisers, the Trustee has reviewed those funds with more than 2.5% of the With Profits Section's assets and asked the investment platform provider for information about their voting activity.
23. The platform provider (Mobius Life) did not vote on behalf of the Trustee. This is due to their policy not to vote at the fund level as they cannot represent all their underlying investors that way. This is common practice in the industry. Mobius actively engages with asset managers and is in support of the UK Stewardship code. Mobius contacts each of the asset managers they invest with on an annual basis to ensure they are complying with Mobius' governance requirements at a company level and in their investment approach. The Trustee is satisfied that the level of engagement demonstrated by Mobius is appropriate.
24. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1. Both equity managers show meaningful engagement practices.

Conclusion

25. The Investment Committee, on behalf of the Trustee under its delegated powers, considers that it has followed the policies set out in the Statement of Investment Principles without any significant deviations.

Sir Derek Morris

Sir Derek Morris

Chair, Cheviot Trustees Limited

29 July 2022

Appendix 1

Voting and Engagement Summary

This Statement includes information on the underlying investment managers investing in securities with voting rights attached in which the holding is significant (greater than 2.5% of the total assets). Where proxy voting agents have been used, this has been included in the voting information. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have voting data to be considered.

The funds reviewed are set out below.

Asset class	Fund name	Maximum allocation
Equity	LGIM North America Equity Index (GBP Hedged)	12.9%
	Blackrock Emerging Market Index Fund	6.1%
Hedge Fund	Marshall Wace Liquid Alpha Fund	9.1%

Over the year to 31 December 2021, the platform provider, Mobius Life, did not undertake any voting activity in respect of the pooled funds held on its investment platform as a matter of policy. This is common practice in the industry.

Voting and engagement activity undertaken by the underlying investment managers is set out in the following sections.

Equity managers

Summary for LGIM

LGIM's Investment Stewardship team uses Institutional Shareholder Service's "ProxyExchange" electronic voting platform to electronically vote client's shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

During 2021, LGIM engaged with 665 companies globally, voted on over 66,000 resolutions and opposed 4,700 director elections due to governance concerns. It continued and increased their progressive stance on income inequality, diversity and board independence.

The voting behaviour is shown in the chart below and demonstrates LGIM's policy of active engagement and willingness to vote against management if it is considered necessary. LGIM provided meaningful examples of their engagement policy.

LGIM Passive Funds 31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Asia Pacific (ex-Japan) Developed Equity Index	330	2361	100%	74%	26%	0%
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LGIM's Most Significant Engagement Examples

Amazon.com, Inc:

LGIM voted against a high-profile resolution where the company proposed to re-elect current CEO and Director Jeffrey P. Bezos as Chair of the Board.

The rationale for the voting decision was:

- LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they are voting against all combined board chair/CEO roles.
- LGIM have published a guide for boards on the separation of the roles of chair and CEO, and have reinforced their position on leadership structures across their stewardship activities – e.g., via individual corporate engagements and director conferences.

Around 95% of shareholders supported the resolution. The meeting result shows evidence on LGIM's greater emphasis on the topic of corporate governance. LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

SoftBank Corp:

LGIM voted against a high-profile resolution where the company proposed a change in articles to allow virtual-only AGMs beyond the temporary regulatory relief effective for 2 years from June 2021. The voting decision was communicated directly to the company before the Annual General Meeting ("AGM").

The rationale for the voting decision was:

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BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

The statistics for Blackrock demonstrate its level of engagement and voting policies, including voting against management where considered appropriate. Blackrock provided meaningful and helpful examples of key votes and examples of engagement, focused on climate related risks and opportunities.

31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	3841	33497	100%	89%	10%	2%

Most significant vote(s) and examples of Engagement

Huadian Power International:

BlackRock voted against a high profile resolution where the company proposed an acquisition of three coal-fired power projects.

The rationale for this voting decision was:

- Because the company trades at a significant discount to its net asset value, the acquisition of the three coal-fired power plants was priced at a 36% premium to the net asset value (NAV) of the assets themselves. This was a striking contrast to the market valuation of the company itself.

The deep discount of the company's valuation in relation to its NAV may reflect mounting investor concerns regarding the quality and environmental impact of coal-fired power assets in China. These concerns include declining thermal utilisation hours, government policies that aim to reduce coal consumption and, expected rising operating expenses due to the launch of the national emissions trading scheme (ETS) in July 2021, among other factors. However, such considerations do not appear to have been reflected in the pricing of the transaction.

BlackRock considers this vote significant as it highlights the risks involved in the transition to low carbon economies and the potential financial implications to companies that do not recognise this.

Hedge Fund

31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Marshall Wace Liquid Alpha	120	958	98%	82%	15%	2%

Although Marshall Wace have not provided any specific examples, the Manager has a Stewardship policy that has been in place since 2010 (revised in 2012). The aim of the code is to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. It sets out a number of areas of good practice to which it believes institutional investors should aspire. It also describes steps asset owners can take to protect and enhance the value that accrues to the ultimate beneficiary. The full code can be found here: <https://www.mwam.com/stewardship-code-disclosure>

In particular it is worth noting principle 5: "[The Manager] will consider acting with other investors (including overseas investors), particularly on those occasions where we feel that bilateral discussions with a company are not achieving adequate progress, or the matters are of such gravity that a collective approach seems the best means to focus the attention of a company's directors on those concerns."