



# Money Purchase Section of the Cheviot Pension

Pensions Registry Number 19019601

An authorised Master Trust

Annual Report and Accounts  
For the Year Ended 31 December 2023

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## Trustee and Advisers

### Trustee: Cheviot Trustees Limited

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

#### Investment Advisers

Schroders IS Limited part of the Schroders Group  
Van Lanschot Kempen Investment Management (UK) Limited<sup>3</sup>  
Isio Group Limited

#### Auditor

Crowe U.K. LLP

#### Bankers

National Westminster Bank plc

#### Investment Managers

The Section invests in blended funds held on the Mobius Life Limited investment platform. This platform invests in the underlying managers. Details can be found in the Statement of Investment Principles available on the website.  
Mobius Life Limited

#### Solicitors

Arc Pensions Law LLP  
Pinsent Masons LLP

<sup>1</sup> Retiring on 30 June 2024

<sup>2</sup> Reappointed 13 December 2023

<sup>3</sup> Appointed February 2024.

## Chair's review

**Sir Derek Morris, Chairman**

2023 was a more stable year for investment returns but continued to see the impact of very high inflation on incomes and interest rates and the knock-on effects to the standard of living for many. The war in Ukraine continued to rage and the conflict between Israel and Hamas demonstrated the appalling impact of war on the civilian population. Despite this, investment returns were generally positive as the expectations grew in respect of interest rate reductions and falling inflation.



## Trustee issues

The Trustee has continued to focus on its governance and services to members, operating a mixture of in person, hybrid and virtual meetings, balancing convenience and cost effectiveness with the positive impact of in person meetings. The Board now meets in person quarterly and most Committees meet in person at least once a year.

The Board reviewed its own effectiveness during 2023 and discussed the results in June 2023. Whilst the Board was generally operating effectively, the review identified the challenges of improving diversity on the Board, the importance of monitoring advisers in accordance with service level agreements and the benefits of ongoing training and in person Board meetings. These points will be monitored over 2024.

## Investment performance 2023

Global markets rose during 2023 following the very difficult investment conditions in 2022. On-risk assets rose strongly reflecting increased anticipation of lower interest rates. Performance of Cheviot funds was in line or slightly ahead of markets. Over the longer term, most performance remained below the long term targets given the market conditions in 2002.

The long term targets for the Money Purchase Section were in line with markets over the year but remained behind over three and five years, given the high levels of inflation resulting in targets over this period which were unachievable within reasonable risk parameters.

The Trustee continues to work on ESG issues in line with its 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 Statements and the TCFD report available on our corporate website.

VLK Investment Management was appointed as fiduciary manager and adviser to the Trust in February 2024 following a detailed assessment period which confirmed its position as one of the highest performing fiduciary managers, generating higher returns whilst taking lower risk. Previously known as Kempen in the UK, VLK is the oldest independent financial institution in the Netherlands and its commitment to sustainability stems from its European roots. Its approach to sustainability is described as four pillars: exclusion, ESG integration, active ownership and positive impact. The Trustee is confident that VLK will enable Cheviot to manage and monitor its commitment to reaching net zero going forward effectively.

## Audit and Assurance Framework Report

The Report for the year ended 31 December 2023 was signed on 29 February 2024. The auditors conducting the review did not identify any exceptions to the operation of the controls in place. These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at an operational and trustee governance level across the organisation.



## Communications

Our member website, [www.mycheviotpension.com](http://www.mycheviotpension.com), is easy to navigate and includes a member guide booklet for members of the Money Purchase Section, together with a series of factsheets focusing on investment and retirement. Other factsheets support members of the With Profits Section and the Final Salary Schemes.

Money Purchase members can access live information about their savings through the member portal, accessible through the member website or through an app. Cheviot pension benefit statements were issued in April 2023 were in line with the simpler annual benefit statement guidance issued 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 including detailed information about the difficult investment conditions in 2022.

## Authorised Master Trust

The Trustee submitted the annual return in respect of the Money Purchase Section by 31 March 2023 as required. The Chair's Governance Statement for 2023, as required by the DC Code of Practice, is included on pages 30 to 57 of these accounts and sets out how the Section was managed during 2023.

*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 two co-opted Directors. All Trustee Directors meet the fit and proper requirements of the Master Trust authorisation process. There are two 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 years<sup>4</sup> 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 Gerald Kidd, expired in 2023. No additional candidates came forward and Mr Kidd was reappointed in December 2023 after an open, fair and transparent process. The relevant external checks were completed.<sup>5</sup>

More information about the Trustees is available in the Chair's Statement on pages 30 to 57.

### 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.

<sup>4</sup> Or until replacement or re-appointment following the next appointment process under Article 7.7.4 after the expiry of the three year period or as agreed by the Board.

<sup>5</sup> Mr Kidd is designated as non-affiliated as the appointment process was open and transparent.



## Trustee meetings in 2023

Four full Trustee Board meetings and seven conference calls were held during the year ended 31 December 2023. The Trustee operates a committee structure with six Committees. Each Committee has delegated powers from the Board to undertake certain business on its behalf.

During 2023:

- The Finance and Operations Committee held four meetings.
- The Funding Committee held two meetings.
- The Investment Committee held six meetings.
- The Legal Committee held four meetings.
- The Risk and Compliance Committee held four meetings, and
- The Human Resources Committee held two meetings during the year.

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

Working parties are established for key projects.

## Changes to the Trust Deed and Rules

A new version of the Trust Deed and Rules document was executed in February 2023. The new document is largely a consolidation of the various deeds of amendments since the previous consolidation in 2017 together with some changes to the order of the relevant sections.

## Cost Allocation

All generic costs are incurred by Cheviot Trustees Limited directly and then the appropriate share of those costs is invoiced to the Money Purchase Section.

Costs incurred in respect of the Money Purchase Section are charged directly to the Section.

## 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 Money Purchase Section. They do not take account of future obligations to pay pensions<sup>6</sup> and benefits which fall due after the end of the Scheme year.

## Financial developments in the year

The value of the net assets of the Money Purchase Section as at 31 December 2023 is shown below. The 2022 numbers are shown in brackets. Further details can be found in the Fund Account.

Money Purchase Section	
Assets at 31 December 2023	£162.0m (£142.1m)

<sup>6</sup> Pensions in this context refer to members drawing down benefits from the flexible drawdown facility.



## Investment matters

### Market Overview

Global markets rose during 2023 following the very difficult investment conditions in 2022. On-risk assets rose strongly reflecting increased anticipation of lower interest rates. Performance was generally in line or slightly ahead of long term target over one year. Over the longer term, performance generally remained below the long term targets given the market conditions in 2022.

### New investment adviser appointment and ESG

The Trustee continues to work on ESG issues in line with its 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 Statements and the TCFD report<sup>7</sup> available on our corporate website.<sup>8</sup>

VLK Investment Management was appointed as fiduciary manager and adviser to the Trust in February 2024 following a detailed assessment period which confirmed its position as one of the highest performing fiduciary managers, generating higher returns whilst taking lower risk. Previously known as Kempen in the UK, VLK is the oldest independent financial institution in the Netherlands and its commitment to sustainability stems from its European roots. Its approach to sustainability is described as four pillars: exclusion, ESG integration, active ownership and positive impact. The Trustee is confident that VLK will enable Cheviot to manage and monitor its commitment to reaching net zero going forward effectively.

### Investment Strategy

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

The long term targets for the Money Purchase Section were met in 2023 but remained significantly behind over three and five years. The high levels of inflation during 2022 and 2023 drove performance targets up to a level which were unachievable within the Trustee's risk parameters.

The  
Statement of  
Investment  
Principles is  
available on  
Cheviot's  
website

The annual strategy review undertaken in July 2023 focused on the impact of rising inflation on CPI + targets and the draft on performance of a large cash allocation as members approached retirement. The strategy is being reviewed with the newly appointed manager and adviser and changes are expected later in 2024.

Detailed investment performance information is shown in Appendix 1 – Investment Performance on page 29.

### Management and custody of assets

All assets were 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 enables the Trustee to adopt a dynamic approach in managing return seeking assets. Asset allocation was reviewed at least monthly.

Detailed investment performance information is shown in Appendix 1 – Investment Performance on page 29.

<sup>7</sup> Task Force on Climate-related Financial Disclosures

<sup>8</sup> [https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile\\_FILE/TCFD-Report-2023-Website-signed.pdf](https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile_FILE/TCFD-Report-2023-Website-signed.pdf)





## Environmental, social and governance factors

The Trustee has adopted a bespoke net zero commitment by 2050, reflecting the Paris Agreement's objectives. It reflects the Board's fiduciary responsibilities to members and employers and the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris agreement.

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 appointment of VLK will improve the ability of the Trustee to reflect ESG factors in the investment strategy of all sections and schemes and the quality of the data available to enable better setting and monitoring of targets.

More information about how the Trustee implements the policies in the Statement of Investment Principles is available in the Implementation Statements in Appendix 3 on page 58.

## 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 and an additional ESG equity fund has been introduced from January 2023. 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 in relation to the Money Purchase Section 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-2023-Website-signed.pdf](https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile_FILE/TCFD-Report-2023-Website-signed.pdf)

## Membership

Total membership of the Money Purchase Section, including Life Assurance Only members, was 6,102 as at 31 December 2023. Individual members belong to one or more of the Money Purchase and Life Cover Sections of the Cheviot Pension. Individual membership of each Section of the Cheviot Pension as at 31 December 2023 was as follows:

### Money Purchase Section

31 December 2023				
	Active	Deferred	Pensioner	Total
	1,633	3,904	-	5,537

### Life Cover Section

31 December 2023			
	With Pension Benefits	Life Cover Only	Total
	180	565	745



## Summary of contributions

A summary of contributions as required is on page 28.

## 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 Money Purchase Section.

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.

## 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 and do not increase in payment.

## Transfer values

In accordance with the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996, members of the Money Purchase Section 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.



## 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 judgments 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 30 July 2024 and signed on behalf of the Trustee by:

*Sir Derek Morris*

.....  
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 2023 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 2023, 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 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](http://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**

Statutory Auditor  
London

Date: 30 July 2024



## Fund Account

*for the year ended 31 December 2023*

	Note	2023 Money Purchase £'000	2023 Life Cover £'000	2023 Total £'000	2022 Total £'000
<b>Contributions and benefits</b>					
Employer contributions		4,319	-	4,319	3,574
Employee contributions		2,533	-	2,533	3,163
Total contributions	5	6,852	-	6,852	6,737
Transfers in and other income	6	2,383	-	2,383	2,021
		9,235	-	9,235	8,758
Benefits payable	7	3,408	-	3,408	2,662
Payments to and on account of leavers	8	3,609	-	3,609	3,821
Administrative expenses	9	471	-	471	400
		7,488	-	7,488	6,883
<b>Net additions from dealings with members</b>		1,747	-	1,747	1,875
<b>Returns on investments</b>					
Investment income	10	569	-	569	566
Change in market value of investments	12	17,596	-	17,596	(21,709)
<b>Net returns on investments</b>		18,165	-	18,165	(21,143)
<b>Net movement in the fund during the year</b>		19,912	-	19,912	(19,268)
<b>Net assets of the scheme:</b>					
At 1 January		142,102	-	142,102	161,370
At 31 December		162,014	-	162,014	142,102

The notes on pages 17 to 25 form part of these financial statements.



## Statement of Net Assets (available for benefits)

at 31 December 2023

	Note	2023 £'000	2022 £'000
<b>Money Purchase Section</b>			
<b>Investment assets</b>			
Pooled investment vehicles	12	161,198	140,766
Other investment balances		15	-
		<b>161,213</b>	<b>140,766</b>
<b>Current assets</b>	14	<b>916</b>	<b>1,444</b>
<b>Current liabilities</b>	15	<b>(115)</b>	<b>(108)</b>
<b>Net assets as at 31 December</b>		<b>162,014</b>	<b>142,102</b>
<b>Life Cover Section</b>			
<b>Current assets</b>	14	-	-
<b>Current liabilities</b>	15	-	-
<b>Net assets as at 31 December</b>		<b>-</b>	<b>-</b>
<b>Total net assets as at 31 December</b>		<b>162,014</b>	<b>142,102</b>

The notes on pages 17 to 25 form part of these financial statements.

These financial statements summarise the transactions of the Section 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 Section year.

These financial statements were approved by the Trustee on 30 July 2024 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 Scheme are held in three sections, With Profits, Money Purchase and Life Cover. These financial statements break down the assets of the Money Purchase Section and Life Cover.

#### 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.



#### (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..

#### (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.

#### (e) Investments

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.

#### (f) Financial Reserve

In order to meet the financial sustainability requirements for Master Trusts, there is a Financial Reserve in the Money Purchase Section. 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

	2023 Money Purchase £'000	2023 Life Cover £'000	2023 Total £'000	2022 Money Purchase £'000	2022 Life Cover £'000	2022 Total £'000
Employers						
Normal	4,319	-	4,319	3,574	-	3,574
Employees						
Normal	2,437	-	2,437	3,098	-	3,098
AVCs	96	-	96	65	-	65
	6,852	-	6,852	6,737	-	6,737



## 6. Transfers in and other income

	<b>2023</b>	<b>2023</b>	<b>2023</b>	2022	2022	2022
	<b>Money</b>	<b>Life</b>	<b>Total</b>	Money	Life	Total
	<b>Purchase</b>	<b>Cover</b>		Purchase	Cover	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	£'000	£'000	£'000
Individual transfers in from other schemes	<b>673</b>	-	<b>673</b>	328	-	328
Individual transfers between Sections	<b>1,710</b>	-	<b>1,710</b>	1,653	-	1,653
Claims on term insurance policies	-	-	-	-	40	40
	<b>2,383</b>	-	<b>2,383</b>	1,981	40	2,021

## 7. Benefits payable

	<b>2023</b>	<b>2023</b>	<b>2023</b>	2022	2022	2022
	<b>Money</b>	<b>Life</b>	<b>Total</b>	Money	Life	Total
	<b>Purchase</b>	<b>Cover</b>		Purchase	Cover	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	£'000	£'000	£'000
Pensions	<b>306</b>	-	<b>306</b>	293	-	293
Commutation of pensions	<b>2,392</b>	-	<b>2,392</b>	2,142	-	2,142
Payments on death	<b>710</b>	-	<b>710</b>	187	40	227
	<b>3,408</b>	-	<b>3,408</b>	2,622	40	2,662

## 8. Payments to and on account of leavers

	<b>2023</b>	<b>2023</b>	<b>2023</b>	2022	2022	2022
	<b>Money</b>	<b>Life</b>	<b>Total</b>	Money	Life	Total
	<b>Purchase</b>	<b>Cover</b>		Purchase	Cover	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	£'000	£'000	£'000
Individual transfers to other schemes	<b>3,523</b>	-	<b>3,523</b>	3,723	-	3,723
Purchase of annuities	<b>86</b>	-	<b>86</b>	98	-	98
	<b>3,609</b>	-	<b>3,609</b>	3,821	-	3,821



## 9. Administrative expenses

	<b>2023 Money Purchase £'000</b>	<b>2023 Life Cover £'000</b>	<b>2023 Total £'000</b>	<b>2022 Money Purchase £'000</b>	<b>2022 Life Cover £'000</b>	<b>2022 Total £'000</b>
Legal fees	-	-	-	8	-	8
Audit fees	37	-	34	34	-	34
Administration fees	342	-	290	290	-	290
Professional fees	22	-	15	15	-	15
Other expenses	3	-	3	3	-	3
Irrecoverable VAT	55	-	39	39	-	39
TPR Levy	12	-	11	11	-	11
	<b>471</b>	<b>-</b>	<b>471</b>	<b>400</b>	<b>-</b>	<b>400</b>

## 10. Investment income

	<b>2023 Money Purchase £'000</b>	<b>2023 Life Cover £'000</b>	<b>2023 Cheviot Pension Total £'000</b>	<b>2022 Money Purchase £'000</b>	<b>2022 Life Cover £'000</b>	<b>2022 Cheviot Pension Total £'000</b>
Fee income deducted from investments	567	-	567	566	-	566
Other income	2	-	2	-	-	-
	<b>569</b>	<b>-</b>	<b>569</b>	<b>566</b>	<b>-</b>	<b>566</b>

The Money Purchase Section of the Cheviot Pension invests in blended funds on the Mobius Life investment platform. Charges of £567k (2022: £566k) were deducted from the blended funds during 2023 to meet Cheviot's administration, governance and professional adviser costs.

### 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 2023			Total £'000
	Level	Level	Level	
	1 £'000	2 £'000	3 £'000	
<b>Money Purchase Section:</b>				
Pooled investment vehicles	-	161,198	-	161,198
Other investment balances	15	-	-	15
	<b>15</b>	<b>161,198</b>	<b>-</b>	<b>161,213</b>

	At 31 December 2022			Total £'000
	Level	Level	Level	
	1 £'000	2 £'000	3 £'000	
<b>Money Purchase Section:</b>				
Pooled investment vehicles	-	140,766	-	140,766
Other investment balances	-	-	-	-
	<b>-</b>	<b>140,766</b>	<b>-</b>	<b>140,766</b>

## 12. Investments - Money Purchase Section

(a) Purchases, sales and change in value

	Market Value at 1 January 2023 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Market Value at 31 December 2023 £'000
<b>Money Purchase Section:</b>					
Pooled investment vehicles	139,875	23,689	(21,041)	17,551	160,074
Cash reserve	269	145	-	15	429
Financial reserve	622	43	-	30	695
	<b>140,766</b>	<b>23,877</b>	<b>(21,041)</b>	<b>17,596</b>	<b>161,198</b>
Other investment balances	-				15
<b>Total</b>	<b>140,766</b>				<b>161,213</b>

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 £695k (2022: £622k).

The Money Purchase Section continued to invest in a Cash Reserve during the year which is not allocated to members. This is invested within the Cash Fund £429k (2022: £269k).

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 2023 £'000	Value 31 December 2022 £'000
Mobius Life	Cheviot Growth (blended)	30,686	26,207
Mobius Life	Cheviot Moderate (blended)	68,500	61,271
Mobius Life	Cheviot Cautious (blended)	32,680	29,400
Mobius Life	Cheviot Retirement Planning (blended)	19,824	16,283
Mobius Life	Cash Fund (blended)	7,547	6,506
Mobius Life	Annuity Protection (blended)	290	264
Mobius Life	Mobius (Islamic Global Equity)	243	55
Mobius Life	Mobius (Ethical Global Equity)	155	39
Mobius Life	Mobius (UK Equity)	134	49
Mobius Life	Mobius (Emerging Markets)	74	38
Mobius Life	Mobius (Global Equity)	644	161
Mobius Life	Mobius (Global Equity ESG)	208	-
Mobius Life	Low Cost (blended)	213	493
<b>Total</b>		<b>161,198</b>	<b>140,766</b>

The concentration of assets held within the blended long term investment options at Mobius Life at 31 December 2023 is as follows:

	Growth	Moderate	Cautious	Retirement Planning	Cash	Annuity Protection	Low Cost
<b>Equity</b>	90.9%	71.2%	42.6%	42.6%	0.0%	0.0%	65.1%
<b>Bonds</b>	6.9%	21.5%	29.2%	29.2%	0.0%	0.0%	9.9%
<b>Gilts</b>	1.8%	6.1%	25.6%	25.6%	0.0%	100.0%	25.0%
<b>Commodities</b>	0.2%	0.3%	0.9%	1.9%	1.9%	0.0%	0.0%
<b>Cash</b>	0.1%	0.3%	0.7%	0.7%	100.0%	0.0%	0.0%
<b>Total</b>	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 2022 is as follows:

	Growth	Moderate	Cautious	Retirement Planning	Cash	Annuity Protection	Low Cost
<b>Equity</b>	90.6%	69.7%	40.4%	40.4%	0.0%	0.0%	72.8%
<b>Bonds</b>	5.6%	17.3%	18.5%	18.5%	0.0%	0.0%	8.7%
<b>Gilts</b>	1.9%	6.4%	26.5%	26.5%	0.0%	100.0%	18.5%
<b>Commodities</b>	0.2%	0.9%	1.9%	1.9%	0.0%	0.0%	0.0%
<b>Cash</b>	1.7%	5.7%	12.7%	12.7%	100.0%	0.0%	0.0%
<b>Total</b>	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	2023		2022	
	£'000	%	£'000	%
BLK Life AQC Corporate Bond All Stocks	11,380	7.06	10,444	7.42
BLK Life AQC Emerging Markets Equity	14,957	9.28	15,232	10.82
BNY Mellon Efficient US High Yield Beta Fund L Hedged Inc	14,250	8.84	10,113	7.18
L&G Life EE North America Equity Index - GBP Currency Hedged Fund	26,803	16.63	21,225	15.08
L&G Life S North America Equity Index Fund	22,634	14.04	18,887	13.42

## 13. Investment risk disclosures

### Investment strategy

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 Money Purchase Section 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 £70.4m (2022: £72.9m). The holdings are unrated as they are held in pooled investment vehicles. The underlying assets are investment grade bonds (26%), cash (12%), alternatives (14%), high yield non-investment grade bonds (20%), commodities (2%) and gilts (23%). 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 unit linked insurance contracts £161.2m (2022: £140.8m).

### Currency Risk

The value of the assets exposed to currency risk at the year-end for the Money Purchase Section of the Cheviot Pension was £95.2m global equities, £22.3m overseas bonds, (2022: £80.8m global equities and £10.2m overseas bonds).

The proportion of assets in hedged pooled vehicles in the Money Purchase Section of the Cheviot Pension was 56% (2022: 50%).



#### Interest rate and inflation rate risk

The Money Purchase Section is indirectly exposed to interest rate and inflation risk through its holdings in pooled vehicles which holds bonds and cash.

	2023 £m	2022 £m
Money Purchase Section	60.6	55.2

#### Other Price Risk

The Money Purchase Section 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:

	2023 £m	2022 £m
Money Purchase Section	100.6	85.6

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

## 14. Current assets

	2023 Money Purchase £'000	2023 Life Cover £'000	2023 Total £'000	2022 Money Purchase £'000	2022 Life Cover £'000	2022 Total £'000
Contributions due						
Employers	352	-	352	318	-	318
Employees	165	-	165	161	-	161
Cash balances	352	-	352	898	-	898
Other debtors	47	-	47	46	-	46
Amounts due from related parties (Note 16)	-	-	-	21	-	21
<b>Total</b>	<b>916</b>	<b>-</b>	<b>916</b>	<b>1,444</b>	<b>-</b>	<b>1,444</b>

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.





## 15. Current liabilities

	2023 Money Purchase £'000	2023 Life Cover £'000	2023 Total £'000	2022 Money Purchase £'000	2022 Life Cover £'000	2022 Total £'000
Amounts due to related parties (Note 16)	(8)	-	(8)	-	-	-
Benefits payable						
Retirement	(48)	-	(48)	(35)	-	(35)
Other accruals	(46)	-	(46)	(66)	-	(66)
Other creditors including taxation and social security	(13)	-	(13)	(7)	-	(7)
<b>Total</b>	<b>(115)</b>	<b>-</b>	<b>(115)</b>	<b>(108)</b>	<b>-</b>	<b>(108)</b>

## 16. 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 Section will continue to be charged directly to the relevant entity.

At the year end Cheviot Trustees Limited was owed:

- Money Purchase Section £8k (2022: £0k)

At the year end the Money Purchase Section of the Cheviot Pension was owed:

- Cheviot Trustees Limited £0k (2022: £21k)

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.

## 17. Employer related investment

There were no employer related investments at the end of the year (2022: £0).



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

### **Statement about contributions payable under the Payment Schedules**

We have examined the summary of contributions payable to the Cheviot Pension ("the Scheme"), for the year ended 31 December 2023 which is set out on page 28.

In our opinion contributions for the year ended 31 December 2023 as reported in the summary of contributions and payable under the Payment Schedules have in all material respects been paid at least in accordance 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 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 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 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 Payment Schedules.

### **Auditor's responsibilities for the statement about contributions**

It is our responsibility to provide a Statement about Contributions paid under the 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**

Statutory Auditor

London

Date: 30 July 2024



## Summary of Contributions

### Summary of contributions payable in the year

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

	£'000
Employer normal contributions	4,319
Member normal contributions	2,437
Total	<u>6,756</u>

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

	£'000
AVCs	96
Total contributions as per note 5 on page 18	<u>6,852</u>

This Summary of Contributions was approved by the Trustee on 30 July 2024 and signed on behalf of the Trustee by:

*Sir Derek Morris*

.....

Sir Derek Morris  
**Chairman**



## Appendix 1 – Investment Performance

### The Money Purchase Section

The investment options available to members in 2023 were the existing Cheviot diversified and specialist funds plus three equity only funds, an Islamic fund, an ESG 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.

The Statement of Investment Principles is 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.

#### 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. The long term targets for the Money Purchase Section were met in 2023 but remained significantly behind over three and five years. The high levels of inflation during 2022 and 2023 drove performance targets up to a level which were unachievable within the Trustee's risk parameters.

	1 year		Annual return over 3 years		Annual return over 5 years		Objective
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
<b>Growth</b>	15.2	8.5	4.8	11.1	8.4	8.8	CPI + 4.50%
<b>Moderate</b>	13.6	7.5	3.3	10.1	6.4	7.8	CPI + 3.50%
<b>Low Cost</b>	13.5	10.8	2.0	0.7	6.0	5.4	CPI + 2.50%
<b>Cautious</b>	10.3	6.5	(0.4)	9.1	3.2	6.8	CPI + 2.50%
<b>Retirement Planning</b>	10.3	6.5	(0.4)	9.1	2.3	6.6	CPI +2.50%
<b>Annuity Planning</b>	7.0	4.2	(10.6)	(10.3)	(2.4)	(1.8)	FTSE + 15Yr Index
<b>Cash</b>	4.5	4.8	1.8	2.1	1.2	1.5	7 day Sterling LBID



**Appendix 2 – 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**

**30 July 2024**  
**For the year ended 31 December 2023**

## Background

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. The structure and content of this document reflects the requirements of the Pensions Regulator for Chair's Statements for money purchase schemes. It 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 2023, assessed against the Combined AAF 01/20 assurance reports on Master Trusts and 05/20 internal control assurance reports. No exceptions were identified in the reports. 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 is authorised by the Pensions Regulator as a Master Trust and is subject to regular 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 2024.

## 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 nine directors in total: four member directors, three employer directors and two co-opted directors.<sup>1</sup>
6. All directors who were appointed or re-appointed to the Board during 2023 were subject to external fit and proper checks. 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. **Employer representatives** are nominated by Participating Employers and appointed by the Trustee Board. The term of one employer representative, Mr Gerald Kidd, expired in 2023. All employers were invited by email to put candidates forward as part of an open, fair and transparent process.<sup>2</sup> 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 Kidd in December 2023, subject to the relevant external checks.<sup>3</sup>
8. **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.
9. 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.<sup>4</sup>
10. Appendix 1 of this Statement sets out how the requirement for non-affiliated directors is met. Two member

<sup>1</sup> The Board has agreed to reduce the number of directors to eight. The reappointment process for one employer representative and two member representatives is currently in progress.

<sup>2</sup> Mr Kidd will continue to be designated as non-affiliated as the appointment process was open and transparent.

<sup>3</sup> The checks were completed in January 2024.

<sup>4</sup> Non-affiliated means independent of any undertaking which provides advisory, administration or investment or other services in respect of the Money Purchase Section

representatives, two employer representatives and one co-opted director (the Chair) are designated as non-affiliated.

## Trustee's knowledge and understanding

11. 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

12. During 2023, the Trustee operated six Committees and two Working Parties to help it fulfil its functions. One working party has been disbanded in 2024. 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 of the directors.
13. Two directors are professional trustees and have completed the PMI's Award in Pension Trusteeship.<sup>5</sup> 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 completed the PMI's Certificate in Pension Trusteeship.

## Training

14. An induction process is in place for new directors. There were no new directors during 2023.
15. 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.<sup>6</sup> The Governance Policy requires all directors to complete at least twelve hours of training per year, including training at Board and Committee meetings and other professional development.<sup>7</sup> 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 2023.
16. An education session for directors is held at least once a year, usually in January following an analysis of skills in December of the previous year. The Education session in January 2023 addressed gaps identified in the skills analysis in Q4 2022. The Education session allows training to be undertaken outside the constraints of a Trustee Board meeting. This process is repeated each year, and the training decks remain available to all trustees.
17. 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.<sup>8</sup> All Board papers include a cross reference to the appropriate provision in the trust deed or other document or policy if relevant.
18. Training relevant to the Master Trust during 2023<sup>9</sup> included:
  - (i) Master Trust supervision
  - (ii) AAF reports
  - (iii) Risk management and internal controls
  - (iv) Climate Change and TCFD
  - (v) Trust Deed and Rules and trustee protections.

<sup>5</sup> Sir Derek and Mr Orton

<sup>6</sup> Includes online training.

<sup>7</sup> Professional trustees are required to undertake 25 hours per year.

<sup>8</sup> January 2023

<sup>9</sup> Some training was presented at Committee meetings but was made available to all Directors.



- (vi) Changes in pensions legislation
  - (vii) Defined contribution strategy review including value for members, member outcomes, decisions at retirement and default investment strategies
  - (viii) Management and assessment of advisers
  - (ix) Investment issues including implementation statements, Statement of Investment Principles and TCFD reporting
  - (x) Cyber security
  - (xi) Assessing Board effectiveness
  - (xii) Directors Duties
  - (xiii) Review of the new General Code
  - (xiv) Conflicts of interest
19. All directors are members of the Pensions Management Institute and receive regular updates and opportunities for further training. Two directors are also members of the Association of Pension Lawyers.<sup>10</sup>
20. Two Directors<sup>11</sup> serve on industry groups and several attended external virtual and in person 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

21. 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

22. The Trustee Board reviews its own effectiveness as a group regularly and pursues any actions that flow from its conclusions. All directors completed a questionnaire based on the TPR's template in advance of the June 2023 Board meeting. The combined results were then discussed at that meeting. The following changes were proposed, following the discussion which included consideration of the following issues:
- The difficulty of improving diversity on the Board. The Trustee agreed to be more proactive in the approach to members, specifically asking key firms to advertise Trustee vacancies on their extranet.<sup>12</sup>
  - Monitoring advisers in accordance with their Service Level Agreements (SLAs) and relationships with Scheme Employers and picking up performance issues more quickly.
23. The benefit of each full Board meeting being held in person and the usefulness of the training session held the day before the Board meetings. These issues have been monitored and followed up.<sup>13</sup>

## Governance

24. There is a clearly articulated governance policy, reviewed at least annually,<sup>14</sup> setting out the roles and

<sup>10</sup> Ian Gault and Martin Poore

<sup>11</sup> Elspeth McKinnon, Maralyn Thomas

<sup>12</sup> This will be introduced in 2024.

<sup>13</sup> The Board has had further training on equality, diversity and inclusion in early 2024.

<sup>14</sup> The Governance Policy was regularly reviewed during 2023.

responsibilities of the directors and the different Committees and Working Parties, together with policies regarding delegations, decision making powers, conflicts of interest, data protection, reporting requirements, appointment of advisers and climate change.

25. A strategic and operational plan is reviewed quarterly together with a detailed 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

26. A committee structure is used to provide more focus on key areas. Each Committee has written terms of reference which set out delegated powers from the Trustee Board. Actions and risks relevant to each Committee are standing items on the relevant agendas. Working Parties continued to oversee ongoing projects which require oversight from more than one Committee.
27. Four full Trustee Board meetings and seven Board conference calls were held during 2023 together with at least month strategic planning meetings. The Finance and Operations, Risk and Compliance and Legal Committee each held four meetings, the Investment Committee held six meetings, the Funding Committee and the Human Resources Committee held two meetings during the year.

## Feedback from members

28. The Money Purchase Section provides benefits across more than 50<sup>15</sup> employers which are non- associated and based in multiple locations across the country. Approximately 30% of the membership of 5,536 are active members and making contributions.<sup>16</sup>
29. Given the diversity of employers and location, an in-person meeting for members is not effective although we continue to consider whether virtual meetings would be useful. Our approach to encouraging feedback is largely based on regular communications and the website. Approximately 75% of members receive electronic communications, with the rest receiving member specific information by post. The open rate for the benefit statement email in 2023 was around 70%.
30. The Trust issues a report each year to all members which includes topical and relevant items and encourages members to pass on feedback about how the Trust is managed.<sup>17</sup> We also include contact details on the website which enables members to write to a specific email address: [people@cheviottrust.com](mailto:people@cheviottrust.com). Any comments are considered by Cheviot staff and significant feedback reported to the Trustee if appropriate.
31. Benefit statements at December 2022 were issued in June 2023 and were in line with the DWP statutory guidance for simpler statements. Two factsheets were issued at the same time: the first explaining some background to the benefit statements, the second explaining the disappointing 2022 performance and why members close to retirement suffered significant falls in value.
32. The benefit statements were made available through the member dashboard, accessed through the member website. To ensure security, the dashboard has two factor authentication. The Board continues to monitor the response to the dashboard. More than 52% of members are accessing the dashboard through the app.
33. The 2023 report included articles on Cheviot's ITN 'Pensions at Work 100' short film made in conjunction with the Pensions and Lifetime Savings Association, the focus on climate change together with a market overview and signposts to core documents, including the Statement of Investment Principles and the Chair's Governance Statement.

## Core financial transactions

<sup>15</sup> Only includes Active Employers

<sup>16</sup> Figures as at 31 December 2023

<sup>17</sup> Front page of Report to Members issued 2023

34. The Directors have agreed written financial authorities and service level requirements<sup>18</sup> with the internal administration team<sup>19</sup> 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.
35. 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

36. A quarterly Governance report on performance against service level requirements is discussed at each Finance and Operations meeting and reported to the Board. The report includes 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.
37. The administration aspects of the Governance report are based on automated and robust management information reporting from the administration system. Based on this management information, the Finance and Operations Committee reviews and discusses any slippage in service standards as necessary, agrees remedial plans if necessary and reports to the Board. All service standards were met during 2023 apart from one quarter<sup>20</sup>.
38. The auditors reviewed key elements of the Governance reports during 2023 as part of their audit process and produced a detailed report which was reviewed by the Finance and Operations Committee. No substantive or systemic issues were identified.

## Conclusion

39. Regular governance reports enable the Board to monitor service standards and identify any issues which need to be remedied. No such issues arose during 2023. The service standards agreed with the administrators have been met during 2023. The finance team did not meet the target in one quarter (May-July) in respect of member payments. Six member payments fell outside the target due to staff sickness, administration delays and trustee unavailability for large payments between May and July 2023. These issues have not reoccurred since.
40. As a result of the provision of detailed management information and the confirmation from the Trust's auditors, 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 2023. This is kept under close review.

## Investment issues

41. 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

42. Investment governance is critical to the success of the investment strategy. It is delegated to an Investment

<sup>18</sup> The service level requirements were reviewed as part of the Governance Policy in December 2023. Bank accounts are monitored daily.

<sup>19</sup> The administrators are directly employed by the Trustee.

<sup>20</sup> See para 61.

Committee which met six times during 2023.<sup>22</sup> Although the investment options are expressed simply to members to make them easy to understand, the underlying strategy is much more sophisticated and usually includes around 24 different underlying funds excluding self-select options. The asset allocation is managed actively. It is reviewed at least monthly and more often if warranted by market conditions.

## Investment performance

43. The Investment Committee and Trustee Board reviewed investment performance quarterly against performance targets set for each option which included both return and stability targets, risk budgets and market conditions. The Investment Committee also considered an annual report from a third party adviser on the performance of the assets. The Growth, Moderate and Cautious blends all slightly underperformed the short-term benchmarks over the year. The blends also underperformed their long-term inflation-linked benchmarks over 3 years per annum and 5 years per annum, mainly because of the high levels of inflation.

## Investment platform provider

44. All the funds were held on Mobius Life's investment platform to facilitate the Trustee's dynamic asset allocation strategy. All funds trade daily. The prices for five funds which are included in the investment strategy, the HSBC Islamic Global Equity Index Fund, the BlackRock ACS World Equity ESG funds (GBP hedged and unhedged), the Legal and General 0 to 5 Year Gilts Index Fund and the Invesco Physical Gold Fund are available one day later than the other funds. The Investment Committee reviewed an assessment of the security of assets during the year.<sup>23</sup>

## Range of options

45. The range includes five diversified investment options, four equity funds and four specialist funds.<sup>24</sup> The investment factsheets available on the member website explain details of the options and provides quarterly performance information.<sup>25</sup> A new ESG Global Equity Fund was introduced in January 2023 and is also used in the diversified options where appropriate.
46. 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. The range of options allow members to access the most appropriate investment strategy for their individual circumstances and preferences.

## The Cheviot Lifeplan

47. For those members who do not wish to select their own investment options, Cheviot provides the Cheviot Lifeplan,<sup>26</sup> which aims to provide members with an adequate retirement income in as smooth a manner as possible – taking risk where it is best rewarded and offering protection when it is most needed.
48. The Lifeplan uses four of the diversified options to transition members through their membership, with the objective of reducing risk as they approach their target retirement date. The target retirement date is set by the member or defaults to the member's State Pension Age.
49. The Trust also provides post-retirement options to cater for members who want to access their benefits flexibly. The post-retirement investment options set out in the Statement of Investment Principles are currently under review and are not available to members.<sup>27</sup> Since April 2015, a significant proportion of members accessing their benefits have taken advantage of the flexible benefits offered within the Trust.

## Strategy review

<sup>22</sup> The Board has appointed a fiduciary manager in February 2024 and the investment processes are under review.

<sup>23</sup> Completed in August 2023

<sup>24</sup> The specialist funds and the equity funds are provided by external managers except for Cheviot Cash fund.

<sup>25</sup> Or links to the performance information for external funds.

<sup>26</sup> The default option for the purposes of the legislation.

<sup>27</sup> The Statement is under review.

50. 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.
51. The annual strategic review took place from May-November 2023 as the Investment Committee raised various follow up questions. 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" 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.<sup>28</sup>
52. 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 consistent with other Master Trusts and there was an increase in the use of options other than the Lifeplan when compared to the previous year;
  - (ii) the return expectations for the growth element of the Cheviot Lifeplan remained reasonable, following an increase in the equity holdings in August 2022 to reflect future return expectations.<sup>29</sup>
  - (iii) most members were likely to receive good retirement outcomes, based on the PLSA's Moderate Retirement Living Standards.
  - (iv) Member behaviour remained broadly consistent with wider market trends. The post-retirement options available to members were appropriate and the proposed alignment to the FCA Retirement Pathways would be helpful.
  - (v) It was appropriate to consider whether consolidating the equity holdings in the static portion of each blend, to simplify the underlying holdings and reduce the governance burden.

### **Cheviot MPS Default Strategy Asset Allocation as at 31/12/2023:**

53. From 1st October 2023, the Trustee is required to disclose the underlying percentage of assets allocated to each of the asset classes shown below in their default arrangement, at different stages of the lifestyle process:

<sup>28</sup> Retirement in this context is when a member takes their tax-free cash as this is when the investment priorities change.

<sup>29</sup> Cheviot's current investment targets are CPI+

Fund	25-year-old member	45-year-old member	55-year-old member	1 day prior to State Pension Age
Cash	0.1%	0.3%	0.3%	25.5%
Government bonds	1.8%	6.1%	6.1%	19.2%
Corporate bonds	6.9%	21.5%	21.5%	21.9%
Emerging Market Debt	0.0%	0.0%	0.0%	0.0%
Listed equities	91.0%	71.1%	71.1%	31.9%
Private equity	0.0%	0.0%	0.0%	0.0%
Infrastructure	0.0%	0.0%	0.0%	0.0%
Property/ real estate	0.0%	0.0%	0.0%	0.0%
Private debt/ credit	0.0%	0.0%	0.0%	0.0%
Other	0.3%	0.9%	0.9%	1.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Mobius Life, Legal and General, BlackRock, BNY Mellon, PIMCO, Invesco as at 31/12/2023. Schroders Solutions (calculations as at April 2024).

## Implementation of strategic changes

54. The implementation of the consolidation of the equity holdings was deferred as the Trustee was considering the appointment of a new investment adviser. This decision was confirmed in February 2024 and Van Lanschot Kempen Investment Management has now been appointed as investment adviser. As part of the transition, the investment strategy is being reviewed in detail.

## Statement of Investment Principles

55. The Statement of Investment Principles was reviewed in 2023 to include the changes identified as part of the strategic review. It was issued for consultation in early 2023 and signed on 29 March 2023. It is attached to this Chair's Statement. It is publicly available online. The post-retirement **default** option is not currently available to members.

## Value for members

56. All charges are borne by members. A key responsibility of the Trustee is to provide good value for money for members.
57. The Trustee appointed consultants<sup>30</sup> 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 charges 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.
58. 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 charges, administration and communications. The AAF reports support the assessment of excellent administration as no exceptions to agreed procedures were identified.
59. The blended funds underperformed their short term market benchmarks but were ahead of long-term inflation-linked benchmarks to 31 December 2023. The longer term performance remains behind the inflation-linked targets which resulted in an amber rating for performance.
60. The governance structure meets the high standards required for authorised Master Trusts. It provides for a detailed annual review of the membership and projected retirement income to enable the Investment

<sup>30</sup> Schroders Solutions, Investment Consultants

Committee to assess whether the Cheviot Lifeplan remains appropriate to meet the long-term target of providing an adequate retirement income.

61. The administration team met the service standards set by the Trustee during 2023. The finance team had one quarter where the target was not met (May-July) in respect of member payments. Six member payments fell outside the target due to staff sickness, administration delays and trustee unavailability for large payments between May and July 2023. These issues have not reoccurred since. Six complaints were received by the administration team during 2023: only one was upheld. The member portal is working effectively. The introduction of the Cheviot app has improved take up, with most members preferring to access their account via mobile devices (phones and tablets) rather than desk top computers. These services made a positive contribution to member outcomes.
62. The overall charge was within the range identified by Schroders Solutions of master trusts of a similar size and management style. The charge is at the higher end compared to the wider master trust market, given the discounting available from the largest commercial providers in the Master Trust market. The Trustee continues to focus on reducing overall charges and expects to be able to do so by the end of 2024. 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

63. 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.<sup>31</sup> The actual charges depend on how close the member is to retirement.
64. All funds available to members during 2023 (either through the Cheviot Lifeplan or through individual choice) are identified in the table below which includes details of charges in 2023. 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 2023 are set out in Appendix 2.

Investment options used in the Lifeplan <sup>32</sup>	Charge	Other Investment options available	Charge
Cheviot Growth	0.65%	Cheviot Low Cost	0.45%
Cheviot Moderate	0.65%	Cheviot Annuity Planning	0.50%
Cheviot Cautious	0.65%	HSBC Shariah	0.65%
Cheviot Retirement Planning	0.65%	LGIM Ethical	0.65%
Cheviot Cash	0.25%	LGIM UK Equity Index Fund	0.45%
		LGIM World Equity Fund (50% GBP hedged)	0.45%
		Blackrock Aquila Connect Emerging Markets Fund	0.45%

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.

65. The estimated cumulative impact on members' savings of both charges and other costs is shown in Appendix 1 and has been calculated having regard to the DWP guidance and the AS TM1 Guidelines which came into force in October 2023. The new regulations require a more prescriptive approach and have reduced the expected fund values. These assumptions are consistent with the benefit statements issued to members as at 31 December 2023.
66. The Trustee considered the results and concluded that they are reasonable in the context of the investment

<sup>31</sup> The cap applies to scheme and investment administration charges, excluding transaction costs.

<sup>32</sup> The Lifeplan is the default arrangement. These funds are also available for members to self-select.

strategy objectives. The Trustee believes that the assumptions used in these projections (outlined in Appendix 3) are reasonable in the context of the Scheme's membership and are consistent with the DWP guidance issued in October 2021 and the new actuarial guidance.

67. Cheviot investment performance information is always shown after deduction of charges and costs so members can see the actual performance of each option as reflected in their own account value. The information below complies with the relevant regulations.<sup>33</sup> Performance over one, three and five-year periods for the core options used in the Cheviot Lifeplan together with the self-select options is shown below. Performance over longer periods has seen improvement as while still being impacted by the poor returns in 2022 against rising inflation.

Fund	1 year %		3 year annual return % <sup>34</sup>		5 year annual return %		Long term objective
	Fund	Target	Fund	Target	Fund	Target	
Cheviot Lifeplan							
Growth	15.3	8.5	4.9	11.1	8.4	8.8	CPI + 4.50%
Moderate	13.6	7.5	3.3	10.1	6.4	7.8	CPI + 3.50%
Cautious	10.3	6.5	-0.3	9.1	3.3	6.8	CPI + 2.50%
Retirement Planning	10.3	6.5	-0.3	9.1	2.4	6.6	CPI +2.50%
Self-select funds							
Low Cost	13.6	6.5	2.0	9.1	6.0	6.8	CPI + 2.50%
Annuity Planning	7.0	4.2	-10.6	-10.4	-2.3	-1.8	FTSE Annuities Index
Cash	4.5	4.8	1.8	2.0	1.2	1.4	Sterling Overnight Index Average
HSBC Shariah	16.7	17.8	10.2	11.3	N/A	N/A	In line with Dow Jones Islamic Market Titans 100 Index
LGIM Ethical	26.5	27.5	10.0	10.5	N/A	N/A	In line with FTSE 4Good Index
LGIM UK Equity Index Fund	7.4	7.9	8.2	8.6	N/A	N/A	In line with FTSE All-Share Index
LGIM World Equity Fund (50% GBP hedged)	19.3	20.0	8.5	9.2	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	0.7	3.5	-3.9	-3.0	N/A	N/A	In line with MSCI Emerging Markets Index
Blackrock ACS World ESG Equity Tracker Fund (50%) GBP Hedged	19.2	18.9	N/A	N/A	N/A	N/A	50% in line with MSCI World ESG Focus Low Carbon Screened Index 50% in line with MSCI World ESG Focus Low Carbon Screened Index

## Lifestyle Strategies

68. For the strategies where returns vary with age, returns are shown below over 1, 3 and 5 years for a member aged 25, 45, and 55 at the start of the period. Please note that there are three lifestyle options available, but at the ages shown below, the performance at each stage is the same.

Age in 2023	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
25	15.3	4.9	8.4

<sup>33</sup> Occupational Pension Schemes (Administration, Investment, Charges and Governance (Amendment)) Regulations 2021.

<sup>34</sup> The performance of funds not showing 3- or 5-year figures have an inception date later than the requirement.



45	13.9	3.9	7.6
55	13.6	3.3	6.4

Source: Mobius Life, Schroders Solutions (data, as at 31 December 2023). **Past Performance is not a guide to future performance.**

## Conclusion

69. 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**

30 July 2024

## 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.<sup>35</sup>

Name	Position	Affiliation status	Non-affiliated since	Last appointed <sup>36</sup>	Non-affiliation expires
<b>Sir Derek Morris</b>	Chair and co-opted Director	Director certification	April 2017	July 2022	March 2027 (10 years)
<b>Ms Diane Elliott-Smith</b>	Member Director	Director certification	Jan 2019	Jan 2022	Jan 2029
<b>Ms Frances Longmore</b>	Member Director	Director certification	Jan 2019	Jan 2022	Jan 2029
<b>Mr Stephen Jones</b>	Employer Director	Director certification	June 2024	April 2021 <sup>37</sup>	June 2029
<b>Mr Gerald Kidd</b>	Employer Director	Director certification	June 2015	Dec 2023	May 2025 <sup>38</sup>
<b>Mr Giles Orton</b>	Member Director	Director certification	Sept 2018 (as a co-opted Director)	March 2021 <sup>39</sup> (as a member Director).	March 2028 <sup>40</sup>

<sup>35</sup> The number of non-affiliated directors will reduce to five if the board reduces to eight directors later in 2024. See footnote 1.

<sup>36</sup> Following expiry of their three year term.

<sup>37</sup> Appointment process in progress.

<sup>38</sup> Mr Kidd will have been non-affiliated since 2015 and by 2025 therefore will have reached maximum of 10 year limit.

<sup>39</sup> Appointment process in progress.

<sup>40</sup> Mr Orton will have been co-opted director since 2018 and by 2028 therefore will have reached maximum of 10 year limit.

## 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 invested through the Mobius Life platform in 2023. 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 2023 and reflect the latest available information, with most costs covering the 12-month period to 30 September 2023. 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. The actual transaction costs for 2022 are included for comparison purposes where available, having regard to the Department for Work and Pensions' guidance (and any future guidance).<sup>41</sup>

Investment option	Estimated Costs in 2023	Actual costs in 2022
<b>Investment options used in the Lifeplan<sup>42</sup> and available for members to select</b>		
Cheviot Growth	0.06%	0.02%
Cheviot Moderate	0.07%	0.02%
Cheviot Cautious	0.03%	0.03%
Cheviot Retirement Planning	0.03%	0.03%
Cheviot Cash	-0.30%	0.00%
<b>Investment options for members to select</b>		
Cheviot Low Cost	0.08%	0.03%
Cheviot Annuity Planning	-0.39%	0.00%
HSBC Islamic Global Equity	0.00%	0.00%
L&G Ethical Global Equity	0.05%	0.08%
BlackRock Aquila Connect Emerging Markets Fund	0.02%	-0.10%
Cheviot Global Equity Fund	0.11%	0.08%
L&G UK Equity Index Fund	0.00%	0.06%
Global Equity ESG	0.07%	N/A

Source: 2022 transaction costs Mobius Life. 2023 transaction costs, Mobius Life. These figures represent the latest available information as at the time of publication.

Most of the blended funds have reported positive transaction costs over the 2023 scheme year (therefore resulting in a negative impact on members). The majority also reported a positive cost in 2022. The different impact from year to year is a function of manager cash flows, trading activity and general changes to the cost of trading.

4. The Investment Committee has reviewed the estimated transaction costs for each investment option and underlying funds and are comfortable the costs are reasonable.

<sup>41</sup> The full transaction costs were not available in the 2022 Chair's Statement but were based on an annual cost to 30 September 2022.

<sup>42</sup> The Lifeplan is the default arrangement.

## 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 example<sup>43</sup> 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 Date.<sup>44</sup> 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 the following assumptions based on the Cheviot membership:

- Starting pension account of £10,000 at age 23.
- Inflation of 2.5% each year.<sup>45</sup>
- 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.
- 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.<sup>46</sup>

Cheviot Lifeplan Projected pension pot in today's terms		
Years to retirement	Before charges	After costs and charges <sup>47</sup>
1	£13,600	£13,500
3	£20,400	£20,100
5	£27,700	£27,100
10	£48,200	£46,300
15	£72,200	£68,000
20	£100,100	£92,600
25	£132,500	£120,400
30	£170,000	£151,700
35	£209,700	£183,300
40	£238,000	£203,800

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 £92,600 at Target Retirement Date after all charges have been deducted.<sup>48</sup> Before charges, the projected pot size is £100,100, meaning the projected impact of costs and charges over the twenty-year period is £7,500.

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.

<sup>43</sup> [Reporting of costs, charges and other information: guidance for trustees and managers of occupational schemes – effective 1 October 2021 \(publishing.service.gov.uk\)](#).

<sup>44</sup> Target Retirement Date is the date when a member plans to start to access their pension savings.

<sup>45</sup> In today's terms this means that the impact of estimated future inflation has been considered.

<sup>46</sup> The assumptions have changed to follow the new guidance (see para 65). The accumulation rates are calculated in line with Actuarial Standard Technical Memorandum (AS TM1 5.0). Growth 2.5% p.a., Moderate 2.5% p.a., Cautious, 0.5% p.a., Retirement Planning 0.5% p.a., Cash -1.5% p.a., Annuity Planning 2.5% p.a., Low Cost 2.5% p.a. HSBC Islamic Global Equity 2.5% p.a., L&G Ethical Global Equity 2.5% p.a., L&G UK Equity 2.5% p.a., L&G World Equity 2.5% p.a., BlackRock Aquila Connect Emerging Markets, 4.5% p.a. All return assumptions are net of inflation.

<sup>47</sup> This shows the net projected fund after all costs and charges have been deducted.

<sup>48</sup> Based on the assumptions set out above.

## 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.<sup>49</sup>

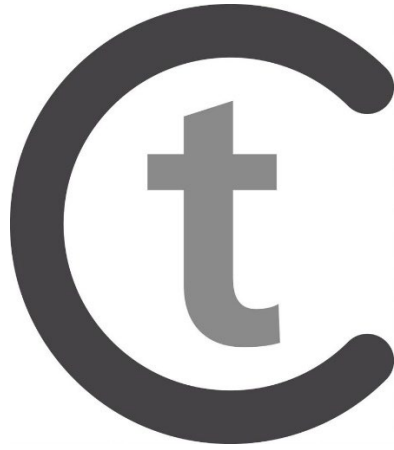
### FUNDS USED IN THE CHEVIOT LIFEPLAN

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	£13,600	£13,500	£13,600	£13,500	£13,300	£13,200	£13,300	£13,200	£13,100	£13,000
3	£20,400	£20,100	£20,400	£20,100	£19,500	£19,200	£19,500	£19,200	£18,600	£18,500
5	£27,700	£27,100	£27,700	£27,100	£25,900	£25,300	£25,900	£25,300	£24,200	£24,000
10	£48,200	£46,300	£48,200	£46,300	£42,600	£41,000	£42,600	£40,900	£37,800	£37,200
15	£72,200	£68,000	£72,200	£68,100	£60,600	£57,400	£60,600	£57,200	£51,200	£50,200
20	£100,100	£92,600	£100,100	£92,800	£79,900	£74,400	£79,900	£74,200	£64,500	£62,900
25	£132,500	£120,400	£132,500	£120,600	£100,500	£92,200	£100,500	£91,900	£77,600	£75,400
30	£170,000	£151,700	£170,000	£152,100	£122,500	£110,800	£122,500	£110,400	£90,800	£87,700
35	£213,300	£186,600	£213,300	£187,100	£146,100	£129,900	£146,100	£129,400	£103,900	£99,800
40	£263,300	£225,500	£263,300	£226,100	£171,300	£149,800	£171,300	£149,100	£117,000	£111,700

<sup>49</sup> The projections are different from previous years due a regulatory change in the AS TM1 guidelines, which came into force in October 2023. Specifically, this change relates to how SMPI assumptions are calculated; these assumptions are the growth rates used in member illustrations. [AS TM1: Statutory Money Purchase Illustrations \(frc.org.uk\)](https://www.frc.org.uk) The regulation instructs a much more prescriptive approach to producing SMPI assumptions, requiring them to be based on the historic volatility of each fund. Each fund is given a specific growth rate depending on the level of historic volatility.

YRS	ANNUITY PLANNING		LOW COST		HSBC ISLAMIC GLOBAL EQUITY		L&G ETHICAL GLOBAL EQUITY	
	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	£13,600	£13,500	£13,600	£13,500	£13,600	£13,500	£13,600	£13,500
3	£20,400	£20,100	£20,400	£20,200	£20,400	£20,100	£20,400	£20,100
5	£27,700	£27,100	£27,700	£27,300	£27,700	£27,100	£27,700	£27,100
10	£48,200	£46,300	£48,200	£46,800	£48,200	£46,300	£48,200	£46,100
15	£72,200	£68,200	£72,200	£69,200	£72,200	£68,100	£72,200	£67,700
20	£100,100	£92,900	£100,100	£94,800	£100,100	£92,700	£100,100	£92,000
25	£132,500	£120,800	£132,500	£123,800	£132,500	£120,500	£132,500	£119,500
30	£170,000	£152,300	£170,000	£156,900	£170,000	£151,900	£170,000	£150,300
35	£213,300	£187,500	£213,300	£194,000	£213,300	£186,900	£213,300	£184,600
40	£263,300	£226,700	£263,300	£235,700	£263,300	£225,900	£263,300	£222,700

YRS	BLACKROCK AQUILA CONNECT EMERGING MARKETS FUND CASH		L&G WORLD EQUITY INDEX FUND (50% GBP HEDGED)		L&G UK EQUITY INDEX FUND		CHEVIOT GLOBAL EQUITY ESG 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
1	£13,800	£13,800	£13,600	£13,500	£13,600	£13,500	£13,600	£13,500
3	£21,400	£21,200	£20,400	£20,200	£20,400	£20,200	£20,400	£20,200
5	£29,700	£29,300	£27,700	£27,300	£27,700	£27,300	£27,700	£27,200
10	£54,600	£53,200	£48,200	£46,800	£48,200	£46,900	£48,200	£46,700
15	£86,400	£83,100	£72,200	£69,100	£72,200	£69,300	£72,200	£68,900
20	£126,700	£120,300	£100,100	£94,600	£100,100	£94,900	£100,100	£94,300
25	£177,600	£166,400	£132,500	£123,600	£132,500	£124,000	£132,500	£123,000
30	£241,700	£223,500	£170,000	£156,600	£170,000	£157,100	£170,000	£155,600
35	£322,300	£293,400	£213,300	£193,500	£213,300	£194,400	£213,300	£192,200
40	£423,400	£378,900	£263,300	£235,000	£263,300	£236,200	£263,300	£233,200



# Statement of Investment Principles

March 2023

## Money Purchase Section

An authorised Master Trust



## 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 requirements<sup>1</sup> 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 income<sup>2</sup> 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.
- 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.

<sup>1</sup> Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

<sup>2</sup> Measured by reference to the UK Living Wage.

The approach takes into consideration that most members take a 25% cash sum at retirement but balances it against the need for return. Very few members are currently choosing to purchase an annuity and so this is accommodated through providing an option for members to select rather than in the Cheviot Lifeplan.

- 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 fund<sup>3</sup> 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 A.<sup>4</sup> 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 Lifeplan<sup>5</sup> 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.<sup>6</sup>
- 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

- 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 use 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.

<sup>3</sup> See Appendix A.

<sup>4</sup> A current list of fund options can be requested by emailing [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com) and is available on the website.

<sup>5</sup> See Appendix A.

<sup>6</sup> The Low Cost option does not have this secondary objective as it is focused on lower fees.

- 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, patterns of member behaviour at retirement 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 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.

#### 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. The Trustee receives an annual report which sets out the approach to ESG consideration and enables an assessment of its effectiveness. ESG is integrated into the decision-making process and most Cheviot managers take ESG factors into account as part of their investment process. It continues to investigate new information and assessment tools to support its assessment of managers. The Trustee is also considering those elements of the investment strategy where the investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.
- 5.3 The Investment Committee has considered the implications of climate change on the portfolio's future investment returns in detail based on the data available. The Trustee has adopted a bespoke net zero commitment by 2050, reflecting the Paris Agreement's objectives. It reflects the Board's fiduciary responsibilities to members and employers and the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris agreement.
- 5.4 Work continues on the implications of climate change with focus on improving the data available from managers to enable more accurate setting of targets. More information is available in the TCFD report available online.
- 5.5 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 to exert pressure on managers but is looking to do so in 2023.

- 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).

#### Non-financially material factors

- 5.7 The Trustee does not currently 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 three funds, one consistent with Sharia principles, one reflecting a particular ethical approach and an ESG equity fund, 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:

- 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.<sup>7</sup>

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.

## 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

<sup>7</sup> [Conflicts Framework Summary for External Use Schroders.pdf](#)

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

Signature:

*Elspeth McKinnon*

Date: 29/03/2023

## Investment options

The investment funds which currently make up the Cheviot Lifeplan<sup>8</sup> and self-select fund options are set out in the tables below. The funds used in the Cheviot Lifeplan<sup>9</sup> 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](mailto: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)
<b>Pre-retirement<sup>10</sup></b>		
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 (15% of total fund)	In line with cash benchmark	1
<b>Post-Retirement</b>		
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	85% Cheviot Retirement Planning 15% Cheviot Cash
Post retirement	95% Cheviot Retirement Planning 5% Cheviot Cash

<sup>8</sup> The default fund for the purposes of the legislation.

<sup>9</sup> Other than the Cheviot Cash option.

<sup>10</sup> Retirement is defined as when a member takes their tax-free cash.

## Self- Select options

Fund	Long Term Objective <sub>1</sub>	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
Cheviot Global Equity ESG Fund (50% GBP Hedged)	50% in line with MSCI World ESG Focus Low Carbon Screened Index 50% in line with MSCI World ESG Focus Low Carbon Screened Index - GBP Hedged	6



### Additional Funds for specific 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.



## Appendix 3 – Implementation Statement



the Cheviot **trust**

# Implementation Statement Money Purchase Section

Report for 2023  
July 2024

## Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles (the Statement) dated March 2023<sup>1</sup>, has been followed during the Scheme year ending 31 December 2023<sup>2</sup>. 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. The Statement was reviewed during the Scheme year and the key points of that review are detailed in paragraph 4 below. No changes were made during the Scheme year. 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. Following the review in the scheme year ending 31 December 2022 the Statement was updated in March 2023.
3. The current Statement is available on both the corporate and member focused Cheviot websites.<sup>3</sup>

## 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 2023.

Objective	Implementation
<b>To provide a default plan, called the Cheviot Lifeplan to provide members with an "adequate" retirement income<sup>4</sup> 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.</b>	A strategic review of the Cheviot Lifeplan <sup>5</sup> is completed annually by the Investment Committee, through delegated powers from the Trustee. The review in 2023 was completed in May. The Cheviot Lifeplan aims to deliver an income in excess of the Living Wage to at least 75% of members. The Committee concluded that the Lifeplan continued to meet its objectives.
<b>To provide a range of investment options that members can select.</b>	The review of options that members can select was reviewed against the needs of members and no changes were proposed.
<b>To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.</b>	The review of options that members can select was reviewed against the needs of members and no changes were proposed.
<b>To provide investment options for members who wish to invest in line with stock markets.</b>	Four equity only funds are available to members. This includes an ESG equity fund, introduced in January 2023.
<b>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.</b>	The core options used in the Cheviot Lifeplan are structured to target more stable returns than the market consistent with the timeframe of each option. The funds are reviewed against stability targets each quarter by the Investment Committee.

<sup>1</sup> The SIP was signed in March 2023

<sup>2</sup> 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.

<sup>3</sup> [www.cheviottrust.com](http://www.cheviottrust.com)/[www.mycheviotpension.com](http://www.mycheviotpension.com)

<sup>4</sup> Measured by reference to the UK Living Wage, the Pension Commission's Target Replacement Ratio and the PLSA's retirement living standards.

<sup>5</sup> The default option for the purposes of the legislation

Objective	Implementation
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 facilitate daily dealing. Some funds are traded separately to other transactions as the unit prices are available one day after the other options which causes disruption. The Trustee is considering how best to address this going forward.
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 issue identified that the post-retirement options were not being directly offered to members at retirement is still to be resolved.</p> <p>The implementation of these changes was put on hold, pending a review of the impact of rising inflation on the target returns. Changes to the asset allocation were agreed and implemented during 2023.</p>

## Ongoing investment governance

- Investment governance is delegated to the Investment Committee including the provision of key documents such as this Implementation Statement.
- The Investment Committee held 6 meetings during 2023. 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.<sup>6</sup> This information was formally reported to each quarterly Trustee meeting.
- 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 with less fluctuations in value than the market. Returns are also measured against a market benchmark. In general, the inflation related returns were met during 2023 but longer term returns were still behind, as a result of the very high levels of inflation.

<sup>6</sup> Schroders Solutions.

The quarterly reviews of the external investment options offered to members confirmed that they achieved a return consistent with the stated objective.

8. Investment performance for the year is available in the Cheviot Pension accounts for 2023 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 late 2023 against detailed objectives. An external advisor provided a review of 2023 performance in June 2024.
10. The investment adviser reviewed the underlying managers during the Scheme year and assessed performance 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.<sup>7</sup> 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 members in the future. Sustainability is a standing item on the quarterly Investment Committee agenda.
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 strategy for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. The investment beliefs were reviewed in February 2023.

## 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, 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 2023 considering whether the target returns were still achievable.

## Transitions

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

## Investment Platform provider

16. 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 or obtain detailed information about ESG and climate change issues
17. The Scheme's investment advisor is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The review was completed in May 2024. The review did not reveal any issues which impacted Cheviot directly. Value for members
18. The Trustee appointed consultants to carry out an annual assessment of the Money Purchase Section's services during 2023. The assessment was reviewed by the Investment Committee in February 2024. 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.
19. 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.
20. 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.

## Environmental, social and governance factors

21. 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.
22. During the Scheme year, 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.
23. 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.

24. 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.
25. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy. During the ongoing monitoring of managers during the Scheme year ending 31 December 2023, no decisions were taken to disinvest.
26. The Investment Committee did not take account of non-financially material factors when making investment decisions on behalf of members during the Scheme Year but makes two funds available which aim to satisfy certain sets of beliefs (Sharia principles and a particular ethical approach).
27. As part of their annual reporting, the Trustee is required to calculate transaction costs and assess the extent to which they represent good value for members. With regard to the Lifeplan, over a 40-year membership, the cost of switching between funds may amount to approximately 0.35%. This averages 0.01% per annum and is the worst-case cost arising from buying a unit of Cheviot Growth, then transitioning through Moderate, Cautious, Retirement Planning and Cash and eventually cashing in at retirement. These estimates include costs incurred as a result of the buying, selling, lending or borrowing of investments. The Investment Committee has reviewed the estimated transaction costs for each investment option and underlying funds (including the self-select options) and are comfortable the costs are reasonable.

## Engagement and stewardship

28. The Trustee is supportive of the UN Principles for Responsible Investment (PRI) and the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders has been a PRI signatory since 2015, was the first large global asset manager to have had its Net Zero targets verified by SBTi (the Science Based Target Initiative) and has 50+ dedicated ESG specialists. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.
29. 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. This means the Trustee is not able to make clear to managers what the Trustee considers a significant vote in advance of those votes being taken.
30. The Trustee decided to adopt Climate and Governance as their stewardship priorities in the 2023 scheme year. The Trustee has decided to use the selected stewardship priorities to determine what it defines as a "significant vote" for the purposes of reporting voting activity for the Scheme year and to monitor the managers voting and engagement is in line with these priorities.
31. It considers the most significant votes to be those that meet the following three criteria:

- The vote relates to one of the Trustee’s chosen stewardship priorities;
  - The vote is deemed significant by the underlying managers (of holdings greater than 2.5%) based on their specific knowledge of the circumstances around each vote; and
  - Where an underlying manager within the Money Purchase Section has a holding in a single stock which makes up at least 0.5% of one blend of the LifePlan strategy.
32. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1<sup>8</sup>. Both equity managers show meaningful engagement practices.
33. 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.
34. Despite the lack of contractual relationship, working with its 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.
35. 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. 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.
36. The Trustee engaged with Mobius during the Scheme year on climate-reporting issues and discussed the level of information it needed from the managers to enable it to measure the portfolio’s progress in relation to climate related targets.

## Conclusion

37. 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, other than in relation to the post-retirement options.<sup>9</sup>

*Sir Derek Morris*

**Sir Derek Morris**  
 Chair, Cheviot Trustees Limited  
 30 July 2024

<sup>8</sup> Information based on data available from Mobius.

<sup>9</sup> See para 4



## 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 2023. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have data to be considered. The funds reviewed are set out below.

Asset class	Fund name	Maximum allocation within default investment strategy
Equity	Legal and General ("LGIM") North America Equity Index	18.6%
	LGIM North America Equity Index (GBP Hedged)	21.7%
	LGIM Europe ex UK Equity Index (GBP Hedged)	6.2%
	LGIM UK Equity Index	5.2%
	LGIM Japan Equity Index – (GBP Hedged)	6.7%
	BlackRock European Equity Index Fund	6.0%
	BlackRock Emerging Market Index Funds	13.8%
	BlackRock ACS World ESG Equity Tracker	3.9%
	BlackRock ACS World ESG Equity Tracker (GBP Hedged)	4.6%

Over the year to 31 December 2023, 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. The Trustee (through its advisers) has included all of the information available in relation to the voting activity, relying on information from the underlying managers on the expanded requirements for this Implementation Statement. The Trustee understands that in future reporting years the information available on the votes is expected to be more detailed, to allow it to meet the vote reporting requirements in full.<sup>10</sup>

## 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 2023, LGIM engaged with 2,050 companies globally, voted on 148,794 resolutions worldwide and opposed 52% of all management-proposed, pay-related proposals 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. The Trustee, on the advice of its advisors, determined that the voting behaviour of LGIM was aligned with the Scheme's stewardship priorities.

<sup>10</sup> The appointment of VLK Investment Management in early 2024 will facilitate better reporting of engagement in 2024.

## LGIM Passive Funds

31/12/2022 – 31/12/2023	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Europe (ex-UK) Equity Index - GBP Currency Hedged	567	9,955	100%	80%	19%	0%
Japan Equity Index - GBP Currency Hedged	513	6,098	100%	88%	12%	0%
North America Equity Index	648	8,760	100%	66%	34%	0%
UK Equity Index	680	10,517	100%	94%	6%	0%

### Most Significant Votes

#### Governance: Microsoft Corporation:

In December 2023, LGIM voted against the resolution to elect director Satya Nadella because LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. LGIM considers this vote to be significant as it is an escalation of their vote policy on the topic of the combination of the board chair and CEO. LGIM will continue to engage with their investee companies and, publicly advocate their position on this issue and monitor company and market-level progress.

#### Governance: NVIDIA Corporation:

In June 2023, LGIM voted against the resolution to elect director Stephen C. Neal because LGIM expects a company to have at least one-third women on the board and LGIM also expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, tenure, and background.

LGIM considers this vote significant as it views gender diversity as a financially material issue for their clients. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

#### Governance: Alphabet Inc.:

In June 2023, LGIM voted in favour of a resolution which would approve a recapitalisation plan for all stock to have one-vote per share. The rationale for this vote was that LGIM expects companies to apply a one-share-one-vote standard.

LGIM considers this vote significant as this shareholder resolution received a relatively high level of support. LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.

#### Governance: Meta Platforms, Inc.:

In May 2023, LGIM withheld on a resolution to Elect Director Mark Zuckerberg.

There were several reasons for this decision. Firstly, LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. Secondly, LGIM supports the equitable structure of one-share-one-vote and therefore withheld votes to elect Mark Zuckerberg, who is the owner of super voting shares.

LGIM considers this vote significant as it is relating to its voting policy on the topic of the combination of the board chair and CEO, and also as it is relevant to its voting policy on the topic of one-share-one vote and equality of voting rights. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

## 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 their 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.

Over 2023, BlackRock Investment Stewardship held more than 3,700 engagements with over 2,500 unique companies across 50 markets. Of these engagements, 2,562 were related to 'Strategy, purpose and financial resilience', 2,205 were related to 'Board quality and effectiveness', 1,495 were related to 'Incentives aligned

with financial value creation', 1,402 were related to 'Climate and natural capital' and 1353 were related to 'Company impacts on people'. Throughout the year, BlackRock Investment Stewardship voted at 18,000+ shareholder meetings on more than 170,000 management and shareholder proposals. BlackRock Investment Stewardship supported management on approximately 88% of proposals. The statistics for BlackRock demonstrate its level of engagement and voting policies, including voting against management were considered appropriate. BlackRock provided meaningful and helpful examples of votes and examples of engagement, focused on Climate and Governance. However, they have not provided any examples which match the Trustee's criteria for significant votes outlined above.

The Trustee, on the advice of its advisers, determined that the voting behaviour of BlackRock was aligned with the Scheme's stewardship priorities.

#### **BlackRock Passive Funds**

31/12/2022 – 31/12/2023	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	3,216	27,925	98%	87%	12%	1%
European Equity Index Fund	457	8,581	94%	89%	10%	1%
ACS World ESG Equity Tracker	476	7,383	97%	97%	2%	0%

Links to the voting and engagement policies for the Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
BlackRock	<a href="#">Investment Stewardship   BlackRock</a>
LGIM	<a href="#">Investment stewardship &amp; governance   LGIM Institutional</a>