SOMERFIELD PENSION SCHEME

Financial Statements
For Year Ended 31 March 2018

PENSION SCHEME REGISTRY NO. 10000532

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Some Helpful Terms

In this document, when we say:	We mean:
Actuary	An individual who is appointed to advise the Trustee in relation to the funding and financing of the Scheme. The actuary values the Scheme's assets and liabilities. The Scheme's actuary is Tom Scott, who was appointed on 29 March 2018. Any references to "the Actuary" before that date are to Andrew McKinnon, who was the Scheme's previous actuary.
Articles of Association	This covers the Trustee's formal governing documents, namely its memorandum and articles of association. These documents which, together with the Scheme's trust deed and rules, governs the Trustee.
Chairs' Forum	A meeting of the chairs and Independent Trustee Directors of the Co-op pension schemes (including the Scheme).
Closure Members	Members who were still building up benefits on the date the Scheme closed to future accrual, 3 November 2012.
Closure Member Nominated Directors (MNDs)	MNDs appointed from the Scheme's Closure Members.
Deferred Members	Member of the Scheme who are not Closure Members and whose benefits have not yet come into payment.
In-service Deferred MND	An MND who is deferred but still works for the Co-op.
Co-op Appointed Directors	Trustee Directors who are selected by the Co-op.
CPI	The Consumer Prices Index, the main UK indicator of consumer price inflation.
HRE	The Co-op's Human Resources Executive, a group of senior human resources personnel with responsibility for the Co-op's people-related matters.
Independent Trustee Director	Independent Trustee Services Limited. A professional independent trustee company which is a Director of the Trustee (via its representative, Chris Martin), appointed by the Co-op.

MNDs	Member-nominated Directors of the Trustee. These are directors of the Trustee who have been chosen by and from the Scheme's Closure Members and pensioners.
Pensioners	Members of the Scheme whose benefits have come into payment.
Pensioner MNDs	MNDs appointed from the Scheme's pensioners.
PPF	The Pension Protection Fund, an independent body funded by levies collected from defined benefit pension schemes, provides compensation where such a pension scheme's employer has become insolvent.
RPI	The Retail Prices Index, a measure of inflation used widely by pension schemes and in contracts.
Secretary	The Secretary is responsible for helping the Trustee with its arrangements, and providing support for its meetings. Tom Taylor, of the Co-op's Trustee Services team, currently holds this role.
The Co-op	Co-operative Group Limited. The Co-op is the Scheme's principal employer.
The Scheme	Somerfield Pension Scheme.
The Trustee	TCG Southern Trustees Limited. A company which is appointed as the trustee of the Scheme and acts via its directors.
The Plymouth Fund	Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund.

Trustee Directors & Advisers

TCG Southern Trustees Limited is appointed as the Trustee by the Co-op to manage the Scheme. We are also the trustee of the Plymouth Fund.

The Scheme's trust deed and rules give the Co-op the power to appoint or remove the Scheme's Trustee.

Our registered office is 1 Angel Square, Manchester, M60 0AG.

The board of directors of the Trustee

We are the board of a trustee company which is governed by its Articles of Association.

We have up to eight directors:

- Five appointed by the Co-op (including one Independent Trustee Director)
- Three MNDs

Who are the current directors of the Trustee?

- Independent Trustee Services Limited, represented by Chris Martin (Independent Director) (Chair)
- John England (Pensioner MND)
- Graham Jones (In-service Deferred MND)
- Adam Williams (Co-op Appointed Director)
- James Carter (Closure MND) (Appointed 1 July 2017)
- Sadie Ashbee (Co-op Appointed Director) (Appointed 21 August 2017)
- Jack Marland (Co-op Appointed Director) (Appointed 3 September 2018)
- Vicki Mains (Co-op Appointed Director) (Appointed 1 August 2018)

Which Trustee directors left?

- John Riley (Appointment ended 1 July 2017)
- Fabienne Lesbros (Appointment ended 22 May 2018)
- Peter Batt (Appointment ended 5 July 2018)

Appointment, resignation and removal of Trustee directors

Our Articles of Association give the Co-op the power to remove or appoint four Trustee directors plus one independent director.

In addition, legislation requires that at least a third of the Trustee directors are selected by the Schemes' members. The Articles of Association gives the Schemes' members the power to appoint three Trustee directors.

Each Co-op Appointed Director holds office indefinitely or until they:

- resign as a Trustee director; or
- are removed by the Co-op; or
- cease to be appointed due to any of the events set out in Article 19 of the Articles of Association (namely: disqualification or certain absences from trustee meetings).

Each MND holds office for a period of four years or until they:

- resign as a Trustee director; or
- are removed by the Co-op (with the unanimous consent of all of the other Trustee directors); or
- cease to be appointed due to any of the events set out in the Article 20 of the Articles of Association (see above).

John England's term of office was due to expire on 30 September 2018. Following an MND election process, John England has been reselected for a further four year term from 1 October 2018.

John Riley's term of office expired on 1 July 2017. Following an interview process involving the Trustee's Selection Panel, James Carter was chosen as an MND to replace John Riley. James Carter's term of office started on 1 July 2017, and runs for four years.

Chair of the Trustee

We elect the Chair, after considering the Co-op's views on the appointment.

Vacancies

The Co-op has delegated its authority to appoint Co-op Appointed Directors to the HRE. If a Co-op Appointed Director vacancy arises then the HRE will appoint a replacement.

If an MND vacancy arises then it will be filled in accordance with our MND arrangements.

Decision Making

Any decision we make must be:

a) a decision by a majority of Trustee directors present at and voting at a meeting;
b) where decision-making has been delegated to a committee, a decision taken at a meeting of that committee by a majority of the members of that committee; or
c) for some decisions a unanimous decision of the Trustee directors.

And will be subject to the provisions of the Scheme's trust deed and rules.

Committees of the Trustee board

An **Audit and Risk Committee** was established on 10 September 2016 to review the Scheme's risk register, internal controls framework and schedule of delegated authorities and also to review the Scheme's financial statements.

A **Valuation Committee** was established on 17 December 2015 to negotiate the 31 March 2016 actuarial valuation of the Scheme. It remained in place until the 2016 valuation negotiations were finalised, and all final actuarial documents were signed (for both the Scheme and the Plymouth Fund). The Committee was disbanded in June 2017.

We also have an **Investment Committee** which meets on a quarterly basis.

No other committees are currently in place.

Meetings

As the Board of the Trustee, we meet at least four times a year, with special meetings convened as appropriate. During the year, we met four times.

Secretary

The Co-op appoints the Secretary to the Trustee. This authority is delegated to the HRE. Tom Taylor, of the Co-op's Trustee Services team, is appointed as the Secretary.

Actuary

Andrew McKinnon resigned as Fund Actuary on 28 March 2018. Tom Scott was appointed as Fund Actuary on 29 March 2018.

Trustee Director Remuneration

All Trustee Director remuneration paid to Directors of the Trustee is split for accounting purposes equally between the Scheme and the Plymouth Fund.

The Scheme's share is paid for from the Scheme's assets. All figures used below refer to the full amount of remuneration paid to Trustee Directors in relation to both the Scheme and the Plymouth Fund.

The Trustee Remuneration Policy provides for payment of £2,000 p.a. to Closure MNDs and £5,000 p.a. to Pensioner MNDs. MNDs can choose not to receive any remuneration. Additional remuneration of £1,000 p.a. is payable to Closure MNDs who are members of the Investment Committee, Audit & Risk Committee and/or the Valuation Committee (when operative).

The Trustee remuneration policy is reviewed by the Trustee annually.

The terms of engagement in place with the Independent Trustee Director provide for the Independent Trustee Director to be paid a fixed fee of £40,000 per year, covering both the Scheme and the Plymouth Fund, which covers business as usual trustee actions (e.g. attendance at four trustee meetings a year and four Chairs' Forum meetings). In addition, if the Independent Trustee Director is asked to attend additional meetings e.g. additional Chairs' Forum meetings or committee meetings, the terms provide that the director will be paid £1,000 per meeting.

Enquiries

For enquiries about the Scheme please contact:

Co-operative Group Limited
Pensions Department
Department 10406
1 Angel Square
Manchester
M60 0AG

Email address: somerfieldpensions@coop.co.uk

The Scheme's Professional Advisers are:	
Actuary	Andrew McKinnon FIA, Aon Hewitt Limited (resigned 28 March 2018) Tom Scott FIA, Aon Hewitt Limited (appointed 29 March 2018)
Administrator	Co-operative Group Limited, Pensions Department (Dept 10406), 1 Angel Square, Manchester, M60 0AG
Auditor	Deloitte LLP
AVC provider	The Prudential Assurance Company Ltd Aviva Friends Life (now part of the Aviva Group)
Bankers	Barclays Bank PLC
Custodian	Bank of New York Mellon
Employer Covenant Adviser	PricewaterhouseCoopers LLP (terminated 25 April 2017) KPMG LLP (appointed 2 June 2017)
Investment Consultant	Mercer Limited
Investment Managers	Insight Investment Management (Global) Ltd Intermediate Capital Group plc (appointed 2 August 2017) Legal & General Investment Management Ltd M&G Investments (appointed 9 April 2018) PGIM (formerly Pramerica Investment Management Ltd) (terminated 2 November 2017) Royal London Asset Management Limited (appointed 18 August 2017) Wellington Management Company, LLP
Legal adviser	Eversheds LLP Linklaters LLP

Our Annual Report

Introduction

We are pleased to present our annual report together with the audited financial statements for the year ended 31 March 2018. The financial statements (set out on pages 26 to 47) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The investment report set out on pages 19 to 22 and the report on actuarial liabilities set out on pages 13 to 14 also form part of this annual report.

Constitution of the Scheme

The Scheme was established in 1971 and is currently governed by the Trust Deed and Rules dated 23 June 2008 (as amended). A Deed of Amendment and Substitution, dated 4 October 2012, documents the closure of the Scheme, and change of Principal Employer.

Scheme Structure

The Scheme now consists solely of a defined benefit ("DB") section, details of which are set out below. The Scheme previously had a defined contribution ("DC") section, the winding up of which was completed on 16 October 2014.

On 3 November 2012 the DB section closed to future accrual. On 4 November 2012 all active members of the Scheme (from both the DB and DC sections) started to accrue benefits in the Co-op's Pace Scheme, unless they elected not to join Pace.

The accrued benefits of members of the DB section of the Scheme continue to be held in the Scheme.

Sections of the Scheme

The following details in relation to the DB section of the Scheme apply to the Scheme's structure up to the date of closure on 3 November 2012.

The DB section of the Scheme was further divided into three different benefit categories:

- The Defined Benefit Section of the Scheme consists of members who joined the Scheme prior to 2000 on a DB basis. This section was contracted out of the State Second Pension.
- The Kwik Save RBS Section consists of former members of the Kwik Save Retirement Benefit Scheme that was merged into the Scheme in 1999. This section was contracted out of the State Second Pension.
- The Kwik Save Lump Sum Section consists of former members of the Kwik Save Lump Sum Retirement & Death Benefit Scheme that was merged into the Scheme in 2006. This section was not contracted out of the State Second Pension.

The assets relating to the DB sections are in a general fund and do not relate (apart from additional voluntary contributions) to individual members. The DB section of the Scheme was closed to new entrants in 2000.

Tax Status

The Scheme is a registered pension scheme under the provisions of Schedule 36 of the Finance Act 2004. Accordingly, under the provisions of sections 186 and 187 of that Act, the Scheme's income and investment gains are free of taxation.

Membership statistics for the year to 31 March 2018

	31 March 2017	Adjustments*	Additions	Retirements, leavers and pensions ceasing	Deaths	31 March 2018
Closure Members	**241**	-	-	(38)	(1)	**202**
Deferred Members	**6,321**	5	27	(261)	(5)	**6,087**
Pensioners	**6,582**	(1)	264	(112)	(149)	**6,584**
Total	**13,144**	**4**	**291**	**(411)**	**(155)**	**12,873**

*Prior year adjustments have been made for corrections after the completion of last year's report

Transfer values

Individual transfer values are calculated in accordance with assumptions set by the Trustee and tables provided by the Actuary. No discretionary increases are included in the calculation of transfer values. No transfers were reduced to less than their cash equivalent value during the year.

Guarantees

The Scheme benefits from four guarantees, which operate broadly as follows:

- The Co-op's main trading and/or asset-holding subsidiaries guarantee the obligations of Co-operative Foodstores to the Scheme. The identity of these guarantors may change from time to time based on the internal financial metrics of the wider Co-op Group: the criteria for this are set based on the Co-op's banking arrangements. The guarantors under this guarantee are also guarantors for the Co-op's banking and bond debt. This guarantee covers the amounts due under the schedule of contributions up to the limit of Co-operative Foodstores' employer debt under section 75 of the Pensions Act 1995, and will expire on 31 December 2034.

- Co-operative Group Food Limited separately guarantees the obligations of Co-operative Foodstores to the Scheme, up to the limit of Co-operative Foodstores' employer debt under section 75 of the Pensions Act 1995.

- The Co-op guarantees the obligations of Co-operative Foodstores to the Scheme. This covers the amounts due under the schedule of contributions up to the limit of Co-operative Foodstores' employer debt under section 75 of the Pensions Act 1995.

- The Co-op also guarantees the obligations of Co-operative Foodstores to the Scheme in a separate guarantee based on the Pension Protection Fund's standard format. This covers all of Co-operative Foodstores' liabilities to the Scheme, and is capped at the amount required to take the Scheme's Pension Protection Fund level of funding to 105%.

Pension increases

There were no discretionary increases awarded during the year.

Pensions in payment

Pensions in payment are increased annually on 1 February. The increase which applies to a pension in payment will depend on the Scheme rules applicable to the section of the Scheme under which the pension was accrued, and the relevant category of pension. The increase may be at a fixed rate, or in line with the annual increase in the Retail Prices Index ("RPI") to the preceding December, and subject to a minimum or maximum percentage increase. A pro rata increase is made for pensions in payment for less than a year.

When a member, who has a Guaranteed Minimum Pension ("GMP"), as a result of contracting out of the State Second Pension (or its predecessor, the State Earnings Related Pension Scheme), reaches State Pension Age, a different rate of increase usually applies to that element of the total pension. The table below sets out the increase rates applied by the Scheme on 1 February 2018 and 1 February 2017.

DB Section			
Section / Pension Element	***Increase Calculated as:***	***Increase Rate 1 February 2018***	***Increase Rate 1 February 2017***
GMP in respect of service to 5 April 1988.	This GMP is not increased but if the rise in the Consumer Prices Index for the year to the previous September is less than 3%, the difference is applied to this GMP and forms an additional increase to the member's pre 5 April 1997 pension.	0%	2.0%
GMP in respect of service after 5 April 1988.	A fixed increase of 3% is applied. This is calculated on a notional figure as the full 3% increase required under the Scheme rules is more than the statutory requirement.	3.0%	3.0%

Non-GMP pension for members who retired or reached normal retirement date before 6 April 1990 (or spouses thereof).	The rise in the RPI to December, with a minimum of 3%, capped at a maximum 5%, plus the increase in relation to the GMP in respect of service to 5 April 1988 described above.	4.1%	3.0%
Non-GMP pension for members who retired or reached normal retirement date on or after 6 April 1990 (or spouses thereof) in relation to service up to 5 April 1997.	A fixed increase of 3%, plus the increase in relation to the GMP in respect of service to 5 April 1988 described above.	3.0%	3.0%
Pension relating to service from 6 April 1997 to 31 January 2000.	The rise in the RPI to December, with a minimum of 3%, capped at a maximum 5%.	4.1%	3.0%
Pension relating to service from 1 February 2000 to 5 April 2006.	The rise in the RPI to December, capped at a maximum 5%.	4.1%	2.5%
Pension relating to service after 5 April 2006.	The rise in the RPI to December, capped at a maximum 2.5%.	2.5%	2.5%
Kwik Save RBS Section			
Section / Pension Element	***Increase Calculated as:***	***Increase Rate 1 February 2018***	***Increase Rate 1 February 2017***
GMP in respect of service to 5 April 1988.	Nil.	Nil	Nil
GMP in respect of service after 5 April 1988.	The rise in the Consumer Prices Index for the year to the previous September capped at 3%.	3.0%	1.0%
Non-GMP pension in relation to service up to 5 April 1997.	The rise in the RPI to December, capped at a maximum 5%.	4.1%	2.5%
Pension relating to service from 6 April 1997 to 5 April 2006.	The rise in the RPI to December, capped at a maximum 5%.	4.1%	2.5%
Pension relating to service after 5 April 2006.	The rise in the RPI to December, capped at a maximum 2.5%.	2.5%	2.5%

Kwik Save Lump Sum Section			
Section / Pension Element	***Increase Calculated as:***	***Increase Rate 1 February 2018***	***Increase Rate 1 February 2017***
Pension for members who left after 5 April 2006	Nil.	Nil	Nil
Former Members of the Aberness Pension Scheme			
Section / Pension Element	***Increase Calculated as:***	***Increase Rate 1 February 2018***	***Increase Rate 1 February 2017***
Pension relating to service to 5 April 1997, including GMP.	A fixed increase of 3%.	3.0%	3.0%
Pension relating to service after 5 April 1997.	The rise in the RPI to December, with a minimum of 3%, capped at a maximum 5%.	4.1%	3.0%
Pensions Paid by the Scheme for former DC Section Members now transferred to DB Section and those arising in respect of Additional Voluntary Contributions			
Increase Calculated as:		***Increase Rate 1 February 2018***	***Increase Rate 1 February 2017***
The rate of increase (if any) will be as requested by the member at retirement. The rates shown only apply if the member has chosen a pension linked to inflation.		4.1%	2.5%

The increase shown for former DC Section Members and Additional Voluntary Contributions is based on the increase in RPI at the previous December up to a maximum of 5%. Members may also chose a non-increasing pension at retirement in relation to DC or AVC pension. AVC pensions may also increase by a fixed 3% increase or RPI at the previous December with a minimum 3% increase and up to a maximum of 5%.

Pension in deferment

Pensions in deferment, in excess of the GMP, will increase between the date the member left and the date the member retired, as required by statute up to a maximum of 5% per annum. Benefits in excess of GMP accrued after 5 April 2009 are increased as required by statute, subject to a maximum of 2.5% per annum for the period of deferment.

For members of the DB Section, the Kwik Save RBS Section and the Aberness Section, pensions in deferment, in excess of the GMP, increase between the date the member left and the date the member retired as required by statute. The revaluation rate is subject to a maximum of 5% per annum for benefits accrued prior to 6 April 2009, and a maximum of 2.5% per annum for benefits accrued after 5 April 2009. The increase refers to the statutory revaluation orders published annually by the Government, and is based on the Retail Prices Index up to 2011, and the Consumer Prices Index from 2011. Deferred benefits for Aberness

Section members are also subject to an underpin based on the value of their Personal Pension Account.

For Kwik Save Lump Sum members who left after 31 December 1990, benefits in deferment revalue by 5% per annum.

GMPs are increased in deferment in accordance with legislative requirements.

Contributions

Contributions to fund expenses

The Scheme's Schedule of Contributions, dated 30 June 2017, which became effective following completion of the valuation as at 31 March 2016, provides that Scheme expenses, including any levies due to the Pension Protection Fund (PPF), will be met from the Scheme.

Deficit Funding Contributions

Under the Schedule of Contributions dated 30 June 2017, deficit reduction contributions of £2.6m per annum, payable in equal monthly instalments until 30 June 2023, will be paid to the Scheme by the employer.

The contributions payable to the Scheme by the Co-op under this Schedule of Contributions were unchanged from those set out in the prior Schedule of Contributions.

Additional Voluntary Contributions (AVCs)

Until the closure of the Scheme to future accrual on 3 November 2012, Prudential was the sole AVC provider for members wishing to commence AVC payments. A small number of members also continue to have legacy AVC policies held with Aviva and Friends Life. Following acquisition, Friends Life now forms part of the Aviva Group.

The AVC funds of active members of the Scheme who transferred to Pace on 4 November 2012 became 'closed' in the Scheme at this date.

Actuarial Valuation

The Actuary completed an actuarial valuation of the Scheme as at 31 March 2016, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that at 31 March 2016, the Scheme had a shortfall of £48m relative to its technical provisions, which equates to a funding level of 95%.

We discussed the results of the valuation with the Co-op and a recovery plan for the elimination of the funding shortfall was agreed and is reflected in the rate of contribution described above. The recovery plan is dated 30 June 2017.

The next actuarial valuation of the Scheme will be as at 31 March 2019, and should be completed by 30 June 2020.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2016.

This showed that on that date:

The value of the Technical Provisions was: £1,035 million
The value of the assets at that date was: £987 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

- Discount interest rate: UK Government fixed-interest gilt yield curve at the valuation date, plus a fixed addition of 0.5% per annum at all terms. The same discount rate is used for both pre-retirement and post-retirement liabilities.
- Future Retail Price inflation: the assumption is derived from market implied Bank of England break-even inflation curve at the valuation date.
- Future Consumer Price inflation: the assumption is derived from the RPI price inflation curve with a 1.1% per annum deduction at all terms.
- Pension increases: inflation linked pension increase assumptions are derived from the RPI and CPI inflation assumptions as appropriate, allowing for the maximum and minimum annual increase, and for inflation to vary from year to year in line with best estimate volatility.
- Mortality: The mortality assumptions are as follows:

  Post-retirement mortality
  95% of standard Self-Administered Pension Scheme ("SAPS") S2 year of birth tables. Allowance for long-term improvements in mortality in line with the CMI 2015 improvement factors, with a long-term rate of improvement of 1.50% per annum.

  Pre-retirement mortality
  95% of Standard table A(M/F)C00 Ultimate. AFC00 Ultimate.

Scheme Changes during the Year

During the year, a Deed of Amendment was executed amending the Rules in relation to non-statutory transfer values.

Financial Development of the Scheme

During the year ended 31 March 2018, the net assets of the Scheme decreased from £1,131m to £1,121m.

Statement of Trustee's Responsibilities for the Financial Statements

The financial statements, which are prepared in accordance with United Kingdom 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 that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

- contain the information specified in the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

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

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

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to 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 control.

For and on behalf of TCG Southern Trustees Limited:

Independent Trustee Services Limited,
represented by Chris Martin
Chair

Tom Taylor
Secretary

Date: 18 September 2018

More Helpful Terms

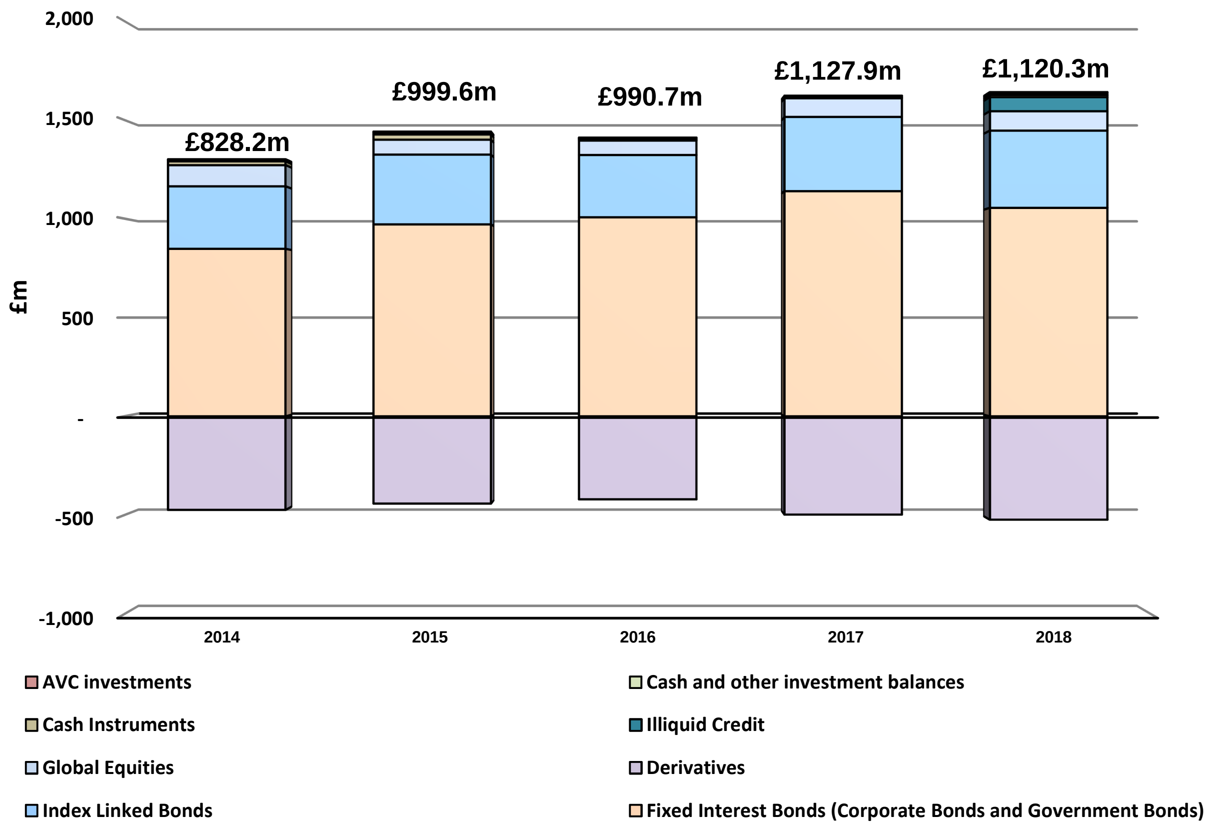
In this document, when we say:	We mean:
Additional Voluntary Contribution (“AVC”)	Contributions over and above a member's normal contributions which the member chose to pay to the Scheme in order to secure additional benefits.
Benchmark	A “yardstick” against which the investment performance of a fund manager can be compared.
Bond	An investment in the form of a loan to a company or government which pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also known as “fixed interest” investments.
Buy and maintain credit	An investment in corporate bonds where the manager aims to select bonds that could be held to maturity, and aims to have very low turnover in holdings. Compare to active management and passive management.
Corporate Bond	A bond issued by a company.
Custodian	A custodian provides safe-keeping of a pension scheme’s assets by holding and recording the investments, and processing tax reclaims etc.
Default	When talking about bonds or investments, a “default” is a failure on the part of the borrower to pay interest on a loan, or to be able to repay a loan at full value.
Derivatives	Financial instruments whose price is dependent on one or more underlying assets or market indicators (e.g. interest rates or inflation). Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying investments.
Equity	An investment in the form of shares in companies (also known as stocks). Owning shares makes shareholders part owners of the company in question and usually entitles them to a share of the profits (if any), which are paid as dividends.
Fixed Interest	See “bond”.
Gilt	A bond issued by the UK Government.

Illiquid Credit	Illiquid Credit investments take the principles of bond investing, lending of money in return for regular interest payments, into less standardised areas which are not actively traded. This results in favourable terms for investors and greater potential gain, which pension schemes are able to access as long-term investors.
Index-linked Gilt	A bond issued by the UK Government which increases each year in line with inflation, which has the effect of increasing the amount of interest paid (or decreasing it if inflation is negative – “deflation”). Also known as inflation-linked gilts.
Investment Grade	A category of ratings provided by a ratings agency based on its assessment of the credit worthiness of that company or asset. The assessments within investment grade range from 'extremely strong capacity to meet financial commitments’ (defined as AAA or Aaa) to 'adequate capacity to meet financial commitments but more subject to adverse economic conditions’ (BBB or Baa).
Investment Manager	A company to whom the Trustee delegates the day-to-day management of part of the Fund’s assets. Also known as an “asset manager” or “fund manager”.
Liability Driven Investment	An investment approach which focuses on matching the sensitivities of a pension scheme’s assets to those of its underlying liabilities in response to changes in certain factors, normally interest rates and inflation expectations.
London Interbank Offered Rate (“LIBOR)	A benchmark for short-term interest rates between banks world-wide, which is published daily.
Market Value	The price at which an investment can be bought or sold on a given date.
Pooled Investment Vehicle / Pooled Fund	An investment fund in which a number of different investors hold “units”, and where the underlying assets are not directly held by each investor but as part of a “pool”. The investors have the right to the cash value of these units rather than to the underlying assets of the investment fund.

Statement of Investment Principles (SIP)	A written statement of the principles governing decisions about investment for an occupational pension scheme, which trustees are required to prepare and maintain. Trustees must have regard to advice from a suitably qualified person and consult with the employer.
Strategic Asset Allocation	The target split of the Scheme's assets between different types of investments (e.g. Bonds and Equities).
Yield	A measure of the annual income earned on an investment. Normally expressed as a percentage of its market price.

Our Investment Report

The chart below provides a snapshot of the different types of investment categories held by the Scheme at each year end for the DB section.



	2014		2015		2016		2017		2018	
	£000	%	£000	%	£000	%	£000	%	£000	%
Fixed Interest Bonds (Corporate Bonds and Government Bonds)	847,658	102.3	970,312	97.1	1,006,026	101.5	1,137,163	100.8	1,053,542	94.0
Index Linked Bonds	313,825	37.9	353,866	35.4	316,114	31.9	377,279	33.5	391,785	35.0
Derivatives*	(472,386)	(57.0)	(440,746)	(44.1)	(419,520)	(42.3)	(496,138)	(44.0)	(521,686)	(46.6)
Global Equities	109,513	13.2	75,422	7.5	73,011	7.4	94,591	8.4	98,002	8.7
Illiquid Credit	-	-	-	-	-	-	-	-	71,118	6.4
Cash Instruments	19,191	2.3	26,127	2.6	5,132	0.5	4,414	0.4	12,300	1.1
Cash and other investment balances	5,605	0.7	9,785	1.0	5,482	0.6	6,078	0.5	10,989	1.0
AVC investments	4,822	0.6	4,788	0.5	4,440	0.4	4,546	0.4	4,297	0.4
TOTAL	**828,228**	**100**	**999,554**	**100**	**990,685**	**100**	**1,127,933**	**100**	**1,120,347**	**100**

*Repurchase agreements included within derivatives

The Scheme's investment policy

The investment objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework we have agreed a number of objectives to help guide us in the strategic management of the assets and control of the various risks to which the Scheme is exposed. Our primary objectives are as follows:

- To target an expected return on the Scheme's portfolio of assets which exceeds the return required to improve the funding level of the Scheme on both a technical provisions basis and a gilt-based least risk basis. For the technical provisions basis, the Scheme's Actuary used a discount rate assumption of gilts plus 0.5% at the most recent actuarial valuation. The Scheme's current strategy during the year is expected to achieve a return of c1.0% p.a. above gilts.
- To limit to 1 in 6 the chance of the assets underperforming the liabilities by more than c2.5% in any calendar year.
- To ensure that the interest rate and inflation sensitivity of the assets is very similar to that of the liabilities.

The Scheme's Statement of Investment Principles

We have produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. A copy of the statement is available on request to the Secretary to the Trustee at the address shown on page 6. We have appointed Mercer Limited as the Scheme's investment consultant.

During the year, no investments were made outside the scope of the Statement of Investment Principles.

Management of assets

We have delegated management of investments to professional investment managers which are listed on page 7. These managers manage the investments within the restrictions set out in investment management agreements and policy documents which are designed to ensure that the objectives and policies set out in the Statement of Investment Principles.

What is the Scheme's investment strategy?

The strategic asset allocation as at the year-end is shown below. We consider alternative investment opportunities on a regular basis within overall investment policy requirements.

We believe that the investment risk arising from the investment strategy combined with the risks arising from active management is consistent with the overall level of risk being targeted.

At the start of the year under review, the Trustee began implementing the interim investment strategy agreed in 2016. As a result, the following changes were implemented:

- Two of the three Illiquid credit mandates began funding with the Insight mandate fully funded in the second half of the year. ICG have begun drawing down monies for their mandate whilst the funding of the M&G mandate is expected to complete in 2018.
- The new mandates were funded via sales from the Scheme's holdings with Wellington and Insight LDI cash fund.

- The corporate bond allocation was reorganised, with assets transferred from the incumbent manager, PGIM to two new Buy and Maintain credit mandates with Insight and Royal London Asset Management ("RLAM"), and the termination of the PGIM mandate.

Asset allocation as at 31 March 2018

Corporate Bonds	Illiquid Credit	Passive Equity	Liability Driven Investment (LDI)	Absolute Return Bonds
LGIM 8.1%	Insight 3.5%	LGIM 8.8%	Insight 67.4%	Wellington 1.2%
RLAM 8.1%	ICG 2.9%	-	-	-
16.2%	**6.4%**	**8.8%**	**67.4%**	**1.2%**

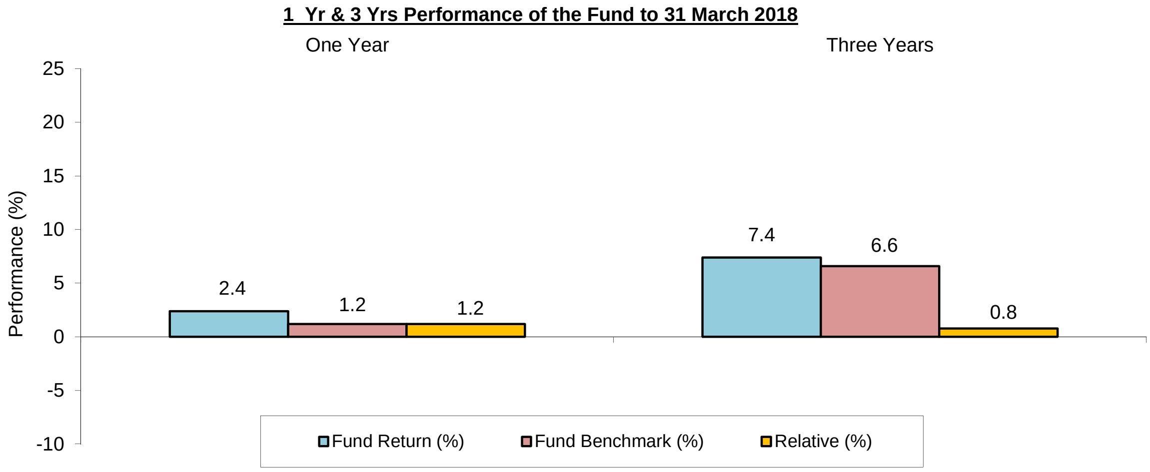
Percentages are of total Scheme assets as at 31 March 2018, excludes AVCs

Investment performance

Investment performance is measured on a quarterly basis; all performance data is shown to 31 March 2018.

On an absolute basis, the fund value decreased from £1,131m on 31 March 2017 to £1,121m on 31 March 2018. The performance of the Scheme for the year to 31 March 2018 was 2.4% compared with the overall total fund monitoring benchmark of 1.2%.

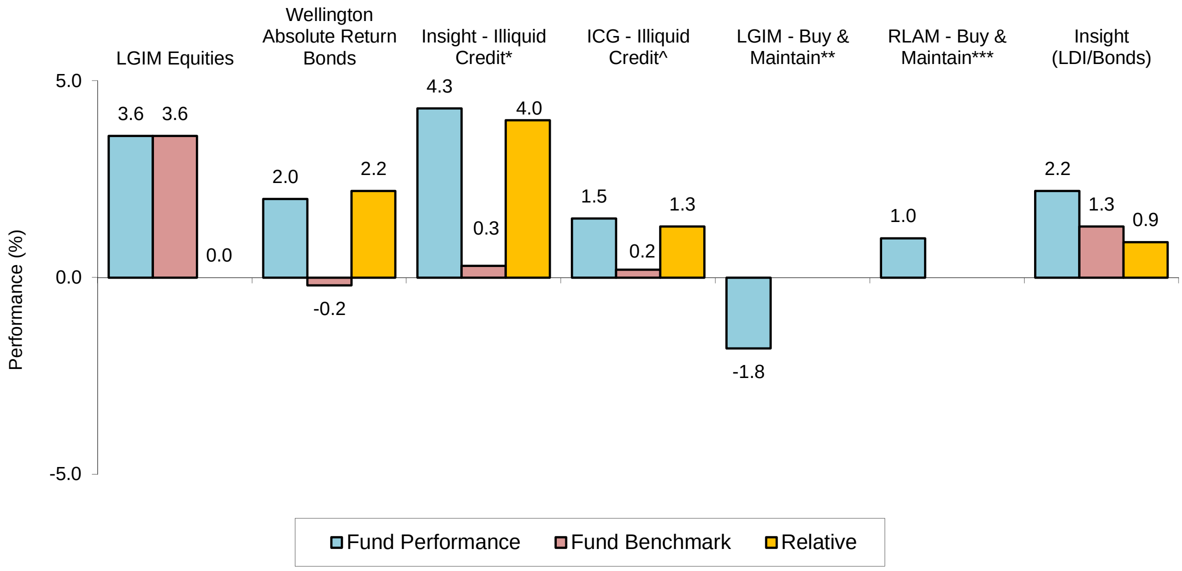
The overall gross of fees performance of Scheme assets, over one and three years to 31 March 2018, is shown below:



Source: Mercer Limited.

The Scheme's assets are invested so as to reduce the risk of major underperformance relative to UK gilts (including inflation-linked gilts). In recent years, as investors have sought more secure investments, these gilts, and the Scheme, have performed very strongly (however, if interest rates were to rise, this strong performance in absolute terms could be reversed). The key for Scheme members (and for the Co-op Group which financially supports the Scheme) is that the performance should stay close to, or exceed, the performance of its benchmark. This provides the guide to whether the value of the Scheme's investments are keeping up with changes in the value of the pensions it has to pay over the years ahead.

Performance of Individual Investment Managers for the Year Ended 31 March 2018



Source: Mercer Limited.

A number of the mandates were only funded over the year so the performance in the chart above for the following managers is from inception.

^ ICG Illiquid Credit – inception 11/08/2017
* Insight Illiquid Credit – inception 30/06/2017
** LGIM Buy and Maintain Credit – inception 05/10/2017
*** RLAM Buy and Maintain Credit – inception 05/10/2017

The Buy and Maintain Credit funds with LGIM and RLAM do not have formal performance benchmarks.

Custodial arrangements

Segregated Assets

Bank of New York Mellon acts as independent custodian for the Scheme's segregated assets; this includes the Scheme's bond portfolios managed by LGIM and RLAM, and the LDI assets managed by Insight. The services provided during the year included custody of assets and investment accounting.

Pooled Assets

The Scheme's investments in pooled vehicles give the Trustee the right to the cash value of units rather than to the underlying assets of the funds. The respective managers of the pooled arrangements are responsible for appointing and monitoring custodians for the underlying assets.

Independent Auditor's Report to the Trustee of the Somerfield Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Somerfield Pension Scheme (the “Scheme”):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 16.

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).

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.

Independent Auditor's Report to the Trustee of the Somerfield Pension Scheme (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The Trustee is responsible for the other information. 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 we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Trustee

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

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

Independent Auditor's Report to the Trustee of the Somerfield Pension Scheme (continued)

Auditor’s responsibilities for the audit of the financial statements

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

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

Deloitte LLP

Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

Date: 25 September 2018

Fund Account

for the year ended 31 March 2018

In plain English – what does this show?

Our Fund Account shows all contributions, investment income and asset return received by the Scheme, minus the benefits and expenses paid out during the year. The result is the Scheme's net asset position.

		2018	2017
Contributions and Benefits	Note	£'000	£'000
Employer contributions	2	2,600	2,600
Benefits paid or payable	3	(26,558)	(26,474)
Payments to and on account of leavers	4	(13,702)	(10,648)
Administrative expenses	5	(927)	(1,060)
Pension Protection Fund Levy	6	(54)	(259)
		(41,241)	**(38,441)**
Net withdrawals from dealing with members		**(38,641)**	**(35,841)**
Returns on investments			
Investment income	7	38,458	30,168
Change in market value of investments	9	(7,214)	148,603
Investment management expenses	8	(3,154)	(2,573)
Net returns on investments		**28,090**	**176,198**
Net (decrease)/increase in the fund during the year		(10,551)	140,357
Net assets of the fund at 1 April		1,131,319	990,962
Net assets of the Fund as at 31 March		**1,120,768**	**1,131,319**

The notes on pages 29 to 47 form part of these financial statements.

Statement of Net Assets

(available for benefits) as at 31 March 2018

In plain English – what does this show?	The Statement of Net Assets below provides a snapshot of the financial position of the Scheme as at 31 March. It sums up the Scheme's assets and liabilities at this date. It does not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year; this is dealt with in the Report on Actuarial Liabilities.

	Note	**2018** £'000	**2017** £'000
Investment assets			
Bonds	9	1,232,317	1,236,234
Pooled investment vehicles	9.1	393,369	373,747
Derivatives	9.2	1,331,181	1,321,400
AVC investments	9.3	4,297	4,546
Sales awaiting settlement	9	3,948	3,190
Accrued income	9	7,204	6,426
Recoverable withholding tax	9	-	11
Cash deposits	9	1,060	3,465
Investment liabilities			
Derivatives	9.2	(1,403,687)	(1,395,825)
Repurchase agreements		(449,179)	(421,713)
Purchases awaiting settlement		(163)	(3,548)
Total net investments		1,120,347	1,127,933
Current assets	12	2,570	4,938
Current liabilities	13	(2,149)	(1,552)
Total net assets of the Fund at 31 March		**1,120,768**	**1,131,319**

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposition of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial certificate on page 50 and Report on Actuarial Liabilities included on pages 13 to 14 of this annual report, and these financial statements should be read in conjunction with them.

The Trustee approved these financial statements on 18 September 2018.

Signed for and on behalf of TCG Southern Trustees Limited:

Independent Trustee Services Limited,
represented by Chris Martin
Chair

Tom Taylor
Secretary

Notes to the Financial Statements

In plain English – what does this show?	This section outlines the general accounting policies of the Scheme that relate to the financial statements as a whole.

1.1 Basis of preparation

The financial statements have been prepared 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 issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised November 2014).

1.2 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year, are as follows.

Contributions and benefits paid and payable

Employer deficit contributions are accounted for in the period they fall due as payable to the Scheme in accordance with the Schedule of Contributions and Recovery Plan.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Transfers

Individual transfers in or out represent the capital sums either received in respect of members from other pension schemes or paid to other pension schemes for members who have left the Scheme. Transfer values are accounted for when the liability is accepted or discharged, which is normally when the transfer amount is received or paid.

Expenses

Administration expenses are paid by the Co-op Group and then reimbursed by the Scheme and are accounted for on an accruals basis.

Investment management fees are accounted for on an accruals basis.

Investment income

Interest on deposits is accounted for on an accruals basis and accrued daily.

Income from bonds is accounted for on an accruals basis and includes interest brought and sold on investment purchases and sales.

Investment income arising from the underlying assets within pooled investment vehicles is reinvested in those vehicles and is reflected in the unit price. This income is reported within ‘change in market value’.

Receipts from annuity policies are accounted for as investment income on an accruals basis.

Foreign currencies

Translation of foreign income into pounds is at the exchange rate on the date of receipt. For the investments held in foreign currency, the translation into pounds is at the exchange rate as at year-end.

Where forward sales of foreign currency have been made as a hedge against exposure on foreign currency investments, any unrealised profit or loss at the year-end, measured by the difference between the spot and the contract rate, is included in the change in market value of investments, together with realised gains and losses on forward contracts maturing during the year.

Valuation of investments

Investments are included in the statement of net assets at their market values. Listed securities are valued at the bid market value or latest traded price at the year-end. Pooled investment vehicles are stated at the bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment manager at the year-end.

Bonds are stated at their clean (excluding accrued income) prices. Accrued income is accounted for within investment income.

Derivatives are stated at market value.

Exchange traded derivatives are stated at market values determined using market quoted prices.

For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Swaps are valued at fair value, using a pricing model which calculates the current value of future expected net cash flows arising from the swap, for which the time value of money is taken into account. Interest is accrued monthly under the terms relating to individual contracts.

Net receipts or payments on swap contracts are reported either within investment income where the economic purpose of the swap is income related, or within change in market value where the economic purpose of the swap is related to the assets and liabilities of the Scheme. Realised gains and losses on closed contracts and unrealised gains or losses on open contracts are included within change in market value.

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

Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
Realised and unrealised gains and losses arising on derivative contracts are disclosed within change in market value and are taken directly to the fund account.

Repurchase agreements are valued on an amortised cost basis and are accounted for as follows:

- Repurchase agreements – the Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as payable amount.

- Reverse repurchase agreements – the Scheme does not recognise the securities received as collateral in its financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements.

The fair value of annuities purchased by the Trustee, which fully provide the benefits for certain members, are estimated to be immaterial by the Trustee. The asset has therefore been excluded from these financial statements. The cost of purchasing these annuities is reported within the Fund Account under 'Benefits paid or payable'.

Currency

The Scheme's functional and presentational currency is pounds sterling (GBP). Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the Scheme's year end. Foreign currency transactions are translated into sterling at the spot rate at the date of the transaction.

2 Employer contributions

In plain English – what does this show?	This note shows what contributions have been received by the Scheme from the Co-op during the year.

	2018 £000	**2017** £000
Deficit funding	2,600	2,600

Contributions were paid during the year to 30 June 2017 according to the Schedule of Contributions certified on 30 June 2014. Under this Schedule, deficit funding contributions were payable at £217,000 per month from 1 July 2014 to 30 June 2023.

Contributions were paid during the year from 1 July 2017 to 31 March 2018 according to the Schedule of Contributions certified on 30 June 2017. Under this Schedule, deficit funding contributions are payable at £217,000 per month from 1 July 2017 to 30 June 2023.

3 Benefits paid or payable

In plain English – what does this show?	This note shows what benefits have been paid out to members of the Scheme during the year.

	2018 £000	**2017** £000
Pensions	21,640	21,023
Commutation and lump sum retirement benefits	4,829	5,345
Lump sum death benefits	68	96
Annuities purchased	21	10
	26,558	26,474

4 Payment to and on accounts of leavers

In plain English – what does this show?	This note shows how much has been paid out to other pension schemes for members who have left the Scheme during the year.

	2018 £000	**2017** £000
Individual transfers to other schemes	13,702	10,648

5 Administrative expenses

In plain English – what does this show?	This note shows what expenses the Scheme has incurred during the year. It splits expenses into key categories, such as actuarial and administration fees.

	2018 £000	**2017** £000
Administration	575	689
Actuarial	159	205
Audit	30	25
Legal and other	163	141
	927	1,060

6 Pension Protection Fund levy

In plain English – what does this show?	This note shows the total amount of levies paid to the Pensions Regulator during the year.

	2018 £000	**2017** £000
Pension Protection Fund levy	54	259

The Pensions Act 2004 introduced the Pension Protection Fund levy and the Scheme, in common with other pension schemes, is required to contribute. The levy was paid by the Scheme during the year.

7 Investment income

In plain English – what does this show?	The Scheme receives income and pays interest from its assets; this note shows the different types of income received and interest paid during the year.

	2018 £000	**2017** £000
Income from bonds	33,724	28,448
Cash receipts from swaps	6,151	5,114
Interest paid on repurchase agreements	(2,259)	(2,412)
Interest (paid on)/Received on swaps collateral	(90)	766
Interest paid on cash deposit and cash instruments	(84)	(80)
Gain/(Loss) on foreign exchange	993	(1,718)
Receipts from annuity policies	1	1
Other	22	49
	38,458	30,168

8 Investment management expenses

In plain English – what does this show?	This note shows the investment management expenses incurred by the Scheme during the year.

	2018 £000	**2017** £000
Investment management fees	2,778	2,302
Custody fees	88	72
Advisory fees	288	199
	3,154	2,573

Included in investment management fees in 2018 is a £803,116 performance fee (2017: £392,255).

9 Reconciliation of investments

In plain English – what does this show?	This note provides a reconciliation of the sales, purchases and change in market value during the year between the opening and closing value of investments and analysed by asset class as disclosed on the face of the Statement of Net Assets.

	Note	1 April 2017	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in market value	31 March 2018
		£000	£000	£000	£000	£000
Assets/(Liabilities) not allocated to members						
Bonds		1,236,234	679,038	(663,064)	(19,891)	1,232,317
Pooled investment vehicles	9.1	373,747	401,130	(388,229)	6,721	393,369
Net Derivative contracts	9.2					
- Swaps		(72,332)	1,255	(1,492)	106	(72,463)
- Futures		(1,158)	5,639	(4,268)	(184)	29
- Foreign exchange		(935)	6,664	(11,662)	5,861	(72)
Repurchase agreements		(421,713)	1,255,262	(1,282,728)	-	(449,179)
		1,113,843	2,348,988	(2,351,443)	(7,387)	1,104,001
Assets/(Liabilities) allocated to members						
AVC investments	9.3	4,546	-	(422)	173	4,297
		4,546	-	(422)	173	4,297
Total Fund						
Not allocated to members		1,113,843	2,348,988	(2,351,443)	(7,387)	1,104,001
Allocated to members		4,546	-	(422)	173	4,297
		1,118,389	2,348,988	(2,351,865)	(7,214)	1,108,298
Cash deposits		3,465				1,060
Accrued income		6,426				7,204
Sales awaiting settlement		3,190				3,948
Purchases awaiting settlement		(3,548)				(163)
Recoverable withholding tax		11				-
		1,127,933				1,120,347

The change in 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.

Cash held by investment managers forms part of the liability hedge portfolio.

Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

Transaction costs analysed by main asset class and type of cost are as follows:

	Fees £	**Commission £**	**2018 Total £**	**2017 Total £**
Cash instruments	-	253	253	560
Derivatives	-	13,132	13,132	11,082
Pooled investment vehicles	7,258	-	7,258	-
2018 Total	7,258	13,385	20,643	11,642
2017 Total	30	11,612	-	11,642

9.1 Pooled investment vehicles

	2018 £000	**2017** £000
Bonds	213,009	278,208
Cash	11,240	948
Equity	98,002	94,591
Illiquid credit	71,118	-
	393,369	373,747

Concentration of investments

The following investments represent greater than 5% of the net assets of the Scheme.

		2018 Market value £000	**2018 Net assets %**	**2017 Market value £000**	**2017 Net assets %**
Insight	LDI Solutions Bonds Plus S GBP	199,285	17.8	198,645	17.6
Wellington	WMF Gbl Ttl Rt Feed GBP T AcH	-	-	79,563	7.1

9.2 Derivatives

Assets

	Note	2018 £000	2017 £000
Interest rate swaps (OTC)	(i)	1,186,451	1,190,724
Inflation swaps (OTC)	(i)	112,375	99,761
Asset swaps (OTC)	(i)	30,421	30,840
Total return swaps (OTC)	(i)	1,038	-
Forward foreign exchange (OTC)	(ii)	107	57
Futures (Exchange traded)	(iii)	789	18
		1,331,181	1,321,400

Liabilities

	Note	2018 £000	2017 £000
Interest rate swaps (OTC)	(i)	(1,177,139)	(1,181,679)
Inflation swaps (OTC)	(i)	(95,912)	(81,574)
Asset swaps (OTC)	(i)	(129,403)	(130,404)
Total return swaps (OTC)	(i)	(294)	-
Forward foreign exchange (OTC)	(ii)	(179)	(992)
Futures (Exchange traded)	(iii)	(760)	(1,176)
		(1,403,687)	(1,395,825)

Derivative contracts - Objectives and policies

We have authorised the use of derivatives by investment managers as part of the investment strategy for the Scheme. The main objectives for the use of derivatives and the policies followed during the year are summarised as follows:

Forward foreign exchange – In order to maintain appropriate diversification of investments within the portfolio, and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Pounds, investment managers are able to use forward foreign exchange contracts to reduce the currency exposure of these overseas investments to the targeted level.

Swaps – Our aim is to match a substantial majority of the assets of the Scheme to the Scheme's long-term liabilities, in particular in relation to their sensitivities to interest rate and inflation movements. We have, therefore, entered into interest rate and inflation linked swap contracts that extend the duration of the liability matching portfolio to better match the long-term liabilities of the Scheme.

Futures – Futures are used to prevent cash held being "out of the market". Index based futures contracts are entered into which have an underlying economic value broadly equivalent to cash being held. Futures are also used to manage interest rate exposure. Gilt future contracts are efficient instruments to allow the manager to position the portfolio for overall movements in yields and changes in shape to the yield curve.

(i) Swaps contracts

The Scheme held the following Swaps contracts at the year-end as follows:

Nature **Duration**	**Notional** **Principal** £000	**Asset value** **at year-end** £000	**Liability value** **at year-end** £000
Inflation rate (OTC)			
2016-2020	304,470	7,058	(2,285)
2021-2030	427,263	17,020	(10,514)
2031-2040	291,347	16,801	(12,979)
2041-2050	180,037	17,396	(27,107)
2051-2060	176,856	42,089	(37,916)
2061-2070	24,494	12,011	(5,111)
		112,375	(95,912)
Interest rate (OTC)			
2016-2020	921,281	69,745	(125,553)
2021-2030	1,396,543	194,992	(238,532)
2031-2040	1,233,449	323,776	(338,044)
2041-2050	1,036,001	294,487	(197,390)
2051-2060	913,029	254,523	(219,479)
2061-2070	296,731	44,856	(58,141)
2071-2075	12,250	4,072	-
		1,186,451	(1,177,139)
Asset swap (OTC)			
to 22 Nov 2022	5,000	-	(2,039)
to 22 Nov 2037	4,500	-	(4,322)
to 07 Dec 2040	50,000	-	(25,580)
to 22 Nov 2042	33,259	19,593	(27,923)
to 22 Nov 2047	37,802	-	(52,643)
to 07 Dec 2049	29,766	10,828	(8,550)
to 22 Mar 2050	5,323	-	(8,346)
		30,421	(129,403)
Total Return Swaps (OTC)			
to 30 May 2018	169,259	1,038	(294)
Total 2018		**1,330,285**	**(1,402,748)**
Total 2017		1,321,325	(1,393,657)

At the end of the year the Scheme received and paid collateral as outlined in the below table in respect of OTC swaps (this is not recorded in the statement of net assets).

	2018 £000 Received	2018 £000 Paid
Cash	24,786	-
UK Gilts	14,820	13,697
UK IL Gilts	18,498	118,845
Total 2018	**58,104**	**132,542**
Total 2017	59,227	132,172

(ii) Forward foreign exchange (FX)

The Scheme had open FX contracts at the year-end categorised as follows:

Nature	Settlement date	Currency bought £000	Currency bought	Currency sold £000	Currency sold	Asset value at year-end £000	Liability value at year-end £000
Forward OTC	25 April 2018	12,756	GBP	(12,674)	USD	82	-
Forward OTC	16 May 2018	13,147	GBP	(13,122)	USD	25	-
Forward OTC	27 June 2018	12,957	GBP	(13,136)	USD	-	(179)
Total 2018		**38,860**		**(38,932)**		**107**	**(179)**
Total 2017		165,271		(166,206)		57	(992)

(iii) Futures

The Scheme held the following Futures contracts (exchange traded) at the year-end as follows:

Nature	Notional Amount position £000	Expiration	Asset value at year-end £000	Liability value at year-end £000
LONG GILT FUTURE (ICF)	43,233	2018	789	-
US 2YR TREAS NTS FUT (CBT)	(3,637)	2018	-	(3)
US ULTRA BOND (CBT)	(343)	2018	-	(11)
US 5YR TREAS NTS FUTURE (CBT)	(4,569)	2018	-	(23)
US 10YR NOTE FUTURE (CBT)	(13,126)	2018	-	(164)
US ULTRA BOND (CBT)	(6,520)	2018	-	(262)
US LONG BOND FUTURE (CBT)	(9,616)	2018	-	(297)
Total 2018			**789**	**(760)**
Total 2017			18	(1,176)

Included within cash balances is £(83,057), (2017: £2,756,169) in respect of initial and variation margins arising on open futures contracts at the year-end.

9.3 AVC investments

	2018 £000	2017 £000
Prudential - Cash Deposits	1,660	1,745
Prudential - Unit Linked Investments	1,036	1,163
Prudential - With Profits Fund	1,296	1,325
Aviva - With Profits Fund	300	308
Friends Life - With Profits Fund	5	5
	4,297	4,546

We hold assets invested separately from the main fund in the form of insurance policies securing additional benefits on a defined contribution basis for those members electing to pay additional voluntary contributions (AVC). Those participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

10 Fair value determination

In plain English – what does this show?	This note categorises the investment assets and liabilities held by the Scheme into specific levels which correspond to how its market value has been determined. Market values can be determined from a number of sources including taking pricing information from market data i.e. a stock exchange, or using a valuation model not widely available.

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

- **Level 1:** The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- **Level 3:** Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability).

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

At 31 March 2018

	Held at amortised cost not fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	-	1,223,226	9,091	1,232,317
Pooled investment vehicles	-	-	308,527	84,842	393,369
Swaps	-	-	(72,463)	-	(72,463)
Futures	-	29	-	-	29
Foreign exchange	-	-	(72)	-	(72)
Repurchase agreements	(449,179)	-	-	-	(449,179)
AVC investments	-	-	2,696	1,601	4,297
Cash deposits	-	1,060	-	-	1,060
Accrued income	-	7,204	-	-	7,204
Sales awaiting settlement	-	3,948	-	-	3,948
Purchases awaiting settlement	-	(163)	-	-	(163)
TOTAL	(449,179)	12,078	1,461,914	95,534	1,120,347

At 31 March 2017

	Held at amortised cost not fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	-	1,227,570	8,664	1,236,234
Pooled investment vehicles	-	-	294,183	79,564	373,747
Swaps	-	-	(72,332)	-	(72,332)
Futures	-	(1,158)	-	-	(1,158)
Foreign exchange	-	-	(935)	-	(935)
Repurchase agreements	(421,713)	-	-	-	(421,713)
AVC investments	-	-	2,908	1,638	4,546
Cash deposits	-	3,465	-	-	3,465
Accrued income	-	6,426	-	-	6,426
Sales awaiting settlement	-	3,190	-	-	3,190
Purchases awaiting settlement	-	(3,548)	-	-	(3,548)
Recoverable Withholding tax	-	11	-	-	11
TOTAL	(421,713)	8,386	1,451,394	89,866	1,127,933

11 Investment risk disclosures

In plain English – what does this note show?	This note provides additional information to enable readers to evaluate the nature and extent of credit, market and other risks arising from certain investment assets which the Scheme is exposed to. Information about how the Scheme manages these risks is also provided.

FRS 102 requires that we, the Trustee, provide information in relation to certain investment risks. The risks are set out by FRS 102 are:

Credit Risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, e.g. the risk that a borrower may not repay a loan or a debt to the Scheme.

Market Risk: this includes "currency risk", "interest rate risk", "inflation risk" and "other price risk".

- **Currency risk:** this is the risk that the value of an investment changes because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the value of an investment decreases or increases because of changes in interest rates.
- **Inflation risk**: this is the risk that the value of an investment increases or decreases because of changes in inflation expectations.
- **Other price risk:** this is the risk that the value of an investment decreases or increases because of changes in market prices (apart from changes in value as a result of movements in interest rates or currency).

Other Risks:

Apart from the risks listed above, we make sure the following investment related risks are managed:

- **"Solvency risk and mismatching risk"**: The risk that the Scheme does not generate strong enough investment returns, and cannot meet benefits.
- "**Manager risk**": The risk that individual investment managers underperform their objectives.
- "**Liquidity risk**": The risk that the Scheme does not hold enough cash to meet short-term requirements to pay benefits.
- "**Custody risk":** The risk that the Scheme's assets are not held safely.
- "**Sponsor risk**": The risk that the Scheme's sponsor cannot afford to pay money into the Scheme if needed.
- "**Leverage risk**": The risk that the Scheme's liability matching investments are fall in value, and additional cash is required.

- "**Inappropriate investments**": The risk that the Scheme invests in inappropriate investments (e.g. investments that are too risky).

- **"Counterparty risk":** The risk that where the Scheme enters into swap transactions via pooled funds, the selected counterparty cannot fulfil its obligations.

11.1 Investment Strategy

We make investment decisions after taking advice from a professional investment adviser. The Scheme is subject to the risks above because of the investments it makes to implement its strategy, as described on page 20 of this report. We manage investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Scheme's investment objectives. These investment objectives and risk limits are applied through the legal agreements the Scheme has with its investment managers, and we regularly monitor that the managers are complying with these agreements.

A more detailed description of our approach to risk management and the Scheme's exposures to credit and market risks is set out below. This does not include annuity insurance policies or AVC investments, because these are relatively small compared to the overall investments of the Scheme.

(i) Credit risk

The Scheme is subject to credit risk because:

- it invests in bonds issued by UK and overseas governments and companies (which could default on their debt to the Scheme);
- it enters into repurchase agreements and invests in derivatives; and
- it holds cash in bank accounts and with investment managers.

The Scheme also invests in pooled investment vehicles, such as open ended investment companies and unit linked insurance contracts, and is therefore directly exposed to credit risk in relation to these pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by these pooled investment vehicles.

<u>Credit risk – UK government and investment grade bonds:</u>

We look to limit the credit risk the Scheme is exposed to through its bond holdings by ensuring that the majority of the bonds held by Insight, Legal and General and RLAM are either government bonds (where the risk of default is minimal), or corporate bonds which are rated at least investment grade (i.e. where they are higher quality). The risk is also reduced by requiring the appointed investment managers to invest in a range of bonds issued by different entities, which reduces the impact on the total portfolio if a bond issuer is unable to meet the payments due (see note 9 on page 34).

A number of the Scheme's managers are also allowed to invest in corporate bonds which are not rated as investment grade. These investments are made at the investment managers' discretion and are subject to limits. Insight is restricted to hold a maximum of 25% in sub-investment grade bonds for the Bond Plus portfolio; Wellington can hold up to 30%. RLAM are allowed to invest in corporate bonds which are not rated as investment grade, at RLAM's discretion and subject to limits; if a bond is downgraded RLAM can continue to hold it, but at most 20% of the Scheme's investment with RLAM can be sub-investment grade. LGIM is not permitted to purchase bonds that are sub-investment grade but there is a limit of 10% for retaining bonds that are sub-investment grade.

Credit risk – derivatives:

Credit risk arising on derivative contracts, which are not guaranteed by any regulated exchange, are subject to risk of failure of the counterparty. The level of credit risk for derivative contracts is reduced by using collateral arrangements (see note 9.2). Credit risk can also arise on forward foreign currency contracts (9.2.ii); there are no collateral arrangements for these contracts but, when used, all counterparties are required to be at least investment grade.

Credit risk – cash:

Cash is held within financial institutions which are at least investment grade credit rated. At year end, the total cash held is 0.2% of the Scheme's total net assets (2017: 0.4%).
Credit risk – repurchase agreements:

Credit risk on repurchase agreements is mitigated through collateral arrangements. At year end, the Scheme held £11.8 million in collateral (2017: £7.2 million).

Credit risk – pooled investments:

The Scheme also invests in pooled investment vehicles (PIVs), pooled funds which invest in underlying assets like shares and bonds on behalf of a number of investors, and is therefore directly exposed to credit risk for these investments (as the PIVs could default on their obligations to the Scheme). A summary of pooled investment vehicles by type of arrangement can be found in note 9.1.

The Scheme's investments in PIVs and bonds are either rated investment grade or unrated. Direct credit risk arising from bonds and PIVs are reduced because:

- the underlying investments held by the pooled funds are legally ring-fenced from the investment manager(s);
- the investment managers that operate the PIVs need to meet the requirements of various financial regulations;
- we invest in a number of different PIVs, spreading risk; and
- we carry out due diligence checks on the appointment of any new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement can be found in note 9.1. At year end, 34.3% of invested assets were held in pooled investment vehicles (2017: 33.2%).

Credit risk – custody:

We have appointed a global custodian for the safekeeping of assets. The risk that the custody of the Scheme's assets is not secure is addressed by monitoring the custodian's activities and creditworthiness.

Indirect credit risk:

This indirect credit risk occurs in particular from the underlying investments held in the pooled investment vehicles that the Scheme invests in (totalling 25.5% of assets at year end – 2017: 24.8%). For example, if the Scheme invested in an illiquid credit funds which itself invests in bonds issued by a company, there is a risk that that company does not repay the bond to the pooled fund. We manage this risk by making sure that our investment managers diversify their investments over a number of companies and investments, to minimise the impact of a default on any individual investment.

(ii) Currency risk

The Scheme is subject to currency risk because the Scheme invests in overseas investments either as segregated investments or through pooled funds. To reduce the risk that the value of these overseas investments fall in pound terms, we have a policy of hedging a portion of overseas currency risk for our investments in bonds. The management of currency risk is delegated to the investment managers.

The Scheme's total net unhedged exposure by major currency at the year-end was as follows:

	2018 £'000	2017 £'000
Currency		
US Dollar	18,206	40,507
Euro	10,599	(2,922)
Japanese Yen	9,496	3,382
Other	30,744	37,543
Total overseas exposure	69,045	78,510

The majority of changes over the year result from the reduction in size of the absolute return bond mandate managed by Wellington, which in 2017 had significant exposure to the US Dollar, and a negative exposure to Japanese Yen.

(iii) Interest rate risk

The Scheme is subject to interest rate risk on its investments in bonds and financial derivatives. This is because the liability driven investments it makes are intended to protect the Scheme against the impact of changes in interest rates and inflation on the Scheme's liabilities.

The Scheme achieves liability hedging by using segregated LDI funds managed by Insight, and Buy and Maintain Credit Mandate by LGIM and RLAM. The LDI portfolio holds gilts, corporate bonds, derivatives and cash collateral. These segregated funds would require more cash collateral if gilt yields rose further than the yield buffers currently held in the funds. We monitor the level of cash held within the LDI funds and operate a framework to make sure that if gilt yields rise then additional cash can be provided in a timely manner, should it be required.

We have set a benchmark for total investment in LDI and bonds of 82% of the total investment portfolio. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. These assets would be expected to change in value by £2.1 million for a change in interest rates of 0.01% (2017: £2.2 million). The Scheme's liabilities would change by approximately £2.7 million for a change in interest rates of 0.01% (2017: £3.1 million).

(iv) Inflation risk

The LDI portfolio is also exposed to inflation risk. If inflation expectations increase the value of these assets will rise to help match the increase in actuarial liabilities arising from the rise.

Similarly, if inflation expectations fall, the LDI portfolio will fall in value, as will the actuarial liabilities. These assets would be expected to change in value by £0.8 million for a change in expected inflation of 0.01% (2017: £0.8 million). The Scheme's liabilities would change by approximately £1.0 million for a change in expected inflation of 0.01% (2017: £1.1 million).

At the year end the LDI portfolio and bonds represented 83.2% of the total investment portfolio (2017: 84.1%).

(v) Other price risk

The Scheme is also exposed to "other price risk", largely because of its investments in return seeking assets (which include equities held in pooled vehicles and the absolute return bond mandate, also held in a pooled vehicle), and holdings invested in Illiquid Credit which covers less standard and liquid areas of the credit market. To spread this risk, the Scheme invests across multiple managers, each of which have diversified holdings by issuer and asset class.
The Scheme manages this exposure to risk by investing in a diverse portfolio of investments across various markets by limiting the target size of the equity allocation to 8%, and targets a 10% allocation in illiquid credit. The Scheme is also in the process of terminating its Absolute Return Bonds Fund with Wellington. At the year end, the Scheme's exposures to investments subject to other price risk was 8.8%,1.2% and 6.4% for the equity mandate, absolute return bond and Illiquid Credit Fund respectively of the total investment portfolio (2017: 8.4% and 7.1% for the equity mandate, absolute return bond respectively).

(vi) Other risks

Other investment risks are managed as outlined below:

- **Solvency risk and mismatching risk** – this is managed by us setting appropriate investment objectives as part of our actuarial valuation every three years. Mismatching risk is also partly addressed through investing in liability matching assets.

- **Manager risk** – this is managed by spreading the Scheme's assets a range of managers, and we regularly monitor the managers.

- **Liquidity risk** - the Co-op Pensions Department estimates the cash needed each month to meet benefit payments, and ensures that sufficient cash is available, seeking advice where necessary.

- **Custody risk** – this is managed by the safe custody of the assets is delegated to professional custodians either directly or via the use of pooled funds, with each manager appointing a custodian and being responsible for monitoring the custodian's activities.

- **Sponsor risk** – this is managed by regular assessments of the ability of the Co-op to support the Scheme.

- **Leverage risk** – this is managed by regular reviews of the amount and nature of any leveraged investments made by the Scheme's investment managers.

- **Inappropriate investments** – this is managed by our policies in relation to the range of assets held and the pooled funds invested in.

The Scheme does not invest directly in equity, and therefore we do not have direct responsibility for exercising voting rights. The equity investment manager operates its own corporate governance policy, detailed below. Information is not provided for Insight, Wellington or PGIM, as these managers do not invest in equity on behalf of the Scheme.

12 Current assets

In plain English – what does this show?	This note shows the value of non-investment assets held by the Scheme at the year end.

	2018 £000	**2017** £000
Contributions due:*	217	217
Cash balances	2,347	4,721
Pension returns	6	-
	2,570	4,938

*Contributions due at year-end were all received subsequent to the year-end in accordance with the Schedule of Contributions.

13 Current liabilities

In plain English – what does this show?	This note shows the value of non-investment liabilities owed by the Scheme at the year end.

	2018 £000	**2017** £000
Unpaid benefits	(288)	(347)
Other creditors	(1,861)	(1,205)
	(2,149)	(1,552)

14 Related party transactions

In plain English – what does this show?	Related parties include people (such as directors and key personnel) as well as entities. This note outlines the nature of the relationship of any related parties.

Apart from the payment of contributions to the Scheme by the Co-op, other related party transactions are:

- At the Scheme's year-end three directors holding deferred benefits and one receiving a pension were directors of the Trustee.
- Expenses incurred by Trustee Directors, including training, travel and overnight accommodation, where appropriate, may be charged to the Scheme.
- The Co-op’s Pensions Department performs Scheme administration.

- Pensioner Member-Nominated Trustee Directors receive pensions from the Scheme under normal terms and conditions and are paid £5,000 per annum, which is shared equally between the Scheme and Plymouth.
- Member Nominated Trustee Directors who still work for the Co-op are paid £2,000 per annum in respect of attendance at the quarterly Trustee meetings, which is shared equally between the Scheme and Plymouth. Attendance at additional sub-committee meetings is remunerated based on the workload of each committee. MNDs may opt out of receiving this remuneration.
- Independent Trustee Directors receive remuneration from the Scheme based on rates negotiated with the Co-op, as the principal employer of the Scheme.
- The total of all Trustee Director remuneration paid from the Scheme during the year was £41,718 (2017: £43,710).

15 Employer related investments

In plain English – what does this show?	Employer related investments include securities issued by the employer, loans to the employer and any investment property occupied by the employer. They also include investments made indirectly through pooled investment vehicles.

During the year, there were no direct or indirect employer related investments.

16 Post year-end events

In plain English – what does this show?	Significant events which occurred between the reporting date and the date the report and accounts are formally signed by the Trustee.

The Scheme appointed M&G investments on 9 April 2018 to manage one of the three Illiquid credit mandates under the new investment strategy. £20,136,000 was transferred to M&G investments to fund the new M&G Illiquid Credit Opportunities Fund on 11 May 2018 from Insight.

On 20 June 2018, the Scheme fully disinvested from Wellington realising £14,011,204 of which £11,011,204 was transferred to Insight and the remainder was retained in the Trustee bank account for cashflow purposes. The value of this fund at the Scheme year end was £13,724,356.

Independent Auditor’s Statement about Contributions to the Trustee of the Somerfield Pension Scheme

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

In our opinion, contributions for the Scheme year ended 31 March 2018 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid for the period from 1 April 2017 to 29 June 2017 at least in accordance with the Schedule of Contributions certified by the Scheme actuary on 30 June 2014 and for the period 30 June 2017 to 31 March 2018 at least in accordance with the Schedule of Contributions certified by the Scheme actuary on 30 June 2017.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient 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 schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedules of contributions.

Respective Responsibilities of Trustee and the Auditor

As explained in the Statement of Trustee’s responsibilities in respect of Contributions on page 49, the Scheme’s Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

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

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the 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 Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

Date: 25 September 2018

Statement of Trustee's Responsibilities in respect of Contributions

The Trustee is responsible under pension legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the 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 member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Trustee's Summary of Contributions payable under the Schedules in respect of the Scheme year ended 31 March 2018 in the Statement of Trustee's Responsibilities in respect of Contributions

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer contributions payable to the Scheme under the Schedules of Contributions certified by the Actuary on 30 June 2014 and 30 June 2017 in respect of the Scheme year ended 31 March 2018. The Auditor reports on these contributions payable in the Auditor's Statement about Contributions.

Contributions payable under the schedules in respect of the Scheme year	
	£'000
Employer:	
Contributions towards the elimination of funding deficit	2,600
Contributions payable under the schedules and reported in the financial statements (as reported on by the scheme auditor)	**2,600**

For and on behalf of TCG Southern Trustees Limited;

Independent Trustee Services Limited,
represented by Chris Martin
Chair

Tom Taylor
Secretary

Date: 18 September 2018

Actuary's Certification of Schedule of Contributions

Certification of schedule of contributions

Somerfield Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2016 to be met by the end of the period specified in the Recovery Plan dated 30 June 2017.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 30 June 2017.

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

Signature		Date:	30 June 2017
Name:	Andrew McKinnon	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Aon Hewitt Limited Colmore Gate 2 Colmore Row Birmingham B3 2QD	Name of employer:	Aon Hewitt Limited

Corporate Governance

“Corporate Governance” has historically referred to how equity managers approach their responsibilities as shareholders, in particular how they exercise their voting powers when holding equities. The Trustee believes that Corporate Governance encompasses all of their investments and should cover how all managers exercise their responsibilities as investors and how their investment processes manage risk and generate long term sustainable returns.

A brief summary of each of the Scheme’s investment managers’ corporate governance policies, are set out below.

Legal & General Investment Management (“LGIM”)

LGIM aims to enhance and protect investor value on behalf of clients through its engagement and voting activity. LGIM engages on a range of Environmental, Social, Governance (ESG) and Financial issues and integrates all components where appropriate across all asset classes. They engage with companies both directly and collaboratively with other investors to reduce risks of corporate failure and promote best practices. Additionally, they work with key decision-makers such as governments, regulators and other stakeholders to ensure that key areas impacting sustainable long-term value are recognised and addressed. LGIM votes in all major developed and emerging markets and publishes it full voting record on its website to assist both companies and stakeholders. LGIM complies with the principles set out in the UK Stewardship Code and is a signatory to the UN Principles of Responsible Investment.

Insight Investment Management (Global) Limited (“Insight”)

Insight Investment (Insight) believes strong governance practices and management of environmental and social risks are important drivers of investment value over the short and the long term. Insight also believes that delivering sustainable investment returns is dependent on efficient and well-managed financial markets, and stable and transparent social, environmental and economic systems.

Their objective is to achieve superior investment returns over clients' expected time horizons. Insight considers responsible investment to contribute towards this goal through providing investment solutions that deliver quality and excellence; managing financial and nonfinancial risks for clients; and operating to high ethical and professional standards.

Insight considers responsible investment as central to its investment activities, to its culture, to its relationship with clients and interaction with stakeholders. To deliver on these objectives, Insight:

1. Takes account of financially material short and long-term risk factors in its investment research and decision-making processes. These risk factors may include environmental, social and governance (ESG) issues.
2. Exercises its stewardship role in the companies and other entities in which it invests. Insight believes that good stewardship can create investment opportunities and reduce investment risk. Insight therefore engages with management to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. Insight also votes on shareholdings.
3. Support efforts that seek to improve the operation, resilience and stability of financial markets. This includes sustainable economic development and health of the natural environment.

Royal London Asset Management ("RLAM")

RLAM takes its Stewardship responsibilities seriously, and they are committed to upholding high standards of corporate governance at the companies we invest in. They have dedicated significant resources to implementing their stewardship activities which is led by a specialist Responsible Investing team and supported by their fund managers and credit research analysts. RLAM's commitment to being a long-term steward of their clients' assets is outlined in their Responsible Investment Policy which describes their general approach to responsible investing across each of their asset classes. They vote their proxies and regularly engage with management and board directors on environmental, social and governance (ESG) issues.

For fixed income funds, their in-house Responsible Investment team works closely with their credit research team to ensure ESG analysis is both useful and relevant in a credit context, and to take into consideration the structure and protections built into the security they are evaluating. This is in keeping with their long-established credit research process, which focuses on the sustainability of borrowers' balance sheets, with a particular emphasis on credit-enhancing protections. In practice, this means they will consider the corporate governance risks specific to each security when making their investment decisions. They will also vote at bondholder meetings and may engage with investee companies on governance issues. For example, in 2016 and 2017 RLAM engaged with several housing associations to suggest improvements to corporate governance practices.

Intermediate Capital Group ("ICG")

ICG believe that environmental, social and governance (ESG) factors can positively contribute to investment performance, as well as contributing to help build a more stable, sustainable and inclusive global economy. ICG has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 12th April 2013. Implementing UNPRI Principles means that ICG:

- Promotes responsible, sustainable business practices and investment strategies in all their business decisions and the companies they invest in.
- Delivers social, environmental and economic benefits, that enhance long-term performance through an understanding of how ESG issues affect their business and their investments.
- Mitigates potential risks and liabilities, as well as identifies opportunities.
- Measures and reports on these benefits to their investors and stakeholders.
- Encourages the companies they invest in to be responsible towards their own stakeholders.

At ICG the opportunity to fully understand the ESG implications of an investment and exert influence are largely at the time of initial investment. Through various training modules and input from the Responsible Investment Committee, ICG's investment executives are provided the skills necessary to identify and investigate ESG issues during the pre-investment stage of an investment, specifically through:

- ESG checklists provided to the investment teams for completion during the early stage of investment due diligence.
- ESG sections have been incorporated into all Investment Proposals so the Investment Committee is able to make a judgement on ESG considerations during the investment process.
- Specialist ESG due diligence can be carried out by third party consultants as and when further investigation is needed.

- In certain cases ICG's Responsible Investment Committee will require investment executives to complete ESG case studies following an investment.

Where ICG has significant influence in the ownership structure or capital structure of companies they will engage with them to ensure they deliver high levels of corporate responsibility. There are a number of ways ICG help portfolio companies focus on ESG issues, including:

- Ongoing discussion with management about ESG issues within the business, or potential ESG issues in the future.
- ICG ask investee companies to disclose to us how they factor ESG into their day to day business activities.
- Ongoing monitoring of ESG risks within a business through ICG's annual ESG questionnaire.
- Adding ESG to the agenda of board meetings.