PLYMOUTH & SOUTH WEST CO-OPERATIVES SOCIETY LIMITED EMPLOYEES' SUPERANNUATION FUND

Financial Statements
For Year Ended 31 March 2018

PENSION SCHEME REGISTRY NO. 100404157

Contents

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 Fund. The actuary values the Fund's assets and liabilities. The Fund'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 Fund'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 Fund).
Closure Members	Members who were still building up benefits on the date the Fund closed to future accrual, 6 October 2012.
Closure Member Nominated Directors (MNDs)	MNDs appointed from the Funds' Closure Members.
Deferred Members	Member of the Fund 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 Schemes' Closure Members and pensioners.
Pensioners	Members of the Fund whose benefits have come into payment.
Pensioner MNDs	MNDs appointed from the Funds' 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 Fund's principal (and only) employer.
The Fund	Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund.
The Trustee	TCG Southern Trustees Limited. A company which is appointed as the trustee of the Fund and acts via its directors.
The Somerfield Scheme	Somerfield Pension Scheme.

Trustee Directors & Advisers

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

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

Our registered office is 1 Angel Square, Manchester, United Kingdom, 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, 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 Funds' members. The Articles of Association gives the Funds' 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' 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 of the Trustee directors 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 Fund's trust deed and rules.

Committees of the Trustee board

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

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

The Fund's share is paid for by the Co-op, and not from the assets of the Fund. All figures used below cover the full amount of remuneration paid to Trustee Directors in relation to both the Fund and the Somerfield Pension Scheme.

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 Fund and the Somerfield Scheme, 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.

Contact Address

For enquiries about the Fund please contact:

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

Email address: utdpensions@coop.co.uk

The Fund'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	Mercer Limited of Belvedere, 12 Booth Street, Manchester M2 4AW
Auditor	Deloitte LLP
AVC provider	Royal London (CIS) Limited
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	Baillie Gifford Life Limited (terminated 27 November 2017) Blackrock Investment Management (UK) Limited Fountains Forestry Limited (terminated 1 August 2017) Insight Investment Management (Global) Ltd (appointed 30 June 2017) Intermediate Capital Group plc (appointed 7 August 2017) Legal & General Investment Management (UK) Limited M&G Investments (appointed 9 April 2018) Royal London Asset Management Limited (appointed 27 August 2017) Standard Life Investments Limited (terminated 5 December 2017) UBS Global Asset management (UK) Limited (terminated 24 July 2017)
Legal adviser	Eversheds LLP Linklaters LLP

Our Annual Report

Introduction

We are pleased to present the annual report together with the audited financial statements for the year ended 31 March 2018. The financial statements (set out on pages 25 to 39) 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 17 to 21 and the report on actuarial liabilities set out on pages 11 to 12 also form part of this annual report.

The Fund provides benefits based on a member's salary and length of service. It is closed to new members and future accrual. Before closure, members were able to make Additional Voluntary Contributions to secure additional benefits.

Constitution of the Fund

The Fund provided a Defined Benefit Section and a Defined Contribution Section governed by a Trust Deed dated 30 June 2010 (as amended from time to time). On 29 January 2014 the Trustee completed the wind-up of the Defined Contribution Section with the Defined Benefit Section continuing to operate.

The Fund is constituted by:

(a) A Trust Deed dated 1 May 1929; and
(b) Rules dated 1 June 2010.

The Trustee holds funds on trust to apply them for the purpose of paying pensions and other benefits in accordance with the Trust Deed.

Tax Status

The Fund is a 'registered pension scheme' for tax purposes under the Finance Act 2004. As such most of its income and investment gains are free of taxation. However, the Fund cannot reclaim certain amounts of withholding taxes relating to overseas investment income.

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	**56**	(2)	-	(7)	-	**47**
Deferred Members	**1,030**	(2)	4	(33)	-	**999**
Pensioners	**1,030**	-	44	(10)	(33)	**1,031**
Total	**2,116**	**(4)**	**48**	**(50)**	**(33)**	**2,077**

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

Transfers

Transfer value calculations use a method and basis determined by the Trustee, after taking advice from the Fund Actuary, to be consistent with relevant legislation and the Rules of the Fund. No allowance is made for discretionary benefits in the calculation of transfer values.

Guarantees

The Co-op's main trading and/or asset-holding subsidiaries guarantee the Co-op's obligations to the Fund. The identity of these guarantors may change from time to time depending 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 from the Co-op under either the schedule of contributions or under the employer debt provisions of section 75 of the Pensions Act 1995, and has a long-stop date of 31 December 2034.

Pension increases

Post 88 Guaranteed Minimum Pension (GMP)

Increases are based on the annual movement in the Consumer Prices Index (CPI) up to September prior to the increase date, subject to a maximum of 3% per annum. As the percentage increase in the CPI over the relevant period was 3%, an increase of 3% was applied to the pension in respect of Post 88 GMP. This was applied in full to those members who had reached the state pension age at 6 April 2017 regardless of when they retired.

Non-GMP pension earned before 6 April 1997

Increases are based on the annual movement in the Retail Prices Index (RPI) up to December prior to the increase date, subject to a maximum of 3% per annum and are first applied on the 6 April following the calendar year in which the pension began. The percentage annual increase in the RPI for December 2017 was 3%. For those members who retired before 1 January 2018, pensions will first increase with effect from 6 April 2018.

Non-GMP pension earned after 5 April 1997 but before 1 April 2006

Increases are based on the annual movement in the RPI up to September prior to the increase date, subject to a maximum of 5% per annum. The percentage increase in the RPI over the relevant period was 3.9% and an increase of 3.9% was applied to pensioners who retired prior to 1 April 2017. For those members who retired on or after 6 April 2017, a proportionate increase was applied, based on the number of complete months between 6 April 2017 and 5 April 2018.

Non-GMP pension earned after 1 April 2006

Increases are based on the annual movement in the RPI up to September prior to the increase date, subject to a maximum of 2.5% per annum. The percentage increase in the RPI over the relevant period was 2.5% and therefore an increase of 2.5% was applied to pensioners who retired prior to 6 April 2017. For those members who retired on or after 6 April 2017, a proportionate increase was applied, based on the number of complete months between 6 April 2017 and 5 April 2018.

Deferred pensions have been increased in line with statutory requirements.

All increases were in accordance with the trust deed and rules of the Fund or legislative requirements. There were no discretionary increases awarded in the year ended 31 March 2018.

Contributions

Under the Schedule of Contributions signed on 22 September 2017, as part of the completion of the Scheme's funding valuation as at 31 March 2016 (discussed below), minimum rates of deficit reduction contributions of:

- £5M per annum, payable in equal monthly instalments until 31 December 2017;
- £7M per annum, payable in equal monthly instalments from 1 January 2018 to 30 June 2019;
- £8M per annum, payable in equal monthly instalments from 1 July 2019 to 31 December 2024;

will be paid to the Fund by the Co-op.

In addition the Co-op will reimburse the Trustee for any administrative and other expenses, and meet the cost of the PPF and other levies in respect of the Fund.

The employer has pre-paid some of these contributions, via higher amounts paid in January to April 2018 (inclusive) than those amounts due under the Schedule of Contributions. The pre-payments will be offset from subsequent contributions. The financial statements in these accounts treat the aggregate pre-payment as at 31 March 2018 as an amount owed by the Fund to the employer.

Actuarial Valuation

The financial statements, set out on pages 25 to 39, do not take into account the liabilities to provide pension benefits. These liabilities are considered by the Fund Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position and the level of contributions payable.

The statutory deadline for the Fund's three-yearly valuation expired on 30 June 2017. The Trustee Directors and the Co-op notified the Pensions Regulator before the deadline that this would be the case. This was due to the uncertainty caused by the separation of The Co-operative Bank p.l.c. from the Co-operative Pension Scheme (Pace).

The Actuary completed an actuarial valuation of the Fund 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 Fund had a shortfall of £63m relative to its technical provisions, which equates to a funding level of 59%.

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 22 September 2017.

The formal actuarial certificate required by statute to be included in our Annual Report from the Fund Actuary appears on page 42.

The next actuarial valuation of the Fund 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 Co-op and set out in the Statement of Funding Principles, which is available to Fund members on request.

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

This showed that on that date:

The value of the Technical Provisions was:	£155 million
The value of the assets at that date was:	£92 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 rates
  - *Pre*-retirement: UK Government fixed-interest gilt yield curve at the valuation date, plus a fixed addition of 1.0% per annum at all terms.
  - *Post*-retirement: UK Government fixed-interest gilt yield curve at the valuation date, plus a fixed addition of 0.5% per annum at all terms.
- 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.
- Pay increases: The Fund was closed to future accrual with effect from 6 October 2012 (”the closure date”). Members who were active members at the closure date became ‘Closure Members’ and are eligible to retain a salary link for benefits accrued before the closure date whilst they remain an employee of the Co-operative Group (“the Co-op”). An assumption for salary increases in excess of increases in the RPI of 0.5% per annum has been determined after consultation with the Co-op. No additional allowance has been made for promotional increases.

- Mortality: The mortality assumptions are as follows:

  Post-retirement mortality:

  Standard Self-Administered Pension Scheme ("SAPS") S2 *Heavy* year of birth tables scaled as follows:

  - Closure Members: 92% males / 124% females
  - Deferreds: 94% males / 113% females
  - Pensioners: 87% males / 103% females

  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

  Base mortality prudence loading: 2% prudence loading to the technical provisions

- Commutation: 100% of non-pensioner members convert 25% of their pension at retirement into a cash sum, on commutation factors equivalent to 80% of the technical provisions.

- Expenses: no allowance, on the basis that the Co-op will meet directly or reimburse the Trustee for any administrative and other expenses, and meet the cost of the PPF and other levies in respect of the Fund.

Fund Changes during the Year

During the year a Deed of Record was executed which reflected the Trustee's decision, on legal advice, to set the age at which Normal Pension is reduced by the Deductive Component to be the member's State Pension Age.

Financial Development of the Fund

During the year ended 31 March 2018, the net assets increased from £109.2m to £113.7m.

More Helpful Terms

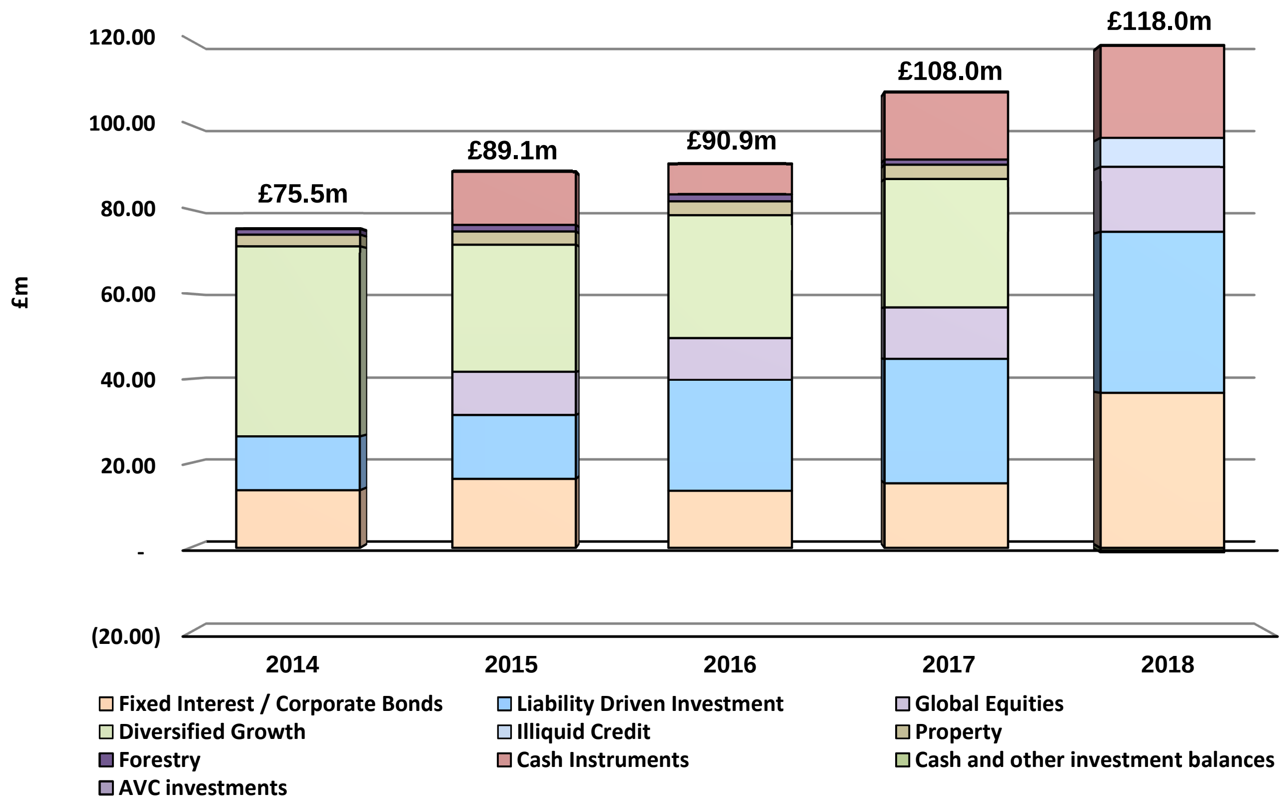
In this document, when we say:	We mean:
Additional Voluntary Contribution ("AVC")	Contributions over and above a member's normal contributions which the member chose to pay to the Fund in order to secure additional benefits.
Benchmark	A "yardstick" against which the investment performance of a fund manager 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.
Diversified Growth Fund ("DGF")	Pooled investment funds that invest in a wide range of asset classes, with the split between those investments often being managed on an active basis as market conditions change.
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".
Forestry	Typically investments in direct mature forests which aim to generate money from an increase in the value of the land and income from harvesting and recreational use of the land.

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.
Property	Typically investments in commercial property such as offices, shops and factories. These investments earn money from rent, and any

	increase in the value of the properties.
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 Fund'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 Fund at each year end.



	2014		2015		2016		2017		2018	
	£000	%	£000	%	£000	%	£000	%	£000	%
Fixed interest/Corporate Bonds	13,516	17.9	16,182	18.2	13,387	14.7	15,143	14.0	36,600	31.1
Liability Driven investment	12,806	17.0	15,191	17.0	26,343	29.0	29,561	27.4	38,130	32.4
Global Equities	-	-	10,306	11.6	9,851	10.8	12,077	11.2	15,363	13.0
Diversified Growth	44,977	59.5	30,002	33.7	29,075	32.0	30,506	28.3	-	-
Illiquid Credit	-	-	-	-	-	-	-	-	6,830	5.8
Property	2,742	3.6	3,128	3.5	3,374	3.7	3,354	3.1	-	-
Forestry	1,310	1.7	1,550	1.7	1,630	1.8	1,200	1.1	-	-
Cash Instruments	-	-	12,483	14.0	7,055	7.8	15,878	14.7	21,733	18.4
Cash and other investment balances	-	-	34	-	32	-	38	-	(1,000)	(0.8)
AVC investments	197	0.3	262	0.3	195	0.2	197	0.2	154	0.1
TOTAL	**75,548**	**100.0**	**89,138**	**100.0**	**90,942**	**100.0**	**107,954**	**100.0**	**117,810**	**100.0**

The Fund's investment policy

Our investment objective for the Fund is to invest the Fund's assets in the best financial interests of the members and beneficiaries, and:

- To target sufficient return to support the Technical Provisions and the Recovery Plan agreed as part of the triennial valuation; and
- To target sufficient return to support a "low risk" or "self-sufficient" measure of liabilities over a long period of time.

As Trustee, we determine the Fund's asset allocation with advice from the investment advisers, and reflect the Fund's net cashflow position, the liability profile, the risk appetite of the Trustee and the Co-op, and the current market outlook and economic environment. We appoint suitable investment managers to manage the assets.

We believe that the investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used by the Fund's actuary.

The Fund's Statement of Investment Principles

The Statement of Investment Principles governs investment decisions for the purposes of the Fund. It has been prepared in accordance with Section 35 of the Pensions Act 1995 and a copy is available on request from the Co-op Pensions Department.

As mentioned below, the Fund is in the process of changing its long term investment strategy; as a result, some of the existing holdings are outside the scope of the Statement of Investment Principles, which reflects the agreed new strategy. We are monitoring the implementation of the new strategy closely, and expect the holdings to come into line with the Statement of Investment Principles over time as the new strategy come into place.

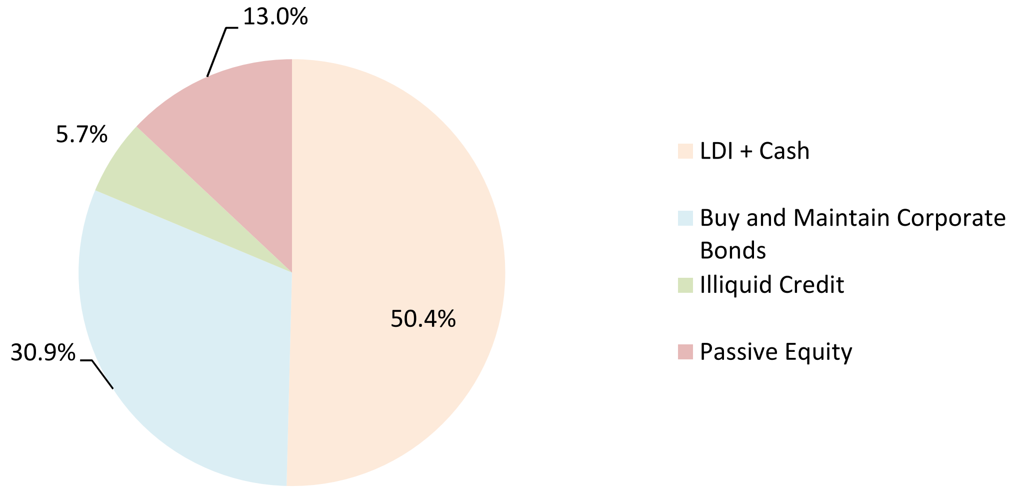
What is the Fund's investment strategy?

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.

At the start of the year under review, the Trustee began implementing the interim investment strategy agreed in 2016, moving by the year end to a lower risk strategy. 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 Fund's legacy DGF holdings (Baillie Gifford and Standard Life).
- The corporate bond allocation was reorganised, with transfers from the incumbent manager, Legal and General Investment Management ("LGIM") to two new Buy and Maintain credit mandates with Insight and Royal London Asset Management ("RLAM").
- The Fund's remaining Forestry asset was sold in August 2017
- The UBS Triton Property Fund was sold in June 2017
- The Fund's pooled equity holdings with LGIM increased by 2% to 13% of the Fund's total assets.

Asset Allocation as at 31 March 2018



Source: Mercer Limited
LDI - Liability Driven Investment
All figures reported as at 31 March 2018 representing the most up to date information at reporting.

The Fund currently invests with the following investment managers:

Corporate Bonds	Passive Equity	Liability Driven Investment (LDI) and cash	Illiquid Credit
Insight 15.8%	LGIM 13.0%	BlackRock 50.4%	Insight 3.1%
RLAM 15.1%			ICG 2.6%
30.9%	**13.0%**	**50.4%**	**5.7%**

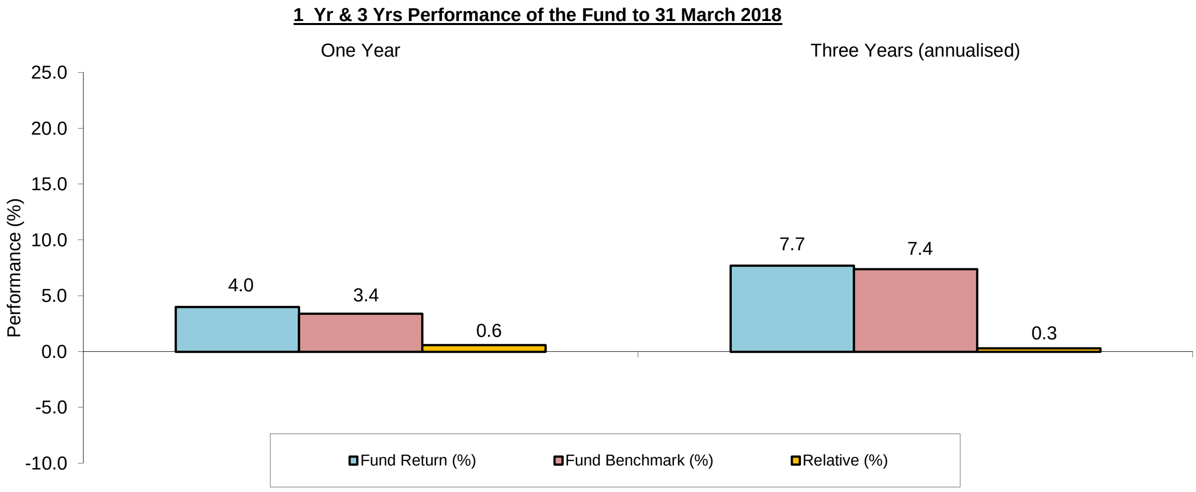
Percentages are of total Fund assets as at 31 March 2018, excludes AVCs.

Investment Performance

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

On an absolute basis, the value of the Fund's invested assets increased from £109.2m 31 March 2017 to £113.7m at 31 March 2018. The total return on the Fund's assets over the year to 31 March 2018 was 4.0% (net of fees) compared with the overall total fund monitoring benchmark of 3.4%.

The overall net of fees performance of Fund assets (excluding Forestry), over one and three years to 31 March 2018, is shown below:

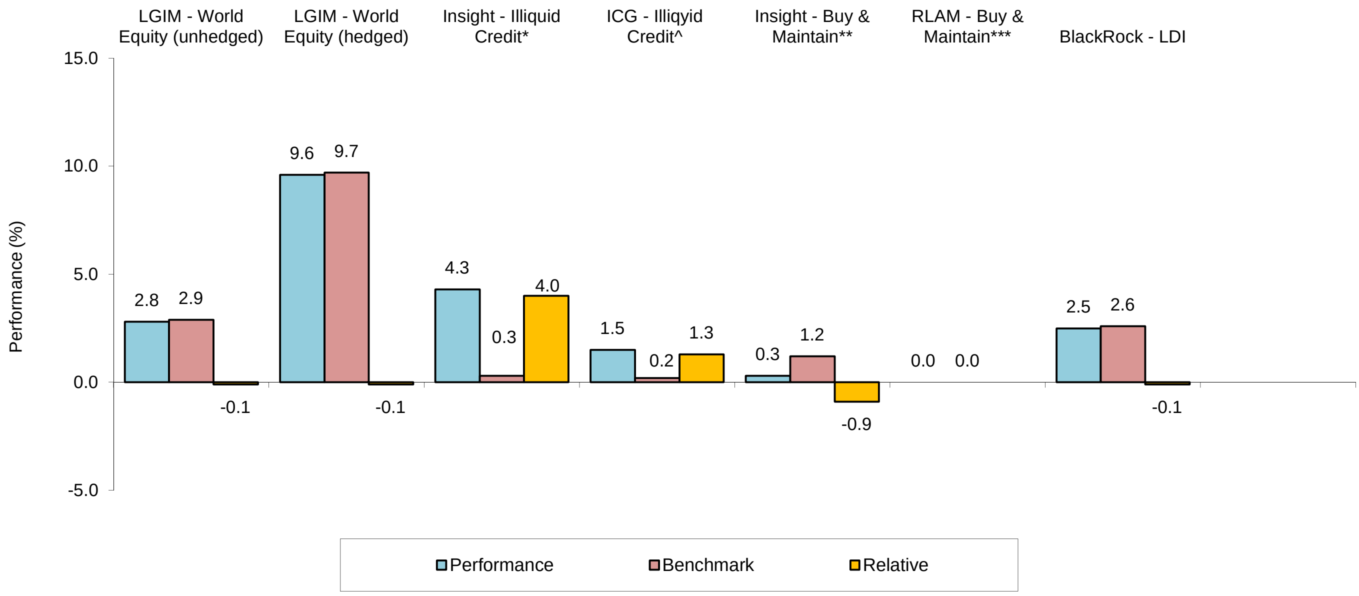


Source: Mercer Limited. 31 March 2018

The performance of the individual investment managers (excluding Forestry) is shown below. This benchmark performance differs from the overall Fund benchmark because the individual investment manager benchmarks are different to the overall Fund benchmark. The benchmarks for each manager are as follows:

- DGFs: benchmarks based on either the Bank of England UK Base Rate or the London Interbank Offered Rate (LIBOR)
- LGIM Equities: to track the component equity indices
- Illiquid Credit: benchmarks based on LIBOR
- Corporate bonds: Markit iBoxx Sterling Non-Gilts Index (for comparison purposes only)
- BlackRock LDI: to match changes in the profile of the liabilities

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
** Insight Buy and Maintain Credit – inception 31/08/2017
*** RLAM Buy and Maintain Credit – inception 05/10/2017

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

Custodial arrangements

We have invested with five investment managers as shown on page 19. BNY Mellon acts as custodian for the LDI assets, while the other portfolios use pooled investment vehicles (which give us the right to the cash value of units rather than to the underlying assets of the funds themselves). The respective managers of these pooled arrangements are responsible for appointing and monitoring the custodians of the underlying assets.

The Fund's remaining forestry asset was managed by Fountains Forestry Ltd, which is responsible for the provision of consultancy services, advisors, surveyors, accountants, managers, foresters, and other workers as necessary for the proper and efficient management and development of the woodlands. This was sold in August 2017.

Independent Auditor's Report to the Trustee of the Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund (the 'Fund'):

- show a true and fair view of the financial transactions of the Fund 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 15.

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 Fund 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 Plymouth & South West Co-operatives Society Limited Employees' Superannuation Fund (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 Fund'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 on page 13, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report to the Trustee of the Plymouth & South West Co-operatives Society Limited Employees' Superannuation Fund (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 Fund'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 Fund'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 Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom
Date:

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 Fund, minus the benefits and expenses paid out during the year. The result is the Fund's net asset position.

		2018	2017
Contributions and benefits	Note	£'000	£'000
Employer contributions	2	5,500	5,000
Benefits paid or payable	3	(4,763)	(4,611)
Payments to and on account of leavers	4	(373)	(77)
		(5,136)	**(4,688)**
Net additions from dealings with members		**364**	**312**
Return on investments			
Investment income	5	126	476
Extraordinary dividend	6	-	8,208
Change in market value of investments	7	4,149	8,549
Investment management expenses	8	(152)	(209)
Net return on investments		**4,123**	**17,024**
Net increase in the Fund		4,487	17,336
Net assets of the Fund as at 1 April		109,164	91,828
Net assets of the Fund as at 31 March		**113,651**	**109,164**

The notes on pages 27 to 39 form part of these financial statements.

Notes to the Financial Statements

In plain English – what does this show?	This section outlines the general accounting policies of the Fund 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 Fund 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 out represent the capital sums paid to other pension funds for members who have left the Fund. Transfer values are accounted for when the liability is discharged, which is normally when the transfer amount is paid.

Expenses

Expenses are accounted for on an accruals basis. Certain expenses incurred in the course of running and managing the Fund are met by the Co-op, e.g. administration and professional advice.

Investment income

Investment income is reported net of attributable tax credits but gross of withholding taxes, which are accrued in line with the associated investment income.

Investment income arising from the underlying assets within pooled investment vehicles is in part reinvested in those vehicles and is reflected in the unit price. This income is reported within 'change in market value'. The balance is reported within investment income. Any income received from unitised funds is included on an accruals basis.

Annuity income arising from annuity policies held by the Trustee of the Fund is included on an accruals basis.

Valuation of investments

Investments are included in the statement of net assets at their market values. Pooled investment vehicles and unit trusts 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.

Infrastructure is stated at the market value provided by the investment manager.

Realised and unrealised gains and losses arising from changes in market values are taken directly to the fund account.

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. Annuities have therefore been excluded from these financial statements. The cost of purchasing these annuities is reported within the Fund Account under ‘Benefits paid or payable’.

Cash instruments are stated at the market value provided by the investment manager. Accrued income is accounted for within investment income.

Currency

The Fund’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 Fund’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 Fund from the Co-op during the year.

	2018 £’000	**2017** £’000
Deficit funding	5,500	5,000

Contributions were paid during the year to 30 September 2017 according to the Schedule of Contributions certified on 30 June 2014. Under this Schedule, deficit funding contributions were payable at £416,667 per month from 1 July 2014 to 31 December 2017 and £583,333 per month from 1 January 2018 to 31 October 2027.

Contributions were paid during the year from 1 October 2017 to 31 March 2018 according to the Schedule of Contributions certified on 22 September 2017. Under this Schedule, deficit funding contributions are payable at £416,667 per month from 1 October 2017 to 31 December 2017, £583,333 per month from 1 January 2018 to 30 June 2019 and £666,667 per month from 1 July 2019 to 31 December 2024.

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 Fund during the year.

	2018 £'000	2017 £'000
Pensions	3,959	3,881
Commutation and lump sum retirement benefits	777	730
Lump sum death benefits	3	-
Annuities purchased	24	-
	4,763	4,611

Pensions paid includes annuity pension paid of £4,299 (2017: £3,456).

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 Fund during the year.

	2018 £'000	2017 £'000
Individual transfers to other schemes	372	77
Payments to members joining state scheme	1	-
	373	77

5 Investment income

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

	2018 £'000	2017 £'000
Income from pooled investment vehicles	122	470
Annuity income	4	4
Infrastructure	-	2
	126	476

6 Extraordinary Dividend

In plain English – what does this show?	This note shows the amount of cash paid back to the Fund as a result of BlackRock (the Fund's LDI manager) increasing leverage in the LDI portfolio. We've set out more detail on why this happened below.

	2018 £'000	**2017** £'000
LDI funds re-leveraging distribution	-	8,208

We invest in LDI funds which use "leverage" to increase the exposure of the Fund's assets to interest rates and inflation, in order to provide better protection against changes in the value of the Fund's liabilities. More detail on why we do this is given in note 10.

In this context, "leverage" means that for every £1 invested more than £1 of exposure is obtained to interest rates and/ or inflation, which allows the Fund to manage risk while also investing assets elsewhere to generate higher returns to meet future benefits. During the year, movements in markets meant that the level of leverage in the LDI funds fell. Lower levels of leverage mean that the LDI funds are less efficient, as less protection is provided per pound invested.

In the prior year, in order to return the levels of leverage back to target levels, BlackRock paid £8,208,105 back to the Fund through an extraordinary dividend but kept the levels of interest rate and inflation exposure the same, so the same level of protection was achieved but less assets were tied up doing so.

7 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	**31 March 2017** **£'000**	**Purchases at cost** £'000	**Sales proceeds** £'000	**Change in market value** £'000	**31 March 2018** £'000
Pooled investment vehicles	7.1	106,519	74,061	(66,078)	4,154	118,656
Infrastructure (forestry)		1,200	-	(1,200)	-	-
AVC investments	7.2	197	-	(38)	(5)	154
		107,916	74,061	(67,316)	4,149	118,810
Income due		38				-
Purchases awaiting settlement		-				(1,000)
TOTAL		**107,954**				**117,810**

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.

Transaction costs

Included within purchases and sales figures are direct transaction costs of £697 (2017: nil) comprising of fees incurred. These costs are attributable as set out in the below table.

	Fees £	Commission £	Stamp Duty £	Total 2018 £	Total 2017 £
Pooled investment vehicles	697	-	-	697	-
2017	-	-	-	-	-

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

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7.1 Pooled investment vehicles

	2018 £'000	2017 £'000
Bonds	74,730	44,704
Cash	21,733	15,878
Diversified Growth	-	30,506
Equities	15,363	12,077
Illiquid Credit	6,830	-
Property	-	3,354
	118,656	106,519

Concentration of investments

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

		2018 Market value £000	2018 Net assets %	2017 Market value £000	2017 Net assets %
BlackRock	ICS INS GBP LIQ Premier Shares	21,733	19.1	15,878	14.5
Insight	Buy and Maintain Bond Fund	18,718	16.5	-	-
RLAM	RLPPC Buy & Maintain Transition Fund II	17,882	15.7	-	-
Legal & General	All World Eqty Indx GBP Hedged	11,628	10.2	8,626	7.9
BlackRock	LMF GBP 2050 IL Gilt Flex	7,588	6.7	5,431	5.0
BlackRock	LMF GBP 2060 Gilt Flex	7,373	6.5	-	-
Legal & General	Active Corp Bond – Over 10 Yr	-	-	15,143	13.9
Baillie Gifford	Diversified Growth Fund C Gross Ac	-	-	11,015	10.1
Standard Life	Global Absolute Return Strategies	-	-	10,017	9.2
BlackRock	BIJF Dyn Diversified Gwth Fd I Acc	-	-	9,475	8.7

7.2 AVC investments

	2018 £'000	2017 £'000
Royal London (CIS) Limited	154	197

Members' Additional Voluntary Contributions are invested separately from the main fund on a money purchase basis with Royal London (CIS) Limited.

Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movements during the year.

8 Investment management expenses

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

	2018 £'000	2017 £'000
Investment manager fees	106	161
Infrastructure expenses	37	48
Investment expenses	9	-
	152	209

9 Fair value determination

In plain English – what does this show?	This note categorises the investment assets and liabilities held by the Fund 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 Fund's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

At 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Pooled investment vehicles	-	111,826	6,830	118,656
AVC investments	-	-	154	154
Purchases awaiting settlement	(1,000)	-	-	(1,000)
TOTAL	(1,000)	111,826	6,984	117,810

At 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Pooled investment vehicles	-	103,165	3,354	106,519
Infrastructure	-	-	1,200	1,200
AVC investments	-	-	197	197
Income due	38	-	-	38
TOTAL	38	103,165	4,751	107,954

10 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 Fund is exposed to. Information about how the Fund 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 Fund.

Market Risk: this includes “currency risk”, “interest rate 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.
- **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 Fund does not generate strong enough investment returns, and cannot meet benefits
- “**Manager risk**”: The risk that individual investment managers underperform their objectives and that assets are not all held with one manager
- “**Liquidity risk**”: The risk that the Fund does not hold enough cash to meet short term requirements to pay benefits. Ensuring investment in illiquid assets is kept to an appropriate level
- “**Custody risk”:** The risk that the Fund’s assets are not held safely
- “**Sponsor risk**”: The risk that the Fund’s sponsor cannot afford to pay money into the Fund if needed
- “**Leverage risk**”: The risk that the Fund’s liability matching investments fall in value, and additional cash is required
- “**Inappropriate investments**”: The risk that the Fund invests in inappropriate investments (e.g. investments that are too risky)

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

10.1 Investment Strategy

We make investment decisions after taking advice from a professional investment adviser. The Fund is subject to the risks above because of the investments it makes to implement its strategy, as described on page 18 of this report. We manage investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Fund's investment objectives. These investment objectives and risk limits are applied through the legal agreements the Fund 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 Fund'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 Fund.

(i) Credit risk

The Fund is subject to credit risk because it invests (through pooled funds) in bonds and financial instruments issued by UK and overseas companies (which could default on their debt to the Fund), and because it holds cash in bank accounts and with investment managers. The Fund 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.

<u>Credit risk – cash:</u>

Cash is held within financial institutions which are at least investment grade credit rated. At year end, the total cash held is 0.3% of the Fund's total net assets (2017: 0.6%).

<u>Credit risk – pooled investments:</u>

The Fund invests through 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 Fund).

The Fund's investments in PIVs are either rated investment grade or are unrated. Direct credit risk arising from pooled investment vehicles is 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; and
- We invest in a number of different PIVs, spreading risk.

We carry out checks before appointing any new investment managers, and also regularly monitor any changes to the regulatory and operating environments of the Fund's managers.

A summary of pooled investment vehicles by type of arrangement can be found in note 7.1. At year end, 100% of invested assets were held in pooled investment vehicles (2017: 98.9%).

Indirect credit risk:

This indirect credit risk occurs in particular from the underlying investments held in the pooled investment vehicles that the Fund invests in, in particular, the illiquid credit fund and the RLAM and Insight Buy and Maintain Credit fund (totalling 36.9% of assets at year end – 2017: 37.2%). For example, if the Fund invested in a pooled investment 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 its 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 Fund is subject to currency risk because the Fund invests in overseas investments, through pooled equity, and corporate bond funds. To reduce the risk that the value of these overseas investments fall in sterling terms, we have a policy of hedging 75% of overseas currency risk for our investments in equities, and 100% for Buy and Maintain Credit and Illiquid Credit Holdings.

As at the year end, the Fund's total unhedged exposure to overseas currencies (as a result of its overseas equity exposure) was 4%.

(iii) Interest rate risk

The Fund is subject to interest rate risk on its investments in bonds and financial derivatives, primarily those held through its pooled liability matching assets and corporate bond holdings. This is because these investments are intended to protect the Fund against the impact of changes in interest rates and inflation on the Fund's liabilities.

The Fund protects itself against movements in interest rates and inflation by investing in pooled 'liability driven investment' funds managed by BlackRock and long duration corporate bond holdings with Insight and RLAM. The LDI mandate holds government bonds, financial derivatives and cash collateral. These pooled funds would need more cash collateral if bond yields rose further than the yield buffers currently held in the funds. We monitor the level of cash held within the funds, and have a framework in place to make sure that if bond yields rise then this extra cash can be provided in a timely manner.

We have set a current target for total investment in corporate bonds and liability matching investments of 76% 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 the 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 £242,000 for a change in interest rates of 0.01% (2017: £182,000). The Fund's liabilities would change by approximately £420,000 for a change in interest rates of 0.01% (2017: £466,000).

At year end the LDI portfolio and Corporate bonds represented 81.9% of the total investment portfolio (2017: 56.1%).

(iv) Inflation risk

The LDI portfolio is also exposed to inflation risk. If inflation rises, the value of these assets will rise to help match the increase in actuarial liabilities arising from the rise. Similarly, if inflation falls, the LDI portfolio will fall in value, as will the actuarial liabilities. These assets would be expected to change in value by £119,000 for a change in expected inflation of 0.01% (2017: £105,000). The Fund's liabilities would change by approximately £220,000 for a change in expected inflation of 0.01% (2017: £267,000).

At year end the LDI portfolio represented 50.8% of the total investment portfolio (2017: 42.1%).

(v) Other price risk

The Fund is also exposed to "other price risk", largely because of its investments in return seeking assets which include equities.

The Fund has also invested in Illiquid Credit which covers less standard and liquid areas of the credit market. To spread this risk, the Fund invests across multiple managers, each of which have diversified holdings by issuer and asset class.

The Fund manages this exposure to risk by investing in a diverse portfolio of investments across various markets and in the course of 2017 materially reducing investment risk, as set out on page 19. The Fund has set a target of c24% of total Fund assets being held in growth investments. At the year end, the Fund's exposure to these assets was 18.8% of total assets (2017: 43.7%).

(vi) Other risks

- **Manager risk** – this is managed by spreading the Fund'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 and willingness of the Co-op to support the Fund.
- **Leverage risk** – this is managed by regular reviews of the amount and natures of any leveraged investments made by the Fund'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.
- **Counterparty risk** – managed via the diversification of counterparties and the collateralisation process.

11 Current assets

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

	2018 £'000	2017 £'000
Contributions due*	583	417
Cash balances	330	690
Other debtors	159	215
	1,072	1,322

*Contributions due at year-end were all received subsequent to the year-end in accordance with the Schedule of Contributions certified 22 September 2017.

12 Current liabilities

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

	2018 £'000	2017 £'000
Contributions prepaid*	5,191	-
Unpaid benefits	13	64
Other creditors	27	48
	5,231	112

*Contributions prepaid at year-end will be offset from subsequent contributions due in the period May 2018 to February 2019 in accordance with the Schedule of Contributions certified 22 September 2017.

13 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.

The following related party transactions arose during the year:

- Co-op Pensions Department, in conjunction with Mercer Ltd, performs administration. The Co-op meets certain expenses incurred in the course of running and managing the Fund, e.g. administration and professional advice.
- Pensioner Member-Nominated Trustee Directors receive pensions from the Fund under normal terms and conditions and are paid £5,000 per annum, which is shared equally between the Fund and the Somerfield Scheme.

- 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 Fund and the Somerfield Scheme. Attendance at additional sub-committee meetings is remunerated based on the work load of each committee. MNDs may opt out of receiving this remuneration.
- Independent Trustee Directors receive remuneration from the Co-op based on rates negotiated with the Co-op, as the principal employer of the Fund. £30,662 (2017: £9,082) was paid to the Independent Trustee Directors during the Fund year by the Co-op.
- One pensioner MND was in receipt of a pension from the Fund during the year.

14 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.

15 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 Fund appointed M&G investments on 9 April 2018 to manage one of the three Illiquid credit mandates under the new investment strategy. £2,212,000 was transferred to M&G to fund the new M&G Illiquid Credit Opportunities Fund on 11 May 2018 from BlackRock.

Independent Auditor's Statement about Contributions to the Trustee of the Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund

We have examined the summary of contributions to the Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund for the Fund year ended 31 March 2018 to which this statement is attached.

In our opinion contributions for the Fund 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 21 September 2017 at least in accordance with the schedule of contributions certified by the fund actuary on 30 June 2014 and for the period 22 September 2017 to 31 March 2018 at least in accordance with the schedule of contributions certified by the fund actuary on 22 September 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 Fund and the timing of those payments under the schedules of contributions.

Respective Responsibilities of Trustee and Auditor

As explained in the Statement of Trustee's responsibilities in respect of Contributions on page 41, the Fund'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 Fund 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
Statutory Auditor,
Birmingham
United Kingdom

Date:

Actuary’s Certification of Schedule of Contributions

Certification of schedule of contributions

Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in the schedule of contributions dated 22 September 2017 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 22 September 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 22 September 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 Fund’s liabilities by the purchase of annuities, if the Fund were to be wound up.

Signature		Date:	22 September 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 Fund’s investment managers’ corporate governance policies, are set out below.

BlackRock Investment Management (UK) Ltd

BlackRock recognise that accepted standards of corporate governance differ between markets, but they believe that there are sufficient common threads globally to identify an overarching set of principles. The primary objective of their investment stewardship activities is the protection and enhancement of the value of their clients’ investments in public corporations. Thus, these principles focus on practices and structures that they consider to be supportive of long-term value creation, including:

- Ensuring strong and effective Boards and directors;
- Encouraging complete and accurate financial statements;
- Making sure that Boards provide clear strategic and economic rationales to support mergers and other transactions;
- Ensuring appropriate executive remuneration, aligned with shareholders’ interests;
- Encouraging effective identification, reporting and management of environmental and social aspects of investee company businesses; and
- Promoting good general corporate governance, including timely and detailed financial reporting for investee companies.

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:

- On-going 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.
- On-going monitoring of ESG risks within a business through ICG’s annual ESG questionnaire.
- Adding ESG to the agenda of board meetings.