The Co-operative Pension Scheme (Pace)

Financial Statements For Year Ended 5 April 2020

PENSION SCHEME REGISTRY NO. 10274818 (Consolidated Scheme); 19023301 (Co-op Section) and 19023302 (Bank Section).

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 Scheme. The actuary values the Scheme's assets and liabilities. The Scheme's actuary is Neil Brougham.
Articles of Association	This covers the Trustee's formal governing documents, namely its memorandum and articles of association. These documents, together with the Scheme's trust deed and rules, govern the Trustee.
Bank	The Co-operative Bank p.l.c. was a participating employer in Pace up to 6 August 2018 and from that date is the principal employer of the Bank Section.
Bank-Appointed Director	Trustee Director who was selected by the Bank.
Bank Section	The legally segregated section of Pace sponsored by the Bank.
Brixham Fund	Brixham Co-operative Society Limited Employees' Superannuation Fund.
Closure Members	Members who were still building up benefits on the date Pace DB closed to future accrual and have had continuous membership of Pace DC since the date of DB closure.
Co-op	Co-operative Group Limited. The Co-op was the Scheme's principal employer up to 6 August 2018 and from that date is the principal employer of the Co-op Section.
Co-op-Appointed Trustee Directors	Trustee Directors who were selected by the Co-op.
Co-op Section	The legally segregated section of the Scheme that is sponsored by the Co-op and other participating employers.
Deferred Members	Member of the Scheme who are not Closure Members and whose benefits have not yet come into payment.
Escrow account	For the purposes of the accounts means an account set up as part of an agreement by two parties (for example, a pension scheme and an employer) and held by an independent third party (typically a custodian) until certain conditions are met, at which point the funds would be payable to the scheme or returned to the sponsor (depending on the conditions met).
Former Schemes	Either the Co-operative Group (CWS) Limited Pension Fund (known as the Co-operative Group Pension Fund), the CIS Employees' Pension Scheme, or the

	Co-operative Bank Pension Scheme. Pace was formed when these 3 schemes merged, in April 2006.
GMP	Guaranteed Minimum Pension. GMPs arise in respect of periods of service when a contributing member was contracted-out of State Second Pension arrangements between 6 April 1978 and 5 April 1997.
Pace DB (formerly Pace Complete)	This is the defined benefit (DB) part of Pace which has closed to future accrual and has no contributing members.
Pace DC	This is the defined contribution (DC) part of Pace which opened in October 2012. Pace DC has members who are actively making contributions and is the part of Pace into which members are automatically enrolled. It also has deferred members whose benefits have not yet come into payment.
Pensioners	DB Members of the Scheme whose benefits have come into payment and are paid from the Scheme.
Independent Trustee Director	A professional independent trustee who is a director of the Trustee and appointed by the Co-op or the Bank.
Leeds Fund	Leeds Co-operative Society Limited Employees' Pension Fund.
Lothian Fund	Lothian Borders & Angus Co-operative Society Limited Employees' Pension Fund.
Member-nominated Directors	These were directors of the Trustee who were chosen by and from the Scheme's Closure Members and Pensioners.
Secretary	The Secretary is responsible for helping the Trustee with its arrangements, and providing support for its meetings.
Scheme	The Co-operative Pension Scheme (Pace). This is the scheme as a whole, and contains both the Bank Section and the Co-op Section.
Sheffield Fund	Sheffield Co-operative Society Limited Employees' Superannuation Fund.
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 Trustee's formal funding documents.
The Trustee	Pace Trustees Limited. A company which is appointed as the trustee of the Scheme and acts via its directors.

Trustee Directors & Advisers

Pace Trustees Limited is appointed by the Co-op as the Trustee to manage the Scheme. The Scheme was legally separated into two sections with effect from 6 August 2018: the Co-op Section and the Bank Section. The Trustee manages both these sections.

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, United Kingdom, M60 0AG.

The board of directors of the Trustee

Up to 27 September 2019, the trustee board consisted of eleven Trustee Directors:

- 3 professional Independent Trustee Directors who are pensions experts
- 3 Co-op Appointed Trustee Directors
- 1 professional Independent Trustee Director chosen by the Bank
- 4 Member-nominated Trustee Directors

From 27 September 2019 the Co-op made some changes to the composition of the Trustee Board and these are set out in the revised Articles of Association dated 27 September 2019.

The changes to the composition of the board mean that the number of Trustee Directors on the board has been reduced from eleven to four. The remaining four are the current professional Independent Trustee Directors, who are pensions experts:

- 3 professional Independent Trustee Directors are chosen by the Co-op
- 1 professional Independent Trustee Director is chosen by the Bank

The changes means that the board no longer includes Trustee Directors appointed by the employers or the members. However, a Members' Consultation Committee was established and initially included former member-nominated trustee directors - John Buckingham and Geoff Hayzelden. This Committee has met through the year with representatives from the Trustee Board and Co-op senior management to discuss current Pace DB and DC Scheme matters and strategic plans. The Trustee Board is also committed to hearing the views of Pace's DB and DC members through various colleague and pensioner forums.

Who are the current directors of the Trustee?

Trustee Director	Appointed By
Independent Trustee Services Limited, represented by Chris Martin (appointed 29 May 2019) (Chair)	Co-op
Stuart Benson	Co-op
Anne Kershaw	Co-op
Bestrustees Limited, represented by Christopher Wheeler	Bank

Which Trustee Directors left during the year?

Pace's employer-nominated and member-nominated trustee directors, listed below, resigned on 27 September 2019:

- Stuart Hookins Co-op Appointed Director
- Andrew Lang Co-op Appointed Director

- John Buckingham Pensioner Member-nominated Trustee Director
- Geoffrey Hayzelden Member-nominated Trustee Director from the Co-op Section
- Heather Marsh Member-nominated Trustee Director from the Co-op Section

Other Trustee Directors who left during the year include:

- Paul Denton Co-op Appointed Director (resigned 14 June 2019)
- Harry Baines Independent Trustee Director and Chair (resigned 16 April 2019)

Appointment, resignation and removal of Trustee Directors

Pace's Articles of Association provide that the directors of the Company shall consist of up to four Independent Trustee Directors, consisting of:

- Up to three appointed by the Co-op (Co-op-Appointed Directors). They will remain directors until they resign, or are removed by the Co-op.
- Up to one appointed by the Bank (Bank-Appointed Director) who will remain a director until they resign, or are removed by the Bank.

If any director is disqualified by law from acting as a trustee or a director, they will cease to be a director of the Trustee. Other standard removal criteria also apply (bankruptcy, debt-related reasons, physical or mental incapability or absence from meetings without permission or good reason).

Chair of the Trustee

We elect the Chair. We have agreed that Independent Trustee Services Limited (represented by Chris Martin) will be the Chair.

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 unanimous agreement of the members of that committee, or
(c) a unanimous decision of the Trustee Directors

and will be subject to the provisions of the Scheme's trust deed and rules and any other rules agreed by the Trustee Directors from time to time. Each Trustee Director has one vote.

Meetings

We aim to meet a minimum of four times a year, but in practice, we meet significantly more often than that.

Our Committees

We have formed the following committees to assist with running the Scheme:

- DC Committee;
- Benefits, Audit & Risk Committee.

The Committees generally meet every quarter, or as frequently as necessary. As the number of Trustee Directors has reduced so has the number of committees. The work previously undertaken by the Strategy Committee and the Investment Committee is now undertaken by the Trustee Board.

Secretary

The Co-op appoints the Secretary to the Trustee. Sarah Horan, Head of Trustee Services in the Co-op Pensions Department, resigned as Secretary on 7 August 2020. Thomas Taylor, Lead Governance Manager in the Co-op Pensions Department, was appointed as the Secretary on 7 August 2020.

Trustee Director Remuneration

After 27 September 2019

The Independent Trustee Directors appointed by the Co-op receive remuneration from the Scheme based on rates negotiated with the Co-op, as the principal employer of the Scheme. The Independent Trustee Director appointed by the Bank receives remuneration from the Scheme based on rates negotiated with the Bank, as the principal employer of the Bank Section.

Before 27 September 2019

The Trustee Remuneration Policy provided for payment of £2,000 p.a. to employee Member-nominated Directors and £5,000 p.a. to Pensioner Member-nominated Directors. Member-nominated Directors were able to choose not to receive any remuneration. Additional remuneration of £1,000 p.a. is payable to Member-nominated Directors who are members of the Committees.

Independent Trustee Directors received remuneration from the Scheme based on rates negotiated with the Co-op, as the principal employer of the Scheme. The Bank Appointed Directors received remuneration from the Bank based on rates negotiated with the Bank, as the participating employer of the Bank Section. The Co-op Appointed Directors were not separately remunerated in respect of their roles as Trustee Directors.

The Trustee remuneration policy was reviewed by the Trustee annually.

<table>
<tr><th colspan="2">The Scheme’s Professional Advisers and Other Key Relationships are:</th></tr>
<tr><td>Actuary</td><td>Neil Brougham FIA, of Mercer Limited</td></tr>
<tr><td>Administrator (DB)</td><td>Co-operative Group Limited

Co-op Pensions Department (10406), 1 Angel Square, Manchester, M60 0AG</td></tr>
<tr><td>Administrator (DC)</td><td>Legal & General Assurance Society Ltd

Trustee Services, Governance Reporting Team, 4th Floor, Brunel House, 2 Fitzalan Road, Cardiff, CF24 0EB</td></tr>
<tr><td>Auditor</td><td>Deloitte LLP, Statutory Auditor

Abbots House, Abbey Street, Reading, RG1 3BD, United Kingdom</td></tr>
<tr><td>AVC providers</td><td>Royal London (CIS) Limited

Legal & General Assurance Society Ltd

The Prudential Assurance Company Ltd

Aviva Life Services UK Ltd

The Equitable Life Assurance Society (to 1 January 2020)

Utmost Life & Pensions (from 1 January 2020)</td></tr>
<tr><td>Banker</td><td>Barclays Bank PLC</td></tr>
<tr><td>Buy-in providers</td><td>Aviva Life & Pensions UK Limited (“Aviva”) (appointed 28 January 2020)

Pension Insurance Corporation plc (“PIC”) (appointed 11 February 2020)</td></tr>
<tr><td>Custodians</td><td>The Bank of New York Mellon International

DLA Piper UK LLP

Osborne Clark LLP</td></tr>
<tr><td>Employer Covenant Adviser</td><td>KPMG LLP</td></tr>
<tr><td>Investment Adviser (DB)</td><td>Mercer Limited</td></tr>
<tr><td>Investment Adviser (DC)</td><td>Lane Clark & Peacock LLP (appointed 22 October 2020)

Willis Towers Watson (ceased 5 November 2020)</td></tr>
<tr><td>Investment Managers (DB)</td><td>Blackrock Limited

ICG

Insight Investment Management (Global) Ltd</td></tr>
</table>

	LaSalle Investment Management Ltd Legal & General Investment Management Limited Mercer Limited M&G Royal London Asset Management Limited PGIM Limited TwentyFour Asset Management LLP
Investment Manager (DC)	Legal & General Assurance Society Ltd
Legal advisers	Linklaters LLP Eversheds Sutherland LLP
Life Assurance provider	Zurich Assurance Limited Yu Life Limited (appointed 1 November 2020)
Longevity Transaction Adviser	Aon Solutions UK Limited (appointed 1 March 2018)
Principal employer	Co-operative Group Limited
Participating employers – Co-op Section	Co-operative Brands Limited (ceased to participate on and from 31 July 2020) Co-operative Legal Services Limited CFS Management Services Limited Co-operatives UK Limited (ceased to participate in the Co-op DC Section with effect from 30 April 2019) Co-operative Party Limited (ceased to participate in the Co-op DC Section with effect from 30 April 2019)
Participating employers – Bank Section	The Co-operative Bank PLC
Secretary	Sarah Horan, Head of Trustee Services, Co-op (resigned 7 August 2020) Thomas Taylor, Lead Governance Manager, Co-op (appointed 7 August 2020)

Trustee’s Annual Report

Introduction

We are pleased to present our annual report together with the audited financial statements for the year ended 5 April 2020. The financial statements (set out on pages 48 to 84) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The report on actuarial liabilities set out on pages 15 to 18 and the investment report set out on pages 32 to 44 also form part of this annual report.

Constitution of the Scheme

The Scheme is an occupational pension scheme which started on 6 April 2006 and was constituted by a trust deed dated 22 March 2006. On 6 August 2018, the Scheme was separated into two legally separate sections. The Bank is the only employer in the Bank Section; all other employers participating in Pace are in the Co-op Section.

Members were given details about the separation in April 2018 and told which section they would be a member of in May 2018.

We are responsible for the whole Scheme, and hold funds of both sections in trust, to apply them for the purpose of paying pensions and other benefits in accordance with the Scheme’s rules.

Scheme Structure and rule changes

Both the Co-op Section and the Bank Section contain historic defined benefits (DB) and a defined contribution (DC) section for members who are currently contributing.

Before legal separation

The DB section of the Scheme closed to future accrual on 30 September 2015 for Bank employees and 29 October 2015 for the employees of the Co-op and other participating employers. DB benefits were built up based on a member’s average career salary and length of membership.

The DC section of the Scheme was established on 7 October 2012, and from 29 October 2015 is the only section of Pace which has actively contributing members.

After legal separation

Now that the Co-op Section and Bank Section are legally separate, they are supported by their respective employers. We will continue to work closely with the employers to safeguard all members’ interests in both sections of Pace. In the event that the Bank goes out of business, the Co-op would step in and take responsibility for supporting the Bank Section as well as the Co-op Section. This is reflected in the new rules adopted to bring about the legal separation of the Scheme.

A rule amendment dated 3 June 2019 in respect of the introduction of a revised contribution structure and life assurance arrangements for the Co-op Section of Pace for any new joiners from 10 June 2019 took effect from 10 June 2019.

Scheme Mergers and Exits

Before legal separation

When Pace was established in 2006, it replaced three of the Co-op’s other pension arrangements (the ‘Former Schemes’) whose assets and liabilities were transferred to the

Scheme. The Former Schemes are the Co-operative Group (CWS) Limited Pension Fund, The Co-operative Bank Pension Scheme and the CIS Employees' Pension Scheme.

On 30 April 2015 four of the Co-op's remaining pension arrangements were transferred into Pace:

- The Brixham Fund;
- The Leeds Fund;
- The Lothian Fund; and
- The Sheffield Fund.

After legal separation

Unity Trust Bank's defined benefit liability to the Co-op Section ceased on 19 October 2018. Unity Trust Bank ceased to participate as an employer in Pace DC from 31 March 2019.

Co-operatives UK and the Co-operative Party ceased to participate as employers in Pace DC from 30 April 2019, and set up new arrangements with Legal & General. Their Co-op Section liabilities built up to that date remain in the Co-op Section. The section 75 debts that otherwise would have been triggered have been deferred using deferred debt arrangements in accordance with the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018.

Financial statements

As the Bank and Co-op Sections are ring-fenced from each other post-legal separation, there is a requirement to obtain audited financial statements for each section.

Audited financial statements have been prepared for the year ended 5 April 2020 for each section and these financial statements should be read in conjunction with those separate documents.

The Bank Section financial statements show that the net assets of the section increased from £2.0bn at 5 April 2019 to £2.2bn at 5 April 2020.

The Co-op Section financial statements show that the net assets of the section increased from £9.0bn at 5 April 2019 to £9.6bn at 5 April 2020.

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.

Transfer values

Transfer value calculations use a method and basis we have determined, after taking advice from the Scheme Actuary, to be consistent with relevant legislation and the rules of the Scheme. No discretionary increases are included in the calculation of transfer values. No transfer values were reduced to less than their cash equivalent value during the year.

We do not accept individual transfers in respect of defined benefit liabilities into the DB Sections of the Scheme.

Membership statistics for the year ended 5 April 2020

	6 April 2019	Adjustments	Additions	Retirements, leavers and pensions ceasing	Deaths	5 April 2020
Co-op Section						
Closure Members DB	**4,722**	(35)	-	(432)	(11)	**4,244**
Deferred Pensioners DB	**30,691**	(82)	282	(1,351)	(31)	**29,509**
Pensioners DB	**35,215**	(1,318)	1,216	(1,291)	(1,332)	**32,490**
Bank Section						
Closure Members DB	**884**	(6)	-	(75)	(8)	**795**
Deferred Pensioners DB	**6,437**	(9)	43	(218)	(8)	**6,245**
Pensioners DB	**4,207**	(21)	148	(63)	(105)	**4,166**
Total DB	**82,156**	**(1,471)**	**1,689**	**(3,430)**	**(1,495)**	**77,449**
Co-op Section						
Active Members DC	**44,498**	(795)	6,473	(6,690)	(36)	**43,450**
Deferred Pensioners DC	**14,427**	1,288	6,758	(1,321)	(12)	**21,140**
Bank Section						
Active Members DC	**3,183**	44	456	(410)	(4)	**3,269**
Deferred Pensioners DC	**819**	18	416	(96)	(2)	**1,155**
Total DC	**62,927**	**555**	**14,103**	**(8,517)**	**(54)**	**69,014**

Employees who are auto-enrolled and subsequently opt out of the DC section after making a contribution are included in the above membership statistics. Employees who are auto-enrolled and opt out before a contribution is deducted are excluded.

Co-op Section - Guarantees

The Co-op's main trading and/or asset-holding subsidiaries guarantee the Co-op's obligations to the Scheme. 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 and other entities are added from time to time. 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.

Bank Section – Guarantees

As part of the agreement to split the Scheme into two sections in 2018, the Bank agreed to provide contingent support for the Bank Section by providing approximately £216m (in 2018) of collateral from the point of legal separation (allowing for a "haircut" to the estimated market value, and reducing from August 2018 as contributions are paid to the Scheme by the Bank). We continue to monitor the security of these assets.

Pension increases

Pensions in payment

Pensions in payment for the Former Scheme benefits (accrued before 6 April 2006) that are in excess of the guaranteed minimum pension (GMP) are increased annually on 6 April in line with the Retail Prices Index (RPI) as at the preceding December up to a maximum of 5% (or 6% for former members of the CIS Employees' Pension Scheme who joined before 6 April 2000). There are some exceptions for certain Former Scheme members.

Pensions in payment for Pace DB benefits (accrued after 5 April 2006) are increased annually on 6 April in line with the RPI as at the preceding December to a maximum of 2.5%, and are paid in full regardless of the date the pension commenced (i.e. not pro rata).

April 2020

The increase applied to pensions in payment for Former Schemes in April 2020 was 2.2%, pro rata for any pensions in payment for less than a year.

The increase applied to pensions in payment for Pace DB benefits in April 2020 was 2.2%.

GMPs in payment are increased annually in accordance with legislation up to a maximum of 3.0%. The maximum GMP increase applied in April 2020 was 1.7%.

Pensions in payment for members whose benefits have been transferred from acquired schemes were increased in April 2020 in line with their respective scheme rules as follows:

- Ex-Alldays PLC Pension Scheme
  - Pre April 1997 pension in excess of GMP was increased by 3.0%
  - Post April 1997 pension was increased by 1.7%
- Ex-Kenneth Balfour Limited Pension, Life Assurance and Widows Pension Scheme (1976)
  - Pre April 1997 pension was increased by 3.0%
  - Post April 1997 pension was increased by 2.2%
- Ex-Trademarket Pension Scheme
  - Pension in excess of GMP was increased by 2.2%
- Ex-W&P Foodservice Pension Scheme
  - Pre April 1996 pension in excess of GMP was increased by 3.0%
  - Post April 1996 pension in excess of GMP was increased by 2.2%
- Ex-GT Smith & Sons Ltd Retirement and Death Benefit Scheme
  - Pension in excess of GMP was increased by 3%

Merged Schemes

Pensions in payment for members whose benefits transferred into Pace from the Brixham, Leeds, Lothian and Sheffield Funds were increased in line with their respective scheme rules as follows:

- Sheffield Fund pension in August 2019:
  - Pre May 2006 pension increased by 2.7%
  - Post May 2006 pension increased by 2.5%
- Brixham Fund pension increased in January 2020:
  - Pre 6 April 1997 increased by 3.0%
  - 6 April 1997 to 13 January 2006 increased by 2.4%
  - Post 14 January 2006 increased by 2.4%
- Leeds Fund pension increased in January 2020 by 2.2%
- Lothian Fund pension increased on 1 April 2020 by 2.4%

Pensions in deferment

Pensions in excess of any GMP under the Former Schemes and the Brixham, Leeds, Lothian and Sheffield Funds will be revalued for each year of deferment, subject to a cap of 5% p.a. compounded over the whole period of deferment. The revaluation rate will reference either the increase in RPI (or RPI and Consumer Prices Index (CPI)), depending on the rules of the Former Scheme or Brixham, Leeds, Lothian and Sheffield Funds.

Pensions in deferment for Pace DB benefits (accrued after 5 April 2006) are increased annually on 6 April in line with the RPI as at the preceding December to a maximum of 5%. The increase applied in April 2020 was 2.2%.

GMPs are increased in deferment in accordance with statutory requirements.

There were no discretionary increases awarded to pensions in deferment or in payment.

Actuarial Valuations

The first actuarial valuations of the Co-op Section and Bank Section were carried out as at 5 April 2019. The statutory deadline for agreeing the results with the sponsoring employers of those sections was 5 July 2020; both valuations were agreed and submitted to the Pensions Regulator by this deadline.

At the 5 April 2019 valuation date, on the Sections' Technical Provisions bases:

- The Co-op Section was 112% funded, with a surplus of £907m. We discussed the results of the valuation with the Co-op and agreed that, given the strong funding position and low risk investment strategy, no further deficit contributions were currently required from the Co-op. By 5 April 2020, the funding level had moved to 111%, with a surplus of £901m.
- The Bank Section was 104% funded, with a surplus of £72m. Funding arrangements with the Bank were agreed as set out below in the section headed "Defined benefit schedules of contributions – Bank Section". By 5 April 2020, the surplus had increased to £74m and the funding level was 104%.

Contributions

Members who participate in a salary sacrifice arrangement accept a reduction in pay in return for non-contributory membership of Pace with the balance of cost paid by the appropriate sponsoring employer. Contributions to Pace DC are set out below.

Bank Section DC contributions

Employee %	Employer %	Total %
3%	5%	8%
4%	8%	12%
5%	10%	15%
6%	10%	16%
7%	10%	17%
8%	10%	18%

Minimum contributions as required by automatic enrolment legislation increased to 3% for employees and 5% for employers from April 2019.

The Bank directly meets its share of expenses in respect of the DC section, with the exception of costs charged by the Co-op in respect of the provision of services to the DC Section, as follows:

- For the period 6 August 2018 to 5 May 2019: a single contribution of £37,500 payable by 10 October 2018
- From 6 May 2019 to 1 December 2027: a fixed contribution of £50,000 p.a. paid annually in advance

A variation to the Bank Section Schedule of Contributions was agreed on 5 April 2019 to reflect the payment of VAT on the Bank's DC expenses contributions, and the move from a 4 weekly to a monthly payroll cycle from April 2019. A further Bank Section Schedule of Contributions was agreed on 3 September 2020, reflecting an updated figure for costs to be charged by the Co-op in relation to the provision of services to the Defined Contribution Section. From 6 August 2020 to 31 December 2027, the Bank will pay a fixed contribution of £52,219 plus VAT per year, payable annually in advance. These contributions fall due on 6 August each year, and require payment within 30 calendar days.

Co-op Section DC contributions

From 10 June 2019 following a colleague consultation process which ran from 11 February to 11 April 2019, the Co-op introduced some changes to the contribution structure for members who joined Pace DC on or after 10 June 2019. This change was effected in a deed of amendment dated 3 June 2019. Details of the contributions for members joining the Co-op Section of Pace DC are as follows:

Members who joined before 10 June 2019

Employee %	Employer %	Total %
1%*	2%*	3%
2%*	3%*	5%
3%	5%	8%
4%	8%	12%
5%	10%	15%
6%	10%	16%
7%	10%	17%
8%	10%	18%
9%	10%	19%
10%	10%	20%

*Minimum contributions as required by automatic enrolment legislation increased to 8% from April 2019. The 1% and 2% contribution options are below the automatic enrolment minima but will remain available for members to select should they wish to do so.

Members who joined on or after 10 June 2019

Employee %	Employer %	Total %
1%*	1%*	2%
2%*	2%*	4%
3%*	3%*	6%
4%	4%	8%
5%	5%	10%
6%	6%	12%
7%	7%	14%
8%	8%	16%
9%	9%	18%
10%	10%	20%

*Minimum contributions as required by automatic enrolment legislation increased to 8% from April 2019. The 1%, 2% and 3% contribution options are below the automatic enrolment minima but remain available for members to select should they wish to do so.

On 31 May 2019 we and the Co-op agreed a Schedule of Contributions which reflected the addition of a separate contribution structure for new joiners. This was replaced on 25 June 2020 by a new Schedule of Contributions, which mirrors the same structure for DC contributions and expense payments.

In accordance with the 25 June 2020 Schedule of Contributions, the Co-op pays expense contributions of £135,000 per pay period.

The expense contribution amount is reviewed periodically against the actual level of expenses and can vary if agreed appropriate. We set this out in writing with the Co-op.

Defined benefit schedules of contributions – Bank Section

In accordance with the Schedule of Contributions certified by the Actuary on 1 May 2019, The Bank agreed to pay the following amounts into the Bank DB Section. These contributions are payable in advance.

- £12.5m per annum for the period 1 January 2019 to 31 December 2022; and
- £7.5m per annum for the period 1 January 2023 to 31 December 2027.

As part of the discussions between the Trustee and the Bank in relation to the April 2019 actuarial valuation, based on the valuation results it was agreed that no contributions would be paid directly into the Bank DB Section, but that contributions due for the period from 1 January 2020 onwards would be payable into an escrow arrangement and the Trustee would have a right to have these contributions paid into the Bank DB Section in certain circumstances (including on the insolvency of the Bank). The terms of this escrow arrangement are documented in a Payment Agreement and a Security Deed, each entered into in June 2020.

The £12.5m per annum contribution for the period 1 January 2020 to 31 December 2020 originally fell due on 31 December 2019 but was deferred by agreement (as set out in the Schedules of Contributions certified by the Actuary on 20 December 2019 and 17 April 2020) so that it fell due on 31 May 2020, and was paid into the escrow arrangement by 19 June 2020.

This Schedule of Contributions was subsequently superseded by the Schedule of Contribution certified by the Actuary on 18 June 2020 (and as amended on 3 September 2020) which set out that, subject to the terms of the Payment Agreement and Security Deed entered into in June 2020, the below contributions will also be payable in advance into the escrow arrangement:

- £12.5m per annum for the period 1 January 2021 to 31 December 2022; and
- £7.5m per annum for the period 1 January 2023 to 31 December 2027.

Report on Actuarial Liabilities – Co-op Section

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 us and the Co-op and set out in the Statement of Funding Principles, which is available to Co-op Section members on request.

In 2018 the Scheme was sectionalised into two sections: the Co-op Section and the Bank Section. The first full actuarial valuation of the Co-op Section of the Scheme was carried out as at 5 April 2019.

This showed that on that date:

The value of the technical provisions was: £7,726 million
The value of the assets at that date was: £8,633 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 (pre and post retirement):** The discount rate used is a term structure derived from the yields on UK Government conventional gilt stocks appropriate to the date of each future cashflow (extrapolated for cash flows beyond the longest available yields) plus an additional 0.5% per annum to reflect the allowance we have agreed for additional expected investment returns based on the investment strategy.

- **Future Retail Price inflation (RPI):** The assumption for the rate of increase in the Retail Price Index (RPI) will be a term structure derived from the difference between the yield on conventional and index-linked UK Government bonds at the date of each future cash flow (extrapolated for cashflows beyond the longest available bonds).

- **Future Consumer Price inflation (CPI):** Derived from the RPI assumption, with an appropriate adjustment to recognise the best estimate of the difference between expectations of future RPI increases and future CPI increases. In March 2020, the Government issued a consultation around reforms to RPI. The expectation is that RPI will be modified at some point in the future to more closely reflect the current CPI. To allow for this potential change, it has been assumed for the purpose of this valuation that the appropriate adjustment will be 1.0% per annum up to 2030 and 0.3% per annum thereafter. This assumption will be reviewed at future valuations when the outcome of the consultation is known.

- **Pension increases:** In line with the provisions in the Scheme's rules, the assumption for the rate of pension increases applying to each benefit tranche is a full curve of annual gilt-implied inflation forward rates, adjusted for the probability that future inflation is above or below any applicable maximum and minimum annual increase entitlements. A stochastic model is used to derive the adjustment at each point on the curve. The model allows for the volatility of inflation to vary with time.

- **Pay increases:** Pace DB was closed to future accrual in October 2015. In some circumstances members retain a final salary link for benefits accrued before 6 April 2006 in the former Bank, Group and CIS Schemes. An assumption for salary increases in excess of increases in 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 based on up to date information published by the Continuous Mortality Investigation ("CMI") and National Statistics, making allowance for future improvements in longevity and the experience of the Co-op Section of the Scheme. The mortality tables are the S3PA Year of Birth tables (standard for male and middle for female) with weightings of 107% for male pensioners, 112% for male non-pensioners, 99% for female pensioners and 103% for female non-pensioners. Future improvements are based on the CMI 2018 model with a long term improvement rate of 1.75% p.a., an S-Kappa of 7.5 and no initial adjustment factor.

Report on Actuarial Liabilities – Bank Section

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 us and the Bank and set out in the Statement of Funding Principles, which is available to Bank Section members on request.

In 2018 the Scheme was sectionalised into two sections: the Co-op Section and the Bank Section. The first full actuarial valuation of the Bank Section of the Scheme was carried out as at 5 April 2019.

This showed that on that date:

The value of the technical provisions was: £1,908 million
The value of the assets at that date was: £1,980 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 (pre and post retirement):** The discount rate used is a term structure derived from the yields on UK Government conventional gilt stocks appropriate to the date of each future cashflow (extrapolated for cash flows beyond the longest available yields) plus an additional:
  - 0.5% per annum for the period to 31 December 2027; and
  - 0.25% per annum thereafter

  to reflect the allowance we have agreed for additional expected investment returns based on the investment strategy.

- **Future Retail Price inflation (RPI):** The assumption for the rate of increase in the Retail Price Index (RPI) will be a term structure derived from the difference between the yield on conventional and index-linked UK Government bonds at the date of each future cash flow (extrapolated for cashflows beyond the longest available bonds).

- **Future Consumer Price inflation (CPI):** Derived from the RPI assumption, with a deduction of 0.7% per annum to recognise the long term difference between expectations of future RPI increases and future CPI increases. The Trustee discussed the Government's consultation on changes to RPI published in March 2020 and expect to review the assumption for the gap between RPI and CPI at future valuations subject to the outcome of that consultation.

- **Pension increases:** In line with the provisions in the Scheme's rules, the assumption for the rate of pension increases applying to each benefit tranche is a full curve of annual gilt-implied inflation forward rates, adjusted for the probability that future inflation is above or below any applicable maximum and minimum annual increase entitlements. A stochastic model is used to derive the adjustment at each point on the curve. The model allows for the volatility of inflation to vary with time.

- **Pay increases:** No members in the Bank Section of the Scheme have benefits which increase in line with changes in salaries.

- **Mortality:** The mortality assumptions are based on up to date information published by the Continuous Mortality Investigation ("CMI") and National Statistics, making allowance for future improvements in longevity and the experience of the Bank Section of the Scheme. The mortality tables are the S3PA Year of Birth tables (standard for male and middle for female) with weightings of 103% for male pensioners, 109% for male non-pensioners, 96% for female pensioners and 99% for female non-pensioners. Future improvements are based on the CMI 2018 model with a long term improvement rate of 1.75% p.a., an S-Kappa of 7.5 and no initial adjustment factor.

Additional Voluntary Contributions (AVCs)

From 7 October 2012, Legal & General became the AVC provider for the Scheme. Legal & General holds AVC investments separately from the main investments in the Scheme. Members have the option of selecting from the following funds:

- Pace Growth (Shares) Fund
- Pace Growth (Ethical Shares) Fund
- Pace Growth (Mixed) Fund
- Pace Pre-Retirement (Inflation-linked) Fund
- Pace Pre-retirement Fund
- Pace Cash Fund

Prior to October 2012, active members of Pace DB were also able to make AVC contributions to Royal London within the With-Profits Pension Fund.

Members have not been able to make any further AVC contributions to Royal London since October 2015, when Pace DB closed.

The Co-operative Pension Scheme ("Pace")

The Chair of the Trustee's Annual Governance Statement
Year ending 5 April 2020

As Chair of the Pace Trustee I am very pleased to share with you the fifth annual governance statement for the Defined Contribution (DC) Section and Additional Voluntary Contributions (collectively referred to as Pace DC or "the Scheme" in this statement).

This Statement has been prepared to demonstrate how Pace has complied with important governance standards required under regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended. It describes how the Trustee has met the statutory governance standards over the Plan year ended 5 April 2020 in relation to:

1. The investment strategy relating to the DC default investment.
2. The financial transactions made within Pace DC.
3. The charges and transaction costs within Pace DC. (including an illustration of the cumulative effect of these charges)
4. The assessment of value for members.
5. Additional Voluntary Contributions (AVCs).
6. The Trustee Directors' compliance with their knowledge and understanding (TKU) requirements.

The Trustee has elected to use the Scheme year as the period against which the charges and transaction costs incurred under Pace DC will be assessed (the "Pace DC Year").
As with last year's statement, we have included information relating to charges and transaction costs and 'pounds and pence' illustrations demonstrating the potential impact of costs and charges on a member's DC savings over the course of their Pace DC membership.

1 Pace's DC default investment

Once employees meet the Government's eligibility criteria they are automatically enrolled into Pace DC (therefore Pace DC is a "Qualifying Scheme" for automatic enrolment.)

When employees are automatically enrolled, the Trustee ("we") invests contributions in a default investment (Target: Lump Sum Lifestyle Strategy, further information is available in the Pace DC Fund Guide), although members can change how their DC account is invested at any time. The Trustee is responsible for the Scheme's governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. A lot of time is spent making sure that the Pace DC investments and the default investment are appropriate. The Trustee has documented an explanation of their investment objectives and how they review and monitor the performance of the DC investments, this document is called the Statement of Investment Principles and this is explained below.

Statement of Investment Principles

We maintain a Statement of Investment Principles ("SIP") for each section which outlines the principles and policies that govern our decisions about investments. A copy of the current SIP for each section is appended to this Annual Governance Statement at Appendix 1 (Co-op Section) and Appendix 2 (Bank Section) in the accounts and includes information on:

i. The aims and objectives for the Pace DC default investment, the ‘Target: Lump Sum’ option. In particular, the aim of the default arrangement, as stated in each SIP, is to grow member contributions ahead of inflation over a member’s working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement.

ii. Our policies on such matters as:

   a. The kinds of investments to be held

   b. The balance between the different kinds of investment

   c. Environmental, Social and Governance (ESG) factors and stewardship

   d. Risks, including how these are measured and managed

   e. Expected return on investments; and

   f. The realisation of investments.

iii. How the default strategy (Target: Lump Sum) and the other ‘Target’ lifestyle arrangements are intended to ensure that assets are invested in the best interests of members and beneficiaries.

There is also a self-select fund range for Pace DC members, which the Trustee considers to be a suitable range of funds for members who wish to make their own investment choices.

The SIPs were last updated on 24 September 2020 to reflect new legislative requirements requiring trustees to explain their policies on how they monitor their asset managers. The components of the SIP for the Co-op and Bank Sections relating to DC arrangements were unchanged through the scheme year (although various changes were made to reflect changes to the investment strategy for the DB arrangements, which are documented in the same SIPs).

Investment strategy review

We review the suitability of the DC investments annually and conduct a strategic investment review of all investment options available to members (including the default strategy and the performance of the default arrangement) around every three years on no less than a three-yearly cycle. We would also review it immediately after any significant change in investment policy or the demographic profile of the membership.

The last strategic review was completed on 6 December 2019. The Trustee concluded that the design of the default investment strategy, other working life strategies and self-select fund range remain appropriate for the Pace DC members.

In June 2019, the Trustee introduced the Legal & General Future World Multi-Asset Fund to the Pace Growth (Mixed) Fund. The investment objective of the fund is to provide long-term investment growth through exposure to a diversified range of asset classes (excluding physical property) while reflecting significant environmental, social and corporate governance (ESG) issues into the fund’s investment strategy.

As part of the review, the Trustee has also looked to improve the diversification of investments for members invested in the Scheme’s lifestyle strategies, and is considering introducing an equity component into the lifestyle options for younger members. Timing of the implementation is currently under consideration.

Investment monitoring

In addition to the strategy review, with the support of the Co-op Pensions Department and its DC advisor, the Trustee also reviews the performance of the default arrangement against its aims, objectives and policies on a quarterly basis. This review includes an analysis of the underlying funds' performance against their respective benchmarks, relevant ABI sectors (i.e. similar funds) as well as a consideration of the volatility of the Pace Growth (Mixed) Fund against equity markets, together with a high level review of member activity to check that the risk and return levels meet expectations. The Trustee's reviews that took place during the Scheme year concluded that the default arrangement was performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP, and as set out above. The performance of the default arrangement was reviewed at quarterly DC Committee meetings over the Scheme year, and was last considered on 9 September 2020.

Environmental Social and Governance (ESG) Considerations

Regulations introduced in 2018 mean that pension schemes need to formally document how they incorporate Environmental, Social and Corporate Governance issues (and specifically consideration of climate risk) into their investment strategies, for both DB and DC investments. Pace publishes its Responsible Investment Policy on its website, with an annual report on how its investments have complied with this policy. In 2018, we reviewed each Section's SIP with input from Pace's sponsors to ensure it reflected our responsible investment policy.

In particular, we believe that members of Pace DC are long-term investors, and that a default investment option for the Scheme should invest in companies that can deliver sustainable, long-term value, with proper consideration of environmental, social and corporate governance factors (including climate change).

Following the changes highlighted above, the Pace Growth (Mixed) Fund aims to take into account the environmental and social behaviours of businesses it invests in, as well as how well they are governed and run, when deciding how much to invest in different companies.

2 Financial transactions

We have a service level agreement (SLA) in place with the Pace DC administrator, Legal & General, which includes performance standards relating to the accuracy and timeliness of all core transactions. These include the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries. These transactions are regularly monitored to ensure that they have been processed promptly and accurately during the scheme year.

Legal & General's processes include daily monitoring of bank accounts, a dedicated contributions processing team and peer review of investment and banking transactions.

Monitoring is achieved through the review of quarterly reporting from Pace DC's administrator and the monthly monitoring of contribution payments by the employers. Pace's financial accounts are also audited annually by the appointed auditors Deloitte LLP.

In conjunction with our advisers, we also undertake an annual assessment of Pace DC's governance processes and internal controls and can confirm that they are compliant with the Pensions Regulator's DC Code of Practice no. 13 on governance and administration (paragraphs 70 to 84 relating to core financial transactions).

We also ensure that our AVC providers (see section 5) have service levels in place for core financial transactions and each year we seek confirmation from each provider that these service levels continue to be met.

3 Charges and transaction costs

We are required to include information on charges and transaction costs in this statement each year, to improve transparency on costs and to help members understand the relative merits of different investment options in a DC scheme like Pace DC.

Charges

Pace DC scheme charges (Total Expense Ratio) comprise of three elements:

- An Annual Management Charge (AMC) - a charge paid to cover administration costs.
- A Fund Management Charge (FMC) – a charge paid to cover fund management expenses.
- Fund expenses – any expense not covered by the AMC or FMC.

The Pace DC Total Expense Ratio (including transaction costs) is paid for by members through the scheme charges. The Bank pays £5 a year to Legal & General for each member, to reduce the charges that apply to their accounts.

Transaction costs

Transaction costs are the costs of buying and selling securities. These can be easily identifiable ‘explicit’ costs (i.e. charged to and paid directly by the fund) which include Brokers Commission, Research Commissions, Transaction Taxes and Fees, or, not directly observable ‘implicit’ costs which relate to the market impact when the investments are bought and sold. Implicit costs can, therefore, be difficult for managers to identify and disclose.

The charges and transaction costs for each fund in Pace DC are shown in Appendix 3 for the Co-op Section and Appendix 4 for the Bank Section and have been prepared in accordance with statutory guidance.

Further details of transaction costs and charges for funds invested with Pace’s AVC arrangements can be found by visiting:

Co-op: https://coop.pacepensions.co.uk/pace-dc-governance/
Bank: https://bank.pacepensions.co.uk/pace-dc-governance/

All transaction costs quoted have been supplied by the provider of that pension arrangement.

Cumulative illustration

In addition to the above, we are also required to present the costs and charges typically paid by a member as a “pounds and pence figure”. Illustrative examples of the cumulative effect over time of the application of charges and transaction costs on the value of a member’s accrued rights to money purchase benefits are shown in Appendix 5 for the Co-op Section and Appendix 6 for the Bank Section. The illustrations have been prepared having regard to the guidance issued by the DWP in September 2018

4 The assessment of Value for Members

We are committed to ensuring that members receive value for money from Pace and that any costs and charges that are deducted from members’ DC accounts provide good value in relation to the benefits and services that are provided by or on behalf of Pace.

We undertake annual ‘value for member’ assessments, with support from our advisers, and give specific focus to costs for members. These assessments form part of our annual plan and are included as an item on Pace’s risk register.

We have completed a value for members assessment for the period ending 5 April 2020. This assessment was undertaken in accordance with the Pensions Regulator's DC Code of Practice no. 13 (paragraphs 113-133 and with the relevant legislation. It considered the scope, quality, efficiency and general value of a range of services and features, including:

- The benefits of Pace DC membership covering;
    - governance and scheme management;
    - investment;
    - communications; and
    - administration
- The cost of Pace DC membership
- Comparison with other schemes.

The conclusion of the latest assessment, completed in September 2020, is that Pace continues to provide excellent value for money for members because:

- Pace is providing a highly rated service with excellent standards of governance and administration
- We are confident that the Pace Growth (Mixed) Fund can deliver sustainable, long-term value, with proper consideration of environmental, social and corporate governance factors (including climate change).
- Pace DC charges are highly competitive and generally well below the average for similar DC schemes, including the Government's National Employment Savings Trust (NEST).

This year a written communication was issued to members over age 50, reminding them to select a realistic retirement age. A reminder was also included in the 2019 benefit statements. We have also undertaken a review of all literature to help members understand their choices at retirement.

5 Additional Voluntary Contributions (AVCs)

Members who are already paying the maximum 'employer matched' contributions can make further pension savings by paying AVCs. Pace's main AVC plan is managed by Legal & General and shares the same administration features and member services as for the DC Section. The statements relating to the DC Section therefore apply to the main Legal & General AVC plan.

Legacy AVCs

Pace also has a number of older 'legacy' AVC arrangements which are now closed to new contributions. The largest is with Royal London and is referred to as 'Extra Plan' but there are also a small number of AVC policies with Aviva, Legal & General, Prudential and Equitable Life (now Utmost Life & Pensions).

Collectively, the legacy AVCs are invested in a range of with-profits, unit-linked and deferred annuity contracts, some of which have implicit charging structures. Where explicit annual charges apply, these typically range from 0.50% to 1.00%.

A number of guides and factsheets have been produced to help members make informed decisions on how to manage their AVCs. The Trustee will continue to communicate with members annually regarding their AVCs and provide information on their broader options.

With effect from 1 January 2020, members with investments with Equitable Life were transferred to a new AVC provider, Utmost Life and Pensions. On transfer, guarantees that applied to with-profits investments were removed from the policies, and members received uplifted policy values.

Annual monitoring of Pace's legacy AVC arrangements is undertaken. The suitability of Pace's AVC arrangements with Royal London (formerly CIS) is on-going and further work will take place in 2021.

6 Trustee knowledge and understanding (TKU)

In Q3 2019, the composition of the Pace Trustee Board and governance model changed, retaining only the four professional independent trustees; the next review of the Trustee Board's effectiveness will be considered in Q4 2020. It is proposed that this review will consider the effectiveness of the new Trustee Board and governance model following its first year of operation.

We have a strong TKU process in place and our combined knowledge and understanding, together with advice available to us, enables us to properly exercise our functions as the Trustee of Pace. Our approach to meeting the TKU requirements includes:

- Maintaining a rolling programme of bespoke trustee training in keeping with our status as a professional trustee board. This includes short, bespoke training sessions with Pace's advisers (either one-to-one or in small groups) as required. When the Pace Chair was appointed in May 2019, copies of existing scheme documentation and advice were shared as background, and members of the pensions department held one to one sessions covering Pace's governance structure, investment strategy and other ongoing projects to support this.

- Making sure we are conversant with scheme's governing documents (including their powers under the scheme rules) and we have knowledge and understanding of applicable pensions/trust law and investment principles. We regularly attend external seminars and training on technical pensions matters to keep up to date with developments in the pensions industry.

- We have a working knowledge of Pace's Statement of Investment Principles through regular review each year or as often as changes to investment strategy or policy necessitate. The DC Committee also reviews the DC related sections of the statement and seeks professional advice as appropriate on any changes.

- We are required to complete a Skills and Experience Form annually to identify any particular training requirements. This exercise is to identify:-

    - if there are any gaps in a Trustee Director's skill set / soft-skill set.
    - which Trustee Directors are best placed to (i) sit on the different committees; and (ii) lead/participate in specialist projects.
    - if there are any collective gaps in the Trustee Board overall skill set.
    - if there are any collective gaps in the Trustee Board skill set when a Trustee Director leaves the Board, and a replacement Trustee Director is being considered.

- Obtaining accredited professional trustee status independently, once the accreditation programmes offered by the two main providers, the Association of Professional Pension Trustees and the Pensions Management Institute, have been developed further, and the Trustee Board has agreed the approach and timeframe to achieve this.

Signed by the Chair on behalf of the Pace Trustee:

Chris Martin **Date 29 October 2020**

Covid-19

From 1 January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as Covid-19. The outbreak of Covid-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty. The effects of Covid-19 have and may continue to adversely affect the global economy, the economies of certain nations, and individual issuers, all of which may negatively impact the Scheme's investment return and the fair value of the Scheme's investments.

The quantum of the effect on the Scheme investments in the portfolio is difficult to assess because of the frequency of pricing of some of the investments held. In accordance with the requirements of FRS 102 and the Pensions SORP, the fair valuations at the date of the statement of net assets reflect the economic conditions in existence at that date.

The Trustee has considered the impact of the Covid-19 pandemic, the impact of which has been felt in the UK following the Scheme's accounting year-end:

- Trustee governance is not impacted by the pandemic. The Trustee has run its meetings remotely and has a variety of methods for keeping in touch with the Co-op Pensions Department's support team and managing communications between Trustee Directors and advisers.

- The Trustee's business continuity plan has been refreshed several times in light of the pandemic, and is kept up to date on a regular basis (alongside those of the other Co-op pension schemes). Key suppliers, including investment managers, are monitored for signs of strain, and the Trustee has no significant concerns at present.

- The Trustee has considered the Co-op's covenant in light of the pandemic, and has instigated more frequent, light touch monitoring. The Trustee has no significant concerns about the covenant of the Co-op's key businesses in light of the pandemic. This has formed part of the Trustee's view that the going concern basis remains the appropriate basis for the Scheme's accounts.

- Given the relatively high levels of interest rate and inflation protection in place, together with the low exposure to growth assets, the diversification of the Scheme's assets both by asset class and geography, the Trustee is comfortable that the investment strategy remains appropriate.

Brexit

On 31 January 2020, the United Kingdom left the European Union. The Trustee continues to monitor the situation carefully and is taking appropriate advice on the expected impact on the investment portfolio.

GMP Equalisation

The Trustee has evaluated all subsequent events or transactions for potential recognition or disclosure to the date on which these financial statements were signed and has determined that there were no additional subsequent events requiring adjustment to or disclosure in the Scheme financial statements.

On 26 October 2018, in the *Lloyds Banking Group* legal case, the High Court ruled that schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) between 1990 and 1997 need to equalise benefits overall, to address the effect of unequal GMPs.

An interim solution has been implemented for equalising GMPs for transfer values and trivial commutation payments made by the Scheme, ahead of when GMP equalisation is completed for all benefits in the Scheme.

The Trustee, with the assistance of its legal and actuarial advisers, is in the process of considering with the Co-op and Bank, the most appropriate GMP equalisation methodology for equalising GMPs for main scheme benefits.

GMP equalisation is expected to increase the liabilities of the Scheme. The liability impact will vary depending on the equalisation methodology approach taken, although the differences in liability impact on the Scheme's technical provisions basis are expected to be immaterial in the context of total Scheme liabilities. Therefore, we have not included a liability in respect of GMP equalisation in these financial statements. They will be accounted for in the year they are determined.

Subsequent events

Buy ins

After the scheme year end, a further buy-in policy was transacted with Aviva covering a further c. £340m of pensioner liabilities for the Co-op Section on 6 May 2020.

The Bank Section also implemented a buy-in policy after the scheme year end and paid a premium of c. £400m to PIC on 8 April 2020.

Deficit contributions due

The £12.5m per annum contribution due to the Bank DB Section for the period 1 January 2020 to 31 December 2020 originally fell due on 31 December 2019 but was deferred by agreement (as set out in the Schedules of Contributions certified by the Actuary on 20 December 2019 and 17 April 2020) so that it fell due on 31 May 2020, and was paid into the escrow arrangement by 19 June 2020.

Co-operative Brands Limited

On 31 July 2020, Co-operative Brands Limited ceased to participate in the Co-op Section. The Trustee entered into a flexible apportionment arrangement with the Co-op and with Co-operative Brands Limited. This agreement meant that the Co-op took on responsibility for the defined benefit liabilities of Co-operative Brands within the Co-op Section.

Financial Development of the Scheme

During the year ended 5 April 2020, the net assets of the Scheme increased from £11.0bn to £11.8bn, of which £9.6bn relates to net assets of the Co-op Section and £2.2bn to the Bank Section.

Investments

The investment reports are set out on pages 32 to 44.

Enquiries

For enquiries about the Scheme please contact:

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

Email address: staffpensions@coop.co.uk

Statement of Trustee’s Responsibilities

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.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of PACE Trustees Limited

Bestrustees Limited,
represented by Christopher Wheeler
Trustee Director

Thomas Taylor
Secretary

Date: 5 November 2020

More Helpful Terms

In this document, when we say:	We mean:
Additional Voluntary Contributions (“AVCs”)	Contributions over and above a member's normal contributions which the member chose to pay to the Scheme in order to secure additional benefits.
Alternative Inflation-linked Property	Investment in property which has inflation-linked income streams as part of the investment terms. This type of investment aims to generate income which keeps up or exceeds inflation in addition to capital appreciation. These types of properties can include student accommodation and long lease ground rents on commercial properties such as hotels, for example.
Alternatives	A term used to categorise investment which is not in traditional asset classes such as Stocks, Bonds and Cash. Alternative asset classes include; Hedge Funds and Private Equity, for example.
Asset Backed Securities	An asset backed security is the term given to a bond, whose value is derived from a pool of underlying assets which together generate income and collateralise the specific pool. Examples include a pool of mortgages or credit card debt.
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 specified rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.
Buy and maintain credit	An investment in corporate bonds where the manager aims to select bonds with low default risk that can be held to maturity, and aims to have very low turnover in holdings.
Buy-in	A buy-in policy (also known as a bulk annuity) is an insurance policy that covers a proportion of a pension scheme’s liabilities, such as the pension in-payment. The policy pays the scheme an income equal to the benefits of the members covered and therefore removes the risk of there being insufficient assets to meet those future liabilities. A buy-in policy is an investment held by a pension scheme, and the scheme (and its trustees) remains responsible for paying pensions to members.

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.
ESG (Environmental, Social and Corporate Governance)	Factors considered in investment analysis and portfolio construction. ESG is used to evaluate corporate behaviour and the sustainability of business operations.
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 the scheme is able to access as a long-term investor.
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.
Inflation swap	A derivative allowing the exchange of two cash flows, one based on an agreed inflation rate for a period and the other based on the actual inflation rate for that period. Typically, the inflation basis will be RPI in the UK. Used by pension schemes to hedge inflation risk as part of an LDI strategy.
Interest rate swap	A derivative allowing the exchange of two sets of cash flows, usually one based on a fixed interest rate and the other on a floating interest rate. Used

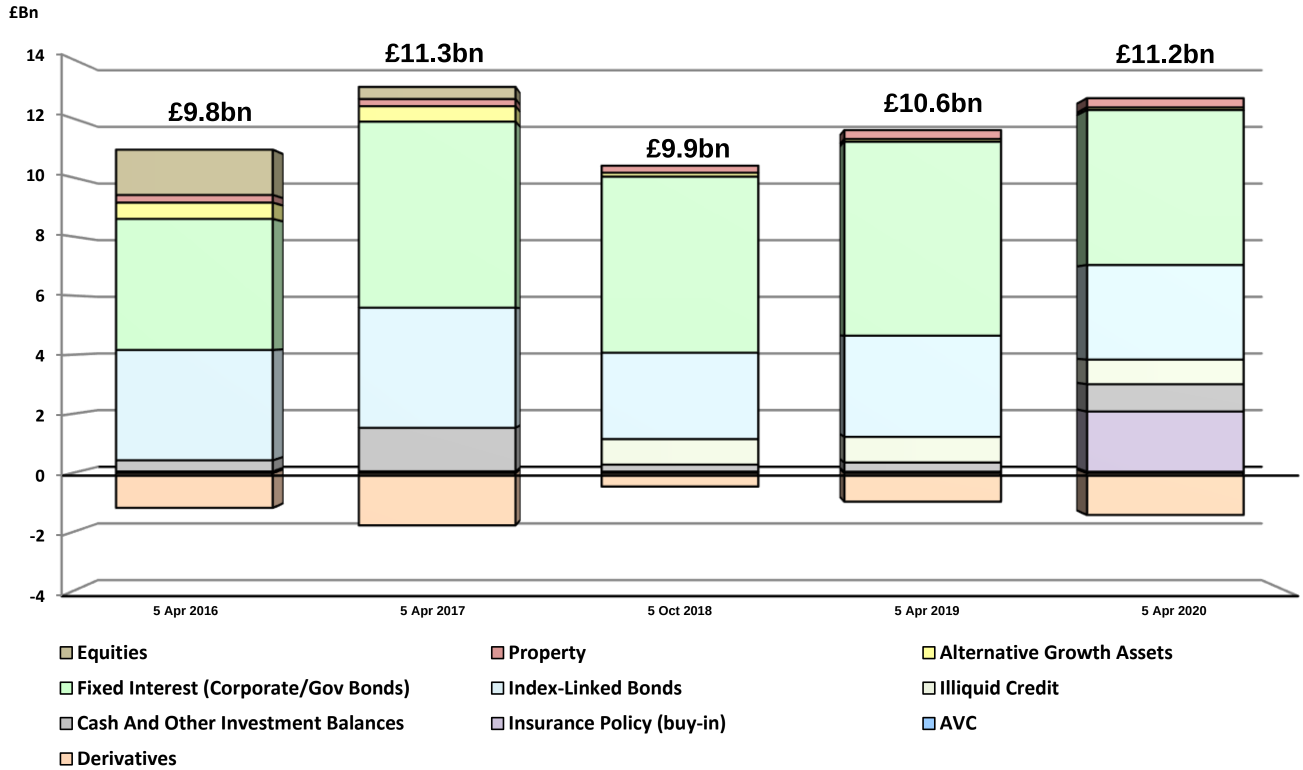
	by pension schemes to hedge interest rate risk as part of an LDI strategy.
Investment Grade	A category of ratings provided by a ratings agency based on its assessment of the credit worthiness of that company or asset. The assessments within investment grade range from 'extremely strong capacity to meet 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 Scheme's assets. Also known as an "asset manager" or "fund manager".
Leverage	Use of borrowed money to over-invest a portfolio which magnifies both gains and losses. This may be achieved by using derivatives such as swaps or gilt repos. Allows a pension fund to efficiently hedge interest rate and inflation risk where it does not have sufficient assets to invest entirely in bonds (or where suitable bonds are not available).
Liability Driven Investment ("LDI")	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.
Repurchase Agreement	A transaction used to finance ownership of a bond. In a 'repo' agreement, an asset, government bond, is sold with a combined agreement for it to be repurchased in the future at an agreed price. This process is used to raise ready money and is backed by the sold asset.

	This allows the scheme to access bond investments in an efficient way, allowing us to increase interest rate and inflation protection.
Segregated	Where assets are legally owned by a pension scheme rather than a pooled fund, and are managed independently of those of other funds under the investment manager's control.
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.
Sterling Overnight Index Average ("SONIA")	SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours. SONIA is used as an alternative to LIBOR as a benchmark interest rate for financial transactions
Strategic Asset Allocation	The target split of the Scheme's assets between different types of investments (e.g. Bonds and Equities).
Swap	Derivatives designed to permit investors to exchange payment streams for their mutual benefit. Payments can be based on interest rates, inflation indices, currencies or equity returns.
Yield	A measure of the annual income earned on an investment. Normally expressed as a percentage of its market price.

Our Investment Report

Pace consolidated DB Investment Report

The chart below provides a snapshot of the different types of DB investment categories held by the Scheme at each period/year end (from 2018, this shows the consolidated position across both Sections).



	5 April 2016		5 April 2017		5 October 2018 (Consolidated)		5 April 2019 (Consolidated)		5 April 2020 (Consolidated)	
	£000	%	£000	%	£000	%	£000	%	£000	%
AVC	46,688	0.5	49,410	0.4	42,025	0.4	38,409	0.4	37,607	0.3
Derivatives*	(1,179,521)	(12.1)	(1,770,381)	(15.7)	(457,998)	(4.6)	(969,809)	(9.1)	(1,419,449)	(12.6)
Illiquid Credit	-	-	-	-	864,065	8.7	868,886	8.2	832,808	7.4
Fixed Interest Bonds (Corporate Bonds and Government Bonds)	4,436,216	45.5	6,299,828	55.8	5,961,663	59.9	6,565,388	61.7	5,246,873	46.7
Property	258,441	2.6	240,975	2.1	240,522	2.4	300,173	2.8	309,663	2.8
Cash And Other Investment Balances	378,188	3.9	1,473,763	13.0	253,223	2.6	311,271	2.9	911,337	8.1
Index-Linked Bonds	3,735,341	38.3	4,067,484	36.0	2,921,525	29.3	3,424,977	32.2	3,204,148	28.5
Alternative Growth Assets	551,447	5.7	522,038	4.6	131,524	1.3	92,920	0.9	73,329	0.7
Equities	1,533,157	15.7	410,659	3.6	-	-	-	-	-	-
Insurance Policy (buy in)	-	-	-	-	-	-	-	-	2,038,141	18.1
TOTAL	**9,759,946**	**100**	**11,293,776**	**100**	**9,956,549**	**100**	**10,632,215**	**100**	**11,234,457**	**100**

*Repurchase agreements included within derivatives

The Scheme's investment policy

For each Section, our 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.

- For the Co-op Section of the Scheme, we have agreed to implement an investment strategy that targets an expected return of around 0.8% p.a. (net of fees) above the return on gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk.

- For the Bank Section, we have agreed to implement an investment strategy that targets an expected return of around 0.5% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. Again, this investment return target was chosen taking into account the associated level of risk.

For both Sections, our primary goal is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis. If funding improves as a result of better than expected investment returns, we expect to use the opportunity to reduce investment risk or to continue to maintain the level of risk with a view to improving the funding level position further.

The Scheme's Statement of Investment Principles

The Trustee maintains a Statement of Investment Principles for each Section of Pace, in accordance with Section 35 of the Pensions Act 1995. These are the formal documents that govern the way the Scheme's assets are invested. The two SIPs are reviewed at least annually, and following any significant changes in investment policy.

Copies of the two Statements are included in Appendices 1 and 2, and available on request to the Secretary to the Trustee at the address shown on page 26, or via https://www.pacepensions.co.uk/.

In addition, the Trustee now needs to formally include a statement in each year's accounts setting out (among other things) how they have followed the Statements of Investment Principles over the year, and in particular how it has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities. A copy of this Implementation Statement is included as Appendix 7, and it will also be made available on the Scheme's website.

Management of assets

We have delegated management of investments to professional investment managers which are listed on pages 7 and 8. 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 Statements of Investment Principles are met.

What is the Scheme's investment strategy?

The following section sets out the current target investment strategy for each Section, together with the position as at 5 April 2020.

<u>Co-op Section</u>

In early 2020, we completed two buy-in transactions totalling c. £2bn across two insurers, Aviva and the Pension Insurance Corporation ("PIC"). These policies match the pension payments due to certain members of the Co-op Section of Pace. The Trustee remains responsible for paying pensions to all members; the insurance contracts are just part of the Trustee's investments and will provide improved security for all members as they remove the risk of there being insufficient assets to meet those future liabilities.

The Buy-in policy with Aviva totalled £1,024m and was funded via a transfer of gilts and cash from the BlackRock LDI mandate. The assets transferred to PIC totalled £1,032m and was funded from transfers of corporate bonds from the Section's Buy and Maintain mandates and gilts and cash from the BlackRock LDI mandate.

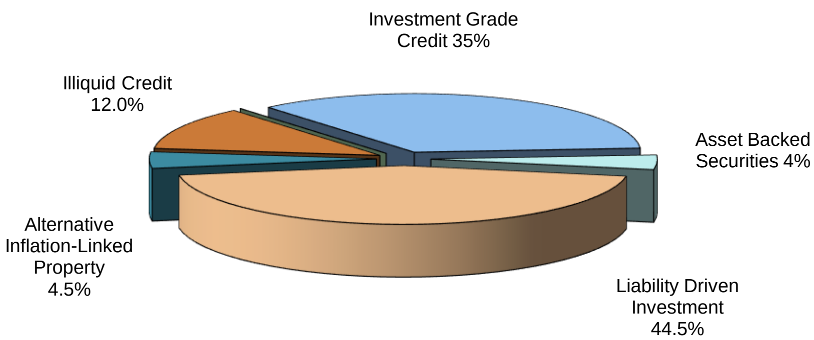
The annuity policies are an asset of the Co-op Section and are therefore included as part of the Section's assets in this report.

After the scheme year end, a further buy-in policy was transacted with Aviva covering a further c. £340m of pensioner liabilities.

As a result of the implementation of the buy-in policies highlighted above, the Section's assets are split into two parts, "The Buy-in Portfolio" and "The Main Portfolio". Both portfolios are monitored by the Trustee on a standalone basis.

The target investment strategy asset allocation for the Main Portfolio is shown in the chart below.

Target benchmark asset allocation as at 5 April 2020



The Section will continue to have small legacy holdings not listed in the above chart over the short to medium term (for example property and alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases and so the above should be seen as an indicative longer-term target that we are working towards.

The table below shows the Co-op Section's asset allocation as at 31 March 2020.

Asset allocation as at 31 March 2020

	Property	Alternatives	Asset backed securities	Illiquid Credit	Alternative inflation-linked property	Liability driven investment (LDI) and cash	Investment grade credit
	LaSalle 0.4%	Mercer Alternatives 1.0%	24AM 4.0%	Insight 4.6%	PGIM 4.2%	BlackRock 46.8%	LGIM 8.6%
				ICG 4.1%			Insight 13.5%
				M&G 3.3%			RLAM 9.4%
TOTAL	**0.4%**	**1.0%**	**4.0%**	**12.0%**	**4.2%**	**46.8%**	**31.5%**

Source: Mercer Limited Figures May not sum due to rounding

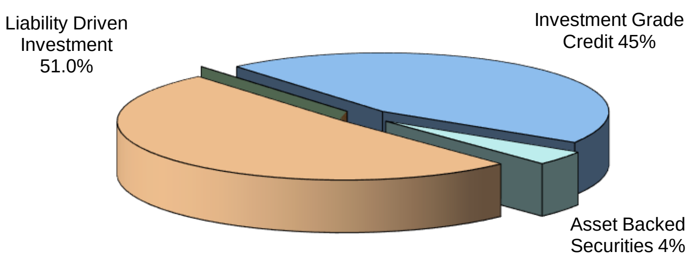
Bank Section

The Bank Section of Pace also implemented a buy-in policy after the scheme year end (and at 5 April 2020 was in the process of restructuring the Section's assets to pay the premium of c. £405m to PIC, which was transferred on 8 April 2020). This was funded via a transfer of gilts and cash from the Section's BlackRock LDI mandate. As the transition occurred after the scheme year end, this is not reflected in the accounts as at 5 April 2020.

As a result of the implementation of the Buy-in policy highlighted above, the Section's assets going forwards is split into two parts, "The Buy-in Portfolio" and "The Main Portfolio". Both portfolios are monitored by the Trustee on a standalone basis.

The target investment strategy asset allocation for the Main Portfolio is shown in the chart below.

Target benchmark asset allocation as at 5 April 2020



As with the Co-op Section, the Bank Section will continue to have small legacy alternative holdings not listed in the above chart over the short to medium term which are in the process of being redeemed. The redemption process may take several years and so the above should be seen as an indicative longer term target that we are working towards.

The table below shows the Bank Section's asset allocation as at 31 March 2020 (prior to the buy-in transacted after the year end).

Asset allocation as at 31 March 2020

	Alternatives	Asset backed securities	Liability driven investment (LDI) and cash	Investment grade credit
	Mercer Alternatives 0.8%	24AM 3.1%	BlackRock 63.1%	LGIM 11.2%
				Insight 10.9%
				RLAM 11.1%
TOTAL	**0.8%**	**3.1%**	**63.1%**	**33.1%**

Source: Mercer Limited Figures may not sum due to rounding

Investment performance over the year

Investment performance is measured on a quarterly basis; all performance data is shown to 31 March 2020. As the Scheme was formally sectionalised in August 2018, the charts below show investment performance for the 12 month and three year periods to 31 March 2020 for the whole scheme, but only for the 12 month period for the separate Co-op and Bank Sections (three year data not yet being available).

The charts below show the performance of Pace's investments over the year; the end of the Scheme year coincided with a significant market downturn as a result of the global Covid-19 pandemic. As a result, the dramatic increases in credit spreads in March 2020 led to negative returns on the majority of Pace's corporate bond and illiquid credit investments – equity markets also fell sharply, but as the DB section de-risked and sold its remaining equity holdings in late 2017, this did not have an impact.

Over the twelve month period, these falls were offset by positive returns from Pace's liability matching assets in particular, and the total return on the Scheme's assets for the 12 months to 31 March 2020 was approximately 7.5% compared with the overall total benchmark of 7.9%, with Pace's DB assets growing from £10.6bn at April 2019 to £11.2bn at 5 April 2020 after allowing for benefits paid out over the year.

The overall gross of fees performance of Scheme assets over the 12 month and three year periods to 31 March 2020 is shown below:

12 month & 3 yrs Performance of the Scheme to 31 March 2020

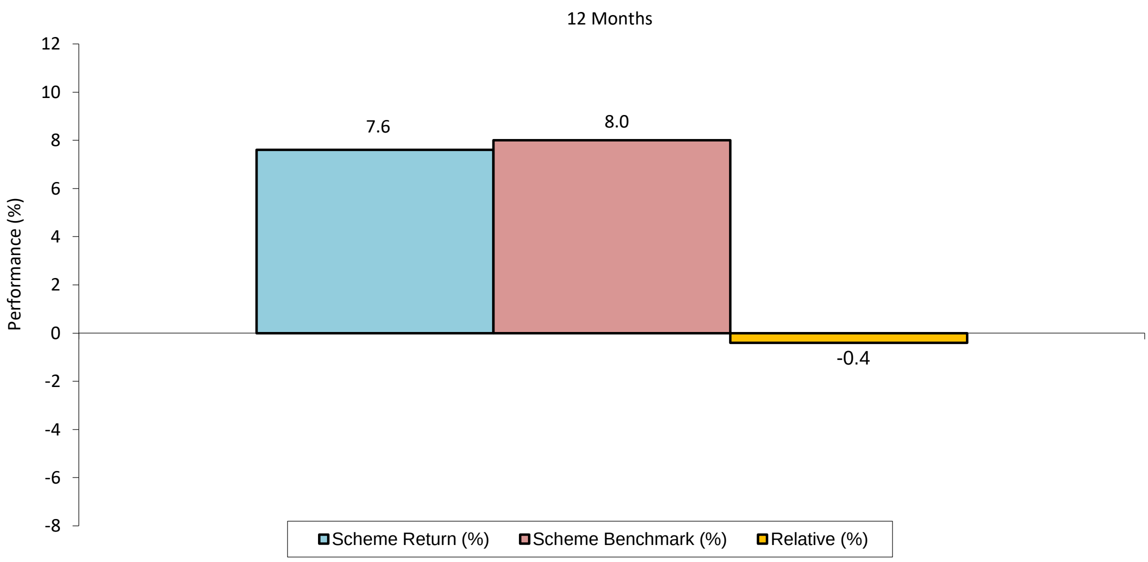
Source: Mercer Limited

We measure performance against an overall benchmark which is recommended by the DB investment adviser, and consists of two main elements: firstly, the performance of the 'return-seeking' assets (illiquid credit, property and alternative growth assets) is measured against a composite of separate investment indices that apply to individual asset classes; and secondly, a comparison of changes in the 'liability-matching' assets (fixed interest and index linked securities) to changes in the Scheme's liabilities.

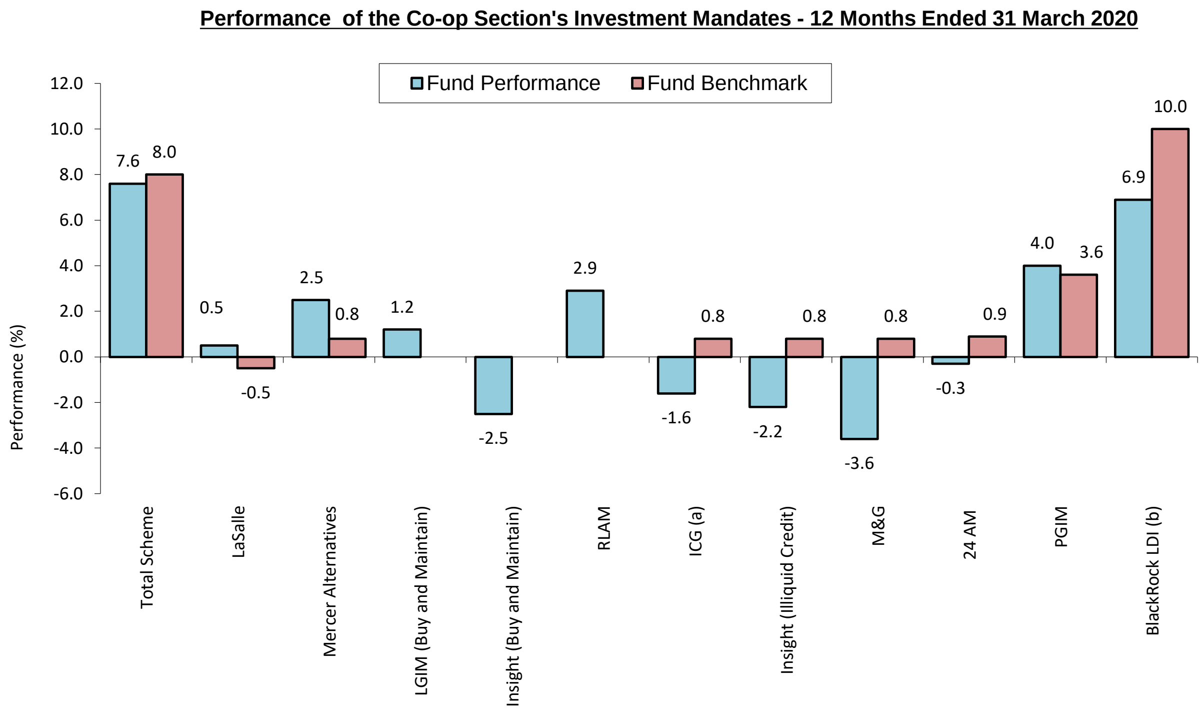
Performance for the Co-op Section of the Scheme

The overall gross of fees performance for the Co-op Section's assets over the 12 month period to 31 March 2020 is shown below:

12 months Performance of the Co-op Section to 31 March 2020



The overall performance of the Co-op Section of the Scheme assets and the performance of the underlying mandates over the 12 months to 31 March 2020, is shown below on a gross of fees basis:

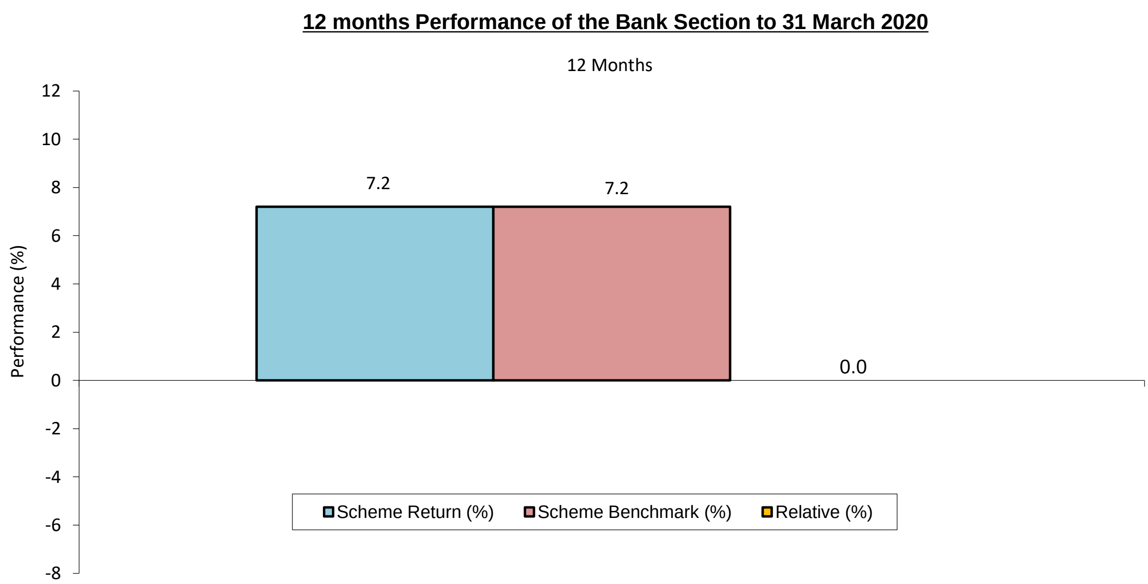


Source: Investment Managers and Mercer Limited

(a) Figures shown are calculated by Mercer over each period, and are based on manager data
(b) Total hedge portfolio performance is shown (including LDI and credit assets managed by LGIM, Insight and RLAM) vs the total liability benchmark; underperformance is as a result of widening credit spreads
Benchmark allocation taken as actual allocation for performance measurement purposes.

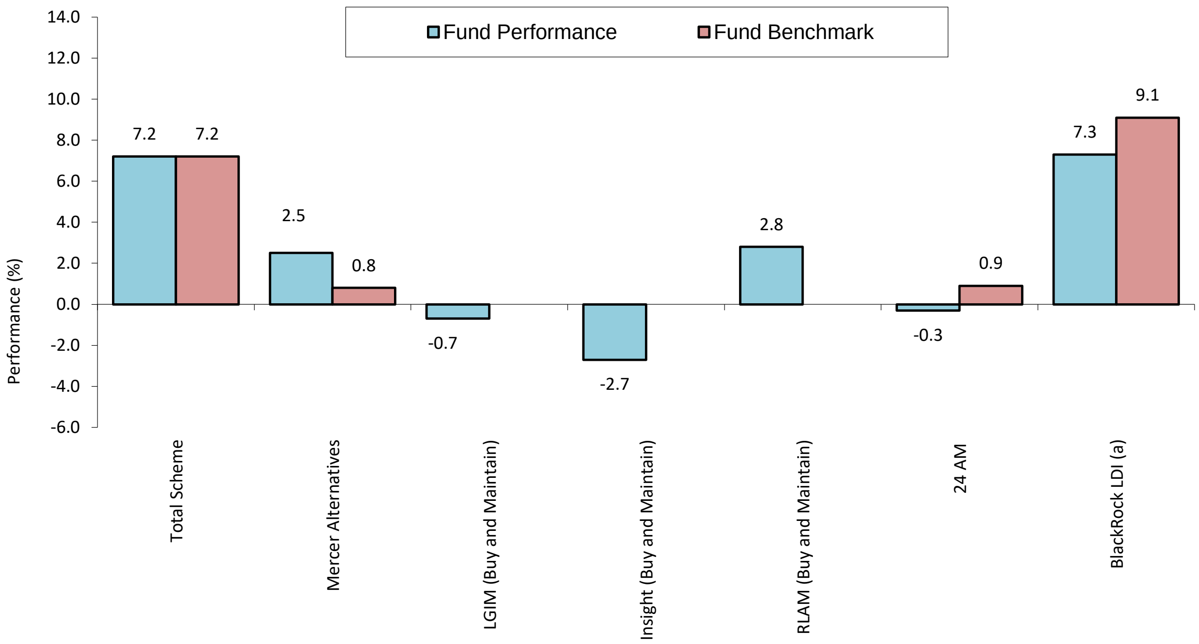
Performance for the Bank Section of the Scheme

The overall gross of fees performance for the Bank Sections' assets over the 12 months period to 31 March 2020 is shown below:



The overall performance of the Bank Section of the Scheme assets and the performance of the underlying mandates over the 12 months to 31 March 2020, is shown below on a gross of fees basis:

Performance of the Bank Section's Investment Mandates - 12 Months Ended 31 March 2020



Source: Investment Managers and Mercer Limited

(a) Total hedge portfolio performance is shown (including LDI and credit assets managed by LGIM, Insight and RLAM) vs the total liability benchmark; underperformance is as a result of widening credit spreads
Benchmark allocation taken as actual allocation for performance measurement purposes.

Custodial arrangements

Segregated Assets

Bank of New York Mellon is the appointed custodian for the DB assets for both the Co-op and Bank Sections' segregated assets.

Bank of New York Mellon's services provided during the year included custody of assets, performance measurement, investment accounting, stock lending, money market service, compliance monitoring and class action services.

Pooled Assets

The Scheme's investments in pooled vehicles give us 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.

Property

DLA Piper UK LLP and Osborne Clark LLP hold the title deeds in respect of the Scheme's property assets managed by LaSalle and PGIM respectively.

Pace DC Investment Report

Contributions made for members of the DC section of the Scheme are invested with Legal & General Assurance Society Ltd ('Legal & General').

Total contributions of £116m were paid to the Scheme over the 12 months to 5 April 2020. An analysis of this amount is shown in note 3 to the financial statements.

The default lifestyle strategy invests in the Pace Growth (Mixed) Fund, switching into the Cash Fund, starting 10 years from the member's selected retirement age. This strategy has been designed to suit members who wish to take their pension benefit as a cash lump sum, based on the Trustee's analysis of the Scheme's membership.

Following a review of the investment funds available for investment and discussions with the Co-op and the Co-operative Bank, the Trustee decided to change the underlying investment for the Pace Growth (Mixed) Fund to the Legal & General ("L&G") Future World Multi-Asset Fund. The rationale for this was that the Trustee and the Co-op believe the new fund is better aligned with Pace's Responsible Investment report and the sponsors' values (and those of Scheme members).

This fund "tilts" investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less carbon-intensive or earn green revenue; it also excludes investment in coal miners, and companies involved in the manufacture or distribution of controversial weapons.

Two other lifestyle funds have been made available to members who wish to take their benefits as either a pension or to draw down pension savings over time.

For members who prefer to make their own choice of investment fund, we have selected a range of funds members can choose from, based on advice from our DC investment advisor. The funds and their aims are:

Pace Growth (Shares) Fund

The fund aims to capture the total returns of the UK and overseas equity markets while maintaining a fixed 30:70 weighting between the UK and the overseas assets.

Pace Growth (Ethical Shares) Fund

The fund aims to track the total returns of the FTSE4Good Global Equity Index.

Pace Growth (Mixed) Fund

The fund aims to provide long-term investment growth through exposure to a diversified range of asset classes (including include equities, bonds, cash and listed infrastructure, private equity and global real estate companies) while reflecting significant environmental, social and corporate governance (ESG) issues into the fund's investment strategy. The diversified nature of the fund means that it is expected to have less exposure than an equity-only fund to adverse equity market conditions. However, the fund may perform less strongly than an equity-only fund in benign or positive equity market conditions.

Pace Pre-retirement (Inflation-linked) Fund

The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical inflation-linked annuity. The fund, however, does not provide full protection against changes in inflation-linked annuity rates for individual members due to a number of factors (for example, its assets are not sensitive to changes to mortality assumptions). The asset allocation is reviewed periodically by Legal & General.

Pace Pre-retirement Fund

The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product. The fund invests in Legal & General index-tracking bond funds. The fund, however, does not provide full protection against changes in annuity rates for individual members, since these also depend upon a number of other factors (e.g. changes to mortality assumptions). The asset allocation is reviewed quarterly by Legal & General.

Pace Cash Fund

The fund aims to provide capital protection, with growth at short term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills. The fund does not invest in any assets where the nominal capital value can fall, such as fixed interest securities. The value of the fund's assets would only fall if a deposit holder or the UK Government were unable to meet their obligations or if the interest earned by the fund's assets is insufficient to cover the fund management charge and any additional fund expenses.

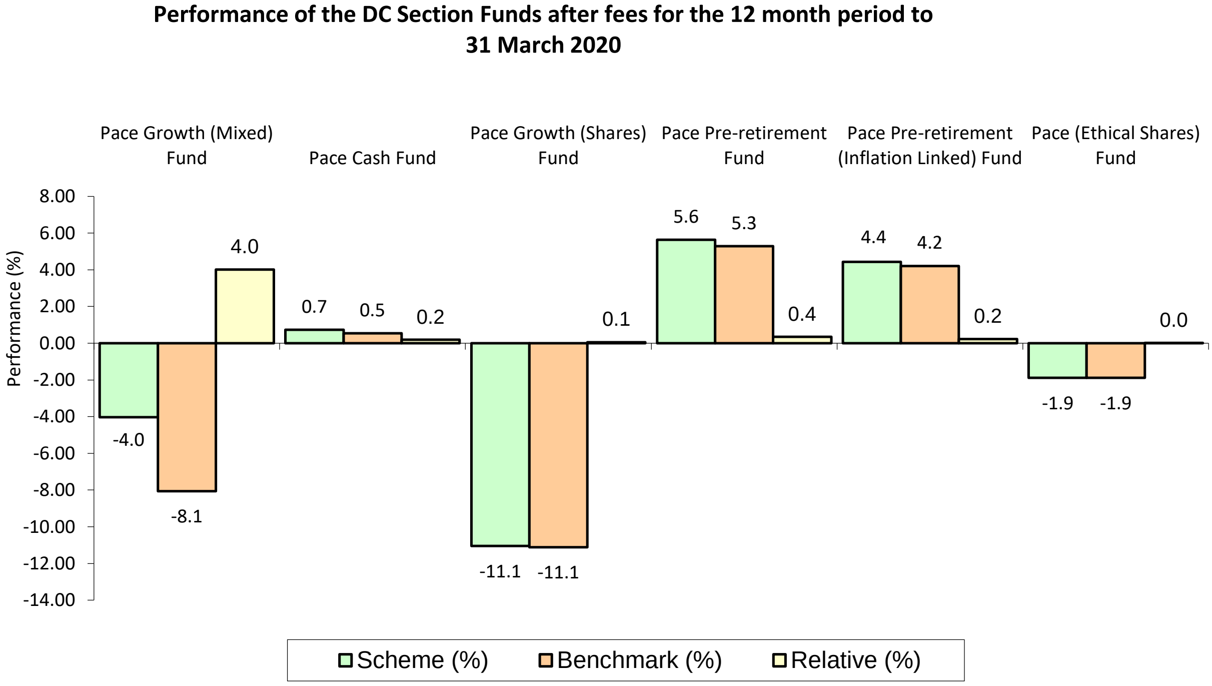
The first contributions were invested with Legal & General in November 2012. As at 5 April 2020, the value of the funds totaled £430,672,258 as set out below.

	5 April 2020			5 April 2019		
Investment Funds	**Coop Section £000**	**Bank Section £000**	**Total £000**	**Coop Section £000**	**Bank Section £000**	**Total £000**
Pace Growth (Mixed) Fund	337,443	54,330	391,773	286,237	49,861	336,098
Pace Cash Fund	30,790	3,159	33,949	20,305	2,132	22,437
Pace Growth (Shares) Fund	1,984	756	2,740	1,620	668	2,288
Pace Growth (Ethical Shares) Fund	1,429	175	1,604	1,042	144	1,186
Pace Pre-retirement Fund	464	9	473	356	5	361
Pace Pre-retirement (Inflation-Linked) Fund	84	49	133	41	-	41
Total	**372,194**	**58,478**	**430,672**	**309,601**	**52,810**	**362,411**

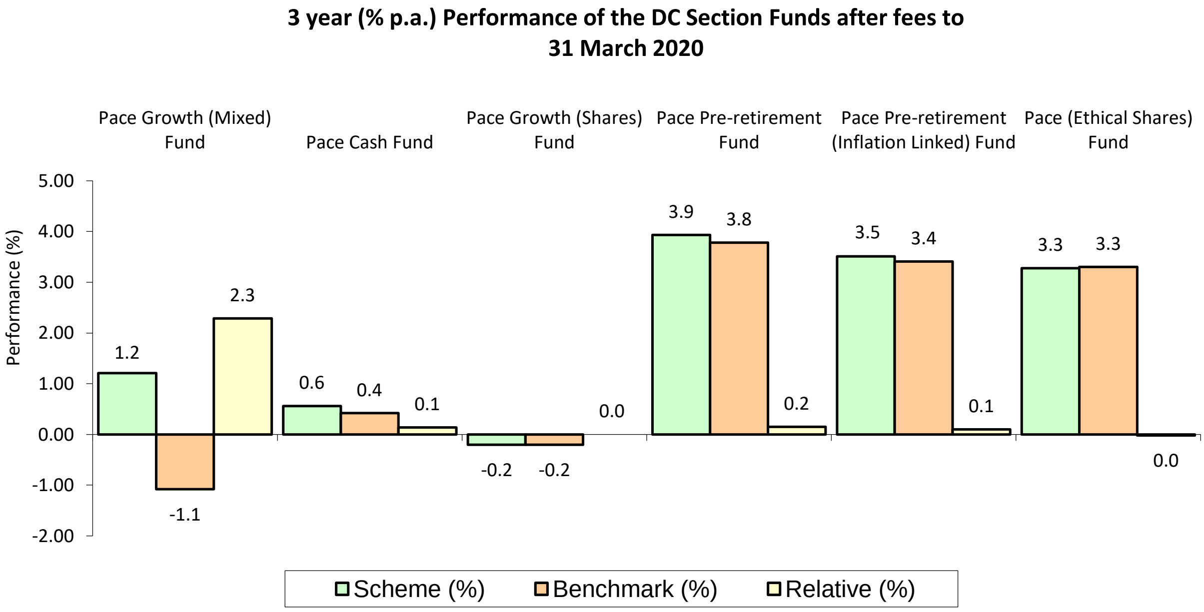
The Legal & General pooled funds are provided through a unit policy and the value of the units fluctuate directly in relation to the value of the underlying assets. All the units are redeemable on any working day at prices that reflect market valuations and net cashflow on that day.

Performance

The investment performance of the DC section funds is shown below.



Source: Legal & General
Totals may be impacted by rounding



Source: Legal & General
Totals may be impacted by rounding

Responsible Investment and Corporate Governance

Pace has a Responsible Investment Policy, which can be found at https://www.pacepensions.co.uk. This document details the Trustee's policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, and when assessing Pace's investment managers' performance on ESG issues, engaging with investee companies and participating in third party ESG initiatives.

In accordance with our fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

We also recognise that we can take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where we have good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

We will apply these considerations in setting Pace's Responsible Investment Policy, assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Co-op and the Co-operative Bank when developing the Policy.

At the time of writing, the policy reflects three broad issues which we believe represent particular risk to the Scheme and which we believe can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- Protection of the environment.
- Labour conditions and equal pay.
- Corporate governance.

We seek to address these issues through Pace's engagement with its investment managers and the application of specific exclusion lists for some mandates held by the DB section to restrict investment in companies identified as conflicting with the Trustee's aims under these issues; within the DC Section we consider these factors when assessing the funds that are made available to members and included in the default investment option.

We give our investment managers full discretion to evaluate ESG factors and engage with companies. We also encourage our investment managers to adopt best practices in these areas and to act in the best interests of Pace members. We recognise that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. We may, from time to time, raise specific ESG issues with investment managers and seek a response. In addition, we reserve the right to use more direct engagement with investee companies, including those issuing debt. In such situations this may include working with investment managers and other institutions to engage with companies, or contacting companies directly.

Investment managers are asked to report on the issue of responsible investment and we monitor how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship. This is documented at least annually. We consider how ESG and stewardship is integrated within investment processes in appointing new investment managers, and all existing managers are expected to have policies in these areas.

As a responsible investor, we exercise rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Details on how we have implemented these policies over the year are included in the Implementation Statement which is set out at Appendix 7.

Independent Auditor’s Report to the Trustee of The Co-operative Pension Scheme (Pace)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Co-operative Pension Scheme (Pace) (the “Scheme”):

- show a true and fair view of the financial transactions of the scheme for the year ended 5 April 2020 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 23.

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 Financial Reporting Council’s (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 Co-operative Pension Scheme (Pace) (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, 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 Co-operative Pension Scheme (Pace) (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 FRC'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
Statutory Auditor
Reading
United Kingdom

Date: 5 November 2020

Fund Account

for the year ended 5 April 2020

In plain English – what does this show?

The Fund Account shows all contributions, investment income and asset return received by the defined benefit sections (DBS) and defined contribution sections (DCS) of the Scheme, minus the benefits and expenses paid out during the year to 5 April 2020. The result is the Scheme's net asset position at the end of the reporting year.

		Year ended 5 April 2020			6 month period ended 5 April 2019		
		DBS	DCS	Total	DBS	DCS	Total
Contributions and Benefits	Note	£'000	£'000	£'000	£'000	£'000	£'000
Employer Contributions		-	112,475	112,475	12,500	42,356	54,856
Employee Contributions		-	4,056	4,056	-	1,844	1,844
Total Contributions	**3**	**-**	**116,531**	**116,531**	**12,500**	**44,200**	**56,700**
Transfers in	4	-	2,163	2,163	-	1,208	1,208
Other income	5	-	4,259	4,259	-	1,095	1,095
		-	**122,953**	**122,953**	**12,500**	**46,503**	**59,003**
Benefits paid or payable	6	(243,097)	(9,103)	(252,200)	(119,297)	(2,806)	(122,103)
Payments to and on account of leavers	7	(143,475)	(6,312)	(149,787)	(194,078)	(12,229)	(206,307)
Administrative expenses	8	(8,588)	(1,824)	(10,412)	(3,265)	(630)	(3,895)
Other payments	9	(163)	-	(163)	(166)	-	(166)
		(395,323)	**(17,239)**	**(412,562)**	**(316,806)**	**(15,665)**	**(332,471)**
Net (withdrawals)/additions from dealing with members		**(395,323)**	**105,714**	**(289,609)**	**(304,306)**	**30,838**	**(273,468)**
Returns on investment							
Investment income	10	312,569	-	312,569	127,166	-	127,166
Change in market value of investments	11	720,539	(33,439)	687,100	851,057	13,642	864,699
Investment management expenses	12	(13,808)	-	(13,808)	(7,762)	-	(7,762)
Net returns on investments		**1,019,300**	**(33,439)**	**985,861**	**970,461**	**13,642**	**984,103**
Net increase in the Scheme during the year		623,977	72,275	696,252	666,115	44,480	710,635
Transfers between sections		1,658	(1,658)	-	660	(660)	-
Net assets of the Scheme as at 6 April 19 / 6 October 18		**10,651,627**	**369,664**	**11,021,291**	**9,984,812**	**325,844**	**10,310,656**
Net assets of the Scheme as at 5 April		**11,277,262**	**440,281**	**11,717,543**	**10,651,627**	**369,664**	**11,021,291**

The notes on pages 51 to 84 form part of these financial statements.

Statement of Net Assets

(available for benefits) as at 5 April 2020

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 5 April 2020. 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.

		5 April 2020			**5 April 2019**		
	Note	**DBS** £'000	**DCS** £'000	**Total** £'000	**DBS** £'000	**DCS** £'000	**Total** £'000
Investment assets	11-15						
Bonds		8,451,021	-	8,451,021	9,990,365	-	9,990,365
Pooled investment vehicles		1,596,123	430,672	2,026,795	1,201,249	362,411	1,563,660
Derivatives		3,502,051	-	3,502,051	1,942,100	-	1,942,100
Properties		28,050	-	28,050	48,800	-	48,800
Alternative inflation linked		281,028	-	281,028	250,689	-	250,689
AVC investments		37,607	-	37,607	38,409	-	38,409
Cash deposits		99,964	-	99,964	16,299	-	16,299
Sales awaiting settlement		219,802	-	219,802	67	-	67
Dividend entitlement		57,407	-	57,407	69,482	-	69,482
Recoverable withholding tax		804	-	804	845	-	845
Insurance policies		2,038,141	-	2,038,141	113	-	113
Investment liabilities							
Derivatives		(3,128,977)	-	(3,128,977)	(1,514,404)	-	(1,514,404)
Repurchase agreements		(1,792,522)	-	(1,792,522)	(1,397,505)	-	(1,397,505)
Purchases awaiting settlement		(156,041)	-	(156,041)	(14,294)	-	(14,294)
Total net investments		11,234,458	430,672	11,665,130	10,632,215	362,411	10,994,626
Current assets	16	56,717	11,149	67,866	36,160	8,297	44,457
Current liabilities	17	(13,913)	(1,540)	(15,453)	(16,748)	(1,044)	(17,792)
Net assets of the Scheme		**11,277,262**	**440,281**	**11,717,543**	**10,651,627**	**369,664**	**11,021,291**

The notes on pages 51 to 84 form part of these financial statements.

Statement of Net Assets (continued)

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year. The Actuary deals with the actuarial position of the Scheme, which does take account of such obligations, which is dealt with in the Report on Actuarial Liabilities on pages 15 to 18 of the annual report and these financial statements should be read in conjunction with them.

The Trustee Directors approved these financial statements on 5 November 2020.

Signed for and on behalf of the Trustee Directors:

Bestrustees Limited, represented by Christopher Wheeler Trustee Director	Thomas 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 (2018). This is the first year of the adoption of the 2018 SORP. There were no transitional adjustments required to the Section as a result of adopting the 2018 SORP.

Due to the material significance of sectionalising the Pace Scheme, we agreed to extend the accounting period to a 18-month accounting period for the period 6 April 2017 to 5 October 2018, and then to prepare a 6-month accounting period set of accounts to revert back to a 5 April year-end to take into account the first actuarial valuation of the sectionalised Scheme. The prior period comparative in these accounts is from 6 October 2018 to 5 April 2019.

1.2 Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is Co-operative Group Limited, Pensions Department, Department 10406, 1 Angel Square, Manchester, M60 0AG.

3 Accounting policies

The principal accounting policies of the Scheme are as follows:

Contributions and benefits

Employee normal and additional contributions are accounted for when deducted from pay and in the period to which the corresponding pay relates. Employer normal contributions are accounted for on the same basis as employee contributions. Deficit funding and employer expense allowance contributions are accounted for in the period they are due.

Benefits are accounted for in the period in which the member notifies us 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

Transfers in or out (including the bulk transfer of sums to other Co-op schemes) 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.

Expenses

Expenses are accounted for on an accruals basis.

Investment income

Dividends from quoted securities are accounted for when due, with the addition of dividends outstanding as at 5 April 2020 on listed stocks which were then ex-dividend. Interest on deposits is accounted for on an accruals basis and accrued daily. Rents are earned in accordance with the terms of the lease and accounted for on an accruals basis.

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

Income arising from annuity policies held in our name as Trustee for the Section is accounted for on an accruals basis.

Foreign currencies

Translation of foreign income into sterling is at the exchange rate on the date of receipt. For the investments held in foreign currency, the translation into sterling 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 changes in market value of investments, together with realised gains and losses on forward contracts maturing during the year.

Basis of accounting for property investments

PGIM Limited and LaSalle Investment Management manage the Scheme's property portfolio.

Indirect

The Scheme holds investments in geared property vehicles with LaSalle Investment Management through joint arrangements which are accounted for by including the Scheme's share of the assets, liabilities and revenue, based on the latest information made up to dates not earlier than 31 March 2019.

Direct

The financial statements show all of the Scheme's assets and liabilities in respect of the property portfolio (bank account, debtors and creditors in connection with rental of the properties, and rental income) on an accruals basis.

This basis is in line with the other investments, providing clarity on all transactions relating to the Scheme's investment in property and reflects the substance of the arrangement.

The preparation of financial statements requires the Trustee to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from these estimates. A key source of estimation of uncertainty is in relation to the carrying amounts of assets in relation to the valuation of directly held property, particularly in light of the ongoing impact of COVID-19 pandemic as valuations are more subjective.

As a result of this pandemic, the Scheme property valuers have reported their valuation on the basis of 'material valuation uncertainty'. This declaration does not mean that the valuation cannot be relied upon, but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the valuation of the property than would normally be the case.

Valuation of investments

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

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

Property held with LaSalle is valued at open market value by Chartered Surveyors, Savills in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. Alternative inflation linked property held with PGIM is valued at open market value by CBRE Ltd in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.

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 revalued on a daily basis. The fair value is calculated using pricing models, where inputs are based on market data as of close of business the previous day. Interest is accrued on a basis consistent with the terms of each contract. The amounts included in 'change in market value' are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts. Net receipts or payments on swap contracts are reported within change in market value.

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 (repo) - 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 a payable amount. These agreements are valued on an amortised cost basis.

The fair value of annuities (excluding the buy-in) 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'.

The first valuation of the buy-in annuity policies has been performed by the Actuary using an approximate roll forward of the preliminary results of the 5 April 2019 actuarial valuation updated for market conditions as at 5 April 2020.

In future years, the Actuary will roll forward the data, in a similar manner to the above, from the latest actuarial valuation.

The buy-in annuity policies described above and a non-profit deferred annuity contract valued by the provider (Aviva PLC) using the gross premium method is recognised within the Net Asset Statement under ‘Insurance Policies’.

AVC investments are included at market value, as provided by the AVC provider.

3 Contributions

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

	DBS year ended 5 Apr 20 £000	**DCS year ended 5 Apr 20** £000	**Total year ended 5 Apr 20** £000
Employer			
normal	-	110,660	110,660
expense allowance	-	1,815	1,815
	-	**112,475**	**112,475**
Employee			
normal	-	1,791	1,791
additional voluntary contributions	-	2,265	2,265
	-	**4,056**	**4,056**
	-	**116,531**	**116,531**

	DBS 6 month period ended 5 Apr 19 £000	**DCS 6 month period ended 5 Apr 19** £000	**Total 6 month period ended 5 Apr 19** £000
Employer			
normal	-	41,501	41,501
deficit funding	12,500	-	12,500
expense allowance	-	855	855
	12,500	**42,356**	**54,856**
Employee			
normal	-	825	825
additional voluntary contributions	-	1,019	1,019
	-	**1,844**	**1,844**
	12,500	**44,200**	**56,700**

Salary sacrifice arrangements are in place and these contributions are included within employer normal contributions.

Further details on the Schedules of Contributions agreed for the 12 month period can be found on pages 13 to 17.

4 Transfers in

In plain English – what does this show?	This note shows the value of transfers in which have been transferred into the Scheme during the year.

	DBS year ended 5 Apr 20 £000	DCS year ended 5 Apr 20 £000	Total year ended 5 Apr 20 £000
Individual transfers in	-	2,163	2,163

	DBS 6 month period ended 5 Apr 19 £000	DCS 6 month period ended 5 Apr 19 £000	Total 6 month period ended 5 Apr 19 £000
Individual transfers in	-	1,208	1,208

5 Other income

In plain English – what does this show?	This note shows income received from Zurich Assurance Limited, the life insurance provider for the Scheme.

	DBS year ended 5 Apr 20 £000	DCS year ended 5 Apr 20 £000	Total year ended 5 Apr 20 £000
Life assurance claims	-	4,259	4,259

	DBS 6 month period ended 5 Apr 19 £000	DCS 6 month period ended 5 Apr 19 £000	Total 6 month period ended 5 Apr 19 £000
Life assurance claims	-	1,095	1,095

6 Benefits paid or payable

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

	DBS year ended 5 Apr 20 £000	DCS year ended 5 Apr 20 £000	Total year ended 5 Apr 20 £000
Pensions	211,079	-	211,079
Commutations and lump sum retirement benefits	31,238	4,352	35,590
Lump sum death benefits	736	4,414	5,150
Purchases of annuities	-	196	196
Tax charges	44	-	44
FlexiAccess Drawdown	-	141	141
	243,097	9,103	252,200

	DBS 6 month period ended 5 Apr 19 £000	DCS 6 month period ended 5 Apr 19 £000	Total 6 month period ended 5 Apr 19 £000
Pensions	104,360	-	104,360
Commutations and lump sum retirement benefits	14,305	1,270	15,575
Lump sum death benefits	528	1,406	1,934
Purchases of annuities	-	55	55
Tax charges	104	-	104
Flexible Access Drawdown	-	75	75
	119,297	**2,806**	**122,103**

7 Payments to and on account of leavers

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

	DBS year ended 5 Apr 20 £000	**DCS year ended 5 Apr 20** £000	**Total year ended 5 Apr 20** £000
Refunds of overpaid CEP	(1)	-	(1)
Individual transfers to other schemes	143,471	6,293	149,764
Refunds to members leaving service	5	-	5
Surrendered in/after service	-	19	19
	143,475	**6,312**	**149,787**

	DBS 6 month period ended 5 Apr 19 £000	**DCS 6 month period ended 5 Apr 19** £000	**Total 6 month period ended 5 Apr 19** £000
Refunds of overpaid CEP	(778)	-	(778)
Group transfers to other schemes	35,620	-	35,620
Individual transfers to other schemes	159,236	12,217	171,453
Refunds to members leaving service	-	12	12
	194,078	**12,229**	**206,307**

In the prior reporting period, on the 19 October 2018, Unity Trust Bank transferred its Co-op Section liabilities (less a deduction for its share of the Co-op Section's membership not previously allocated to an employer), to the new pension scheme designed to accept the transfer, the Unity Trust Bank Pension Scheme. Unity Trust Bank's defined benefit liability to the Co-op Section ceased on 19 October 2018.

8 Administrative expenses

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

	DBS year ended 5 Apr 20 £000	DCS year ended 5 Apr 20 £000	Total year ended 5 Apr 20 £000
Administration	4,557	153	4,710
Actuarial	898	-	898
Audit	162	-	162
Legal and other	2,971	69	3,040
Life assurance premiums	-	1,602	1,602
	8,588	**1,824**	**10,412**

	DBS 6 month period ended 5 Apr 19 £000	DCS 6 month period ended 5 Apr 19 £000	Total 6 month period ended 5 Apr 19 £000
Administration	2,173	(75)	2,098
Actuarial	383	-	383
Audit	116	-	116
Legal and other	593	38	631
Life assurance premiums	-	667	667
	3,265	**630**	**3,895**

9 Other payments

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

	DBS year ended 5 Apr 20 £000	DCS year ended 5 Apr 20 £000	Total year ended 5 Apr 20 £000
Pension levies	163	-	163

9 Other payments (continued)

	DBS 6 month period ended 5 Apr 19 £000	DCS 6 month period ended 5 Apr 19 £000	Total 6 month period ended 5 Apr 19 £000
Pension levies	166	-	166

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

10 Investment Income

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

DBS	Total year ended 5 Apr 20 £000	Total 6 month period ended 5 Apr 19 £000
Income from bonds	248,401	116,058
Dividends from equities	136	-
Income from pooled investment vehicles	28,068	9,831
Rents from properties	12,643	5,368
Interest on cash deposits	3,214	820
Foreign exchange (loss)/gain	825	(7,060)
Income from collateral	1	(39)
Annuity income*	16,858	1,615
Irrecoverable withholding tax	(133)	(4)
Income from security lending	507	-
Other	2,049	577
	312,569	**127,166**

Investment income shown above reflects income earned by investments within the DB Sections. All income received on pooled investment vehicles (excluding property) is re-invested and is included in the change in market value. All income earned on pooled investment units held by the DC Section is accounted for within the value of those funds.

*The Trustee entered into a buy-in annuity policy for the Coop section with Aviva on 28 January 2020 and with Pension Insurance Corporation plc (PIC) on 11 February 2020. During the year, £14m was received in total from Aviva and PIC to cover two months of pension paid for the buy-in population.

11 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.

		6 April 2019	**Purchases at cost and derivative payments**	**Sales proceeds and derivative receipts**	**Change in market value**	**5 April 2020**
DB Assets	Note	£000	£000	£000	£000	£000
Bonds		9,990,365	6,668,435	(9,028,285)	820,506	8,451,021
Pooled investment vehicles	11.1	1,201,249	4,468,884	(4,014,579)	(59,431)	1,596,123
Net derivative contracts	11.2					
-Swaps		431,546	159,406	(227,390)	29,233	392,795
-Futures		(38)	3,354	(1,983)	(1,194)	139
-Foreign exchange		(3,812)	121,530	(86,501)	(51,077)	(19,860)
Properties		48,800	1,672	(20,658)	(1,764)	28,050
Alternative inflation linked		250,689	27,406	-	2,933	281,028
AVC investments	11.3	38,409	2,289	(4,313)	1,222	37,607
Insurance policies	11.4	113	2,046,282	-	(8,254)	2,038,141
		11,957,321	**11,758,039**	**(11,642,490)**	**732,174**	**12,805,044**
Repurchase agreements		(1,397,505)			(11,635)	(1,792,522)
Cash deposits		16,299				99,964
Dividend entitlement		69,482				57,407
Sales awaiting settlement		67				219,802
Recoverable withholding tax		845				804
Purchases awaiting settlement		(14,294)				(156,041)
TOTAL DB ASSETS		**10,632,215**			**720,539**	**11,234,458**

DC Assets		£000	£000	£000	£000	£000
Pooled investment vehicles	11.1	362,411	112,495	(10,795)	(33,439)	430,672
TOTAL DC ASSETS		**362,411**	**112,495**	**(10,795)**	**(33,439)**	**430,672**

During the year, £2.0bn of assets (consisting of £1.7m bonds and £0.3bn cash) was transferred to purchase Buy-in Annuity Policies with Aviva and Pensions Insurance Corporation PLC.

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.

The assets held by the Sections as at 5 April 2020 are set out below.

	DBS 5 Apr 20 Total £000	**DCS 5 Apr 20 Total** £000
Co-op Section	9,167,134	372,194
Bank Section	2,097,611	58,478
	11,264,745	**430,672**

	DBS 5 Apr 19 Total £000	**DCS 5 Apr 19 Total** £000
Co-op Section	8,651,891	309,601
Bank Section	1,980,324	52,810
	10,632,215	**362,411**

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.

Transaction costs

Included within the DB Section purchases and sales figures are direct transaction costs of £0.4m (2019: £4.2m) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	Fees £000	**Commission** £000	**Stamp Duty** £000	**Total 2020** £000	**Total 2019** £000
Property	280	-	146	426	4,195
Cash instruments	-	3	-	3	1
For the year ended 5 Apr 2020	**280**	**3**	**146**	**429**	**-**
For the 6 month period ended 5 Apr 2019*	**67**	**1**	**4,128**	**-**	**4,196**

*represents transaction costs for the 6 month period 6 October 2018 to 5 April 2019

Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

For the DC section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. Legal & General holds the investment units on a pooled basis on our behalf. Legal & General allocates investment units to members. We may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

DC assets are allocated to members and the Trustee as follows:

	Total 5 Apr 20 £000	**Total 5 Apr 19** £000
Members	439,774	369,159
Trustee	507	505
	440,281	**369,664**

11.1 Pooled investment vehicles

DBS	**Total 5 Apr 20** £000	**Total 5 Apr 19** £000
Illiquid credit funds	832,808	868,886
Cash funds	689,400	238,760
Alternative funds	73,329	92,849
Property	586	684
Hedge funds	-	70
	1,596,123	**1,201,249**

DCS	**Total 5 Apr 20** £000	**Total 5 Apr 19** £000
Diversified Growth	391,773	336,097
Cash	33,949	22,438
Equity	4,344	3,474
Bonds	606	402
	430,672	**362,411**

Sole investor pooled arrangements

The Co-op DB Section is the sole investor in the Insight Illiquid Credit Fund. A summary of the pooled arrangement’s assets and liabilities at 5 April 2020 are set out below:

DBS	**Total 5 Apr 20** £000	**Total 5 Apr 19** £000
Fixed income	287,399	295,886
Liquidity	22,059	25,963
	309,458	**321,849**

Derivative contracts - Objectives and policies

We have authorised the use of derivatives by investment managers to manage risk within the investment strategy.

The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Swaps – Our aim is to match, as far as possible, the liability matching portfolio and the Scheme's long-term liabilities, in particular in relation to sensitivity to interest rate and inflation movements. For capital efficiency, we have entered into derivative agreements (interest rate and inflation-linked swap contracts and gilt total return swaps) that enable the liability matching portfolio to better match the long-term liabilities of the Scheme. Total return swaps allow exposure to index-linked and conventional gilts to match the long-term liabilities of the Scheme in a capital efficient manner.

Futures – Futures are used to manage interest rate risk and gain synthetic bond exposure. Bond futures 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.

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 investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, we operate a policy of hedging a portion of non-sterling currency exposure in the fixed income portfolio to reduce the currency exposure of the overseas investments to the targeted level.

At the year-end, the Scheme had the following derivatives:

11.2 Derivatives

DBS		**Assets 5 Apr 20** £000	**Liabilities 5 Apr 20** £000	**Assets 5 Apr 19** £000	**Liabilities 5 Apr 19** £000
OTC swaps	(i)	3,481,940	(3,089,145)	1,938,140	(1,506,594)
Futures	(ii)	1,797	(1,658)	32	(70)
Forward FX contracts	(iii)	18,314	(38,174)	3,928	(7,740)
Total		**3,502,051**	**(3,128,977)**	**1,942,100**	**(1,514,404)**

i. Swaps

Nature Duration	Nominal Amount £000	Asset value at year-end £000	Liability value at year-end £000
Inflation rate			
2020	60,632	3,375	(2,783)
2021-2030	1,509,719	1,740	(108,848)
2031-2040	347,032	21,978	(123,839)
2041-2050	130,642	152,469	(143,977)
2051-2065	62,541	203,075	(205,358)
		382,637	**(584,805)**
Interest rate			
2020	506,204	2,057	(52,380)
2021-2030	804,758	309,123	(338,177)
2031-2040	294,257	856,605	(525,900)
2041-2050	447,215	1,170,192	(1,280,211)
2051-2065	49,075	431,094	(307,672)
		2,769,071	**(2,504,340)**
Total return			
2020	805,579	219,251	-
2021-2030	565,197	95,131	-
2051-2065	132,066	15,850	-
		330,232	-
Total 5 April 2020		**3,481,940**	**(3,089,145)**
Total 5 April 2019		1,938,140	(1,506,594)

In relation to the swap contracts above, the fund and counterparties have deposited a total of £192m and £653m (2019: £127m and £609m) of bonds and cash as collateral at the year-end respectively. This collateral is not reported within the Scheme's net assets.

ii. Futures

Nature	Notional Amount long/(short) position	Expiration	Asset value at year-end £000	Liability value at year-end £000
LONG GILT FUTURE (ICF)	375	< 1 year	1,018	-
US TREAS BD FUTURE (CBT)	2	< 1 year	79	(19)
US ULTRA BOND (CBT)	(75)	< 1 year	-	(1,582)
US 10YRTREAS FUTURE(CBT)	(9)	< 1 year	69	(5)
US 10YR ULTRA FUTURE (CBT)	104	< 1 year	631	(51)
US 5YR NOTE FUTURE (CBT)	(5)	< 1 year	-	(1)
Total 5 April 2020			**1,797**	**(1,658)**
Total 5 April 2019			32	(70)

Included within cash balances is £1.28m (2019: £112k) in respect of initial and variation margins arising on open futures contracts at the year-end.

iii. Forward Foreign Exchange (FX)

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

Nature	Settlement date	Currency bought	Currency	Currency sold	Currency	Asset value at 5 April 20 £000	Liability value at 5 April 20 £000
Forward FX	<2months	19,079	EUR	(19,919)	GBP	-	(840)
Forward FX	<2months	185,008	GBP	(182,283)	EUR	4,748	(2,023)
Forward FX	<2months	527,296	GBP	(553,845)	USD	995	(27,544)
Forward FX	<2months	211,948	USD	(206,753)	GBP	8,186	(2,989)
Forward FX	>2months	173,915	GBP	(173,530)	USD	4,297	(3,912)
Forward FX	>2months	24,022	USD	(24,799)	GBP	88	(866)
Total 5 April 2020		**1,141,268**		**(1,161,129)**		**18,314**	**(38,174)**
Total 5 April 2019		1,419,442		(1,423,255)		3,928	(7,740)

11.3 AVC investments

DBS	Total 5 Apr 20 £000	Total 5 Apr 19 £000
Royal London (CIS) Ltd	25,790	26,553
Legal & General	11,791	11,832
Prudential	20	18
Aviva	3	3
Utmost (formerly Equitable Life)	3	3
	37,607	**38,409**

Contributions to Additional Voluntary Contribution investments made by both DBS and DCS members are invested separately from the main investments in the Scheme on a money purchase basis with Legal & General. As Legal & General does not distinguish between investments held for DBS and DCS members, all Legal & General AVCs are reported as DBS assets.

Royal London (CIS) Ltd provided AVCs for DB members up to October 2015, when the DB Section closed. It is no longer possible for any further contributions to be made to Royal London since the DB Section closed. Prudential, Legal & General, Aviva and Equitable Life also provide AVCs for members who have transferred into the Scheme from other Co-op pension schemes.

11.4 Insurance policies

DBS	Total 5 April 20 £000	Total 5 April 19 £000
Aviva (Formerly Norwich Union)	141	113
Aviva	1,023,000	-
PIC (Pension Insurance Company)	1,015,000	-
	2,038,141	**113**

The Aviva (formerly Norwich Union) policies relate to deferred annuity contracts for former GT Smith Ltd employees.

During the year, the Trustee instructed the transfer of £2.0bn (consisting of £1.7bn bonds and £0.3bn cash) from the Co-op Section's LDI and buy and maintain credit portfolios to purchase Buy-in Annuity Policies with Aviva and Pension Insurance Corporation PLC in relation to some of the Scheme's pensioner liabilities.

11.5 Concentration of investments

The following investments represented more than 5% of the net assets of the Scheme:

		2020		2019	
		Market value £000	**Net assets %**	**Market value £000**	**Net assets %**
Aviva	Insurance policy	1,023,000	8.7%	-	-
PIC	Insurance policy	1,015,000	8.7%	-	-

The insurance policies above match the pension payments due to some of the members of the Co-op Section. The insurance policies are part of the Trustee's investments and will provide improved security for all members as they remove the risk of there being insufficient assets to meet those future liabilities.

12 Investment management expenses

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

DBS	Total Year ended 5 Apr 20 £000	Total 6 month period ended 5 Apr 19 £000
Investment management fees	10,538	5,981
Property expenses	1,425	1,031
Custody fees	551	308
Other advisory fees	1,243	369
Performance measurement services	44	18
Other investment expenses	7	55
	13,808	**7,762**

13 Taxation

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge in the Fund Account (see note 10) represents irrecoverable withholding taxes arising on investment income.

14 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 5 April 2020	Held at cost not FV £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section					
Bonds	-	-	7,770,551	680,470	8,451,021
Pooled investment vehicles	-	-	921,423	674,700	1,596,123
Swaps	-	-	392,795	-	392,795
Futures	-	139	-	-	139
Foreign exchange	-	-	(19,860)	-	(19,860)
Properties	-	-	-	28,050	28,050
Alternative inflation linked	-	-	-	281,028	281,028
AVC investments	-	-	37,587	20	37,607
Insurance polices	-	-	-	2,038,141	2,038,141
Repurchase agreements	(1,792,522)	-	-	-	(1,792,522)
Cash deposits	-	99,964	-	-	99,964
Dividend entitlement	-	57,407	-	-	57,407
Sales awaiting settlement	-	219,802	-	-	219,802
Recoverable tax	-	804	-	-	804
Purchases awaiting settlement	-	(156,041)	-	-	(156,041)
	(1,792,522)	**222,075**	**9,102,496**	**3,702,409**	**11,234,458**
DC Section					
Pooled investment vehicles	-	-	430,672	-	430,672
TOTAL	**(1,792,522)**	**252,362**	**9,533,168**	**3,702,409**	**11,665,130**

At 5 April 2019	Held at cost not FV £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section					
Bonds	-	-	9,395,773	594,592	9,990,365
Pooled investment vehicles	-	-	485,404	715,845	1,201,249
Swaps	-	-	431,546	-	431,546
Futures	-	(38)	-	-	(38)
Foreign exchange	-	-	(3,812)	-	(3,812)
Properties	-	-	-	48,800	48,800
Alternative inflation linked	-	-	-	250,689	250,689
AVC investments	-	-	38,391	18	38,409
Insurance policy	-	-	-	113	113
Repurchase agreements	(1,397,505)	-	-	-	(1,397,505)
Cash deposits	-	16,299	-	-	16,299
Dividend entitlement	-	69,482	-	-	69,482
Sales awaiting settlement	-	67	-	-	67
Recoverable tax	-	845	-	-	845
Purchases awaiting settlement	-	(14,294)	-	-	(14,294)
	(1,397,505)	**72,361**	**10,347,302**	**1,610,057**	**10,632,215**
DC Section					
Pooled investment vehicles	-	-	362,411	-	362,411
TOTAL	**(1,397,505)**	**72,361**	**10,709,713**	**1,610,057**	**10,994,626**

15 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 increases or decreases 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, inflation or currencies).

15.1 Defined Benefit Section

Other Defined Benefit 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.

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

- "**Custody risk":** The risk that the Scheme's assets are not held safely.

- "**Sponsor risk**": The risk that the Scheme's sponsors cannot afford to pay money into the Scheme if needed.

- "**Leverage risk**": The risk that the Scheme's liability matching investments fall in value, and additional cash is required.

- **"Hedging related risks"**: The risk that investments made by the Scheme to "match" its liabilities are not a good fit and do not behave in the same way as those liabilities.

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

- **Environmental, social and governance ("ESG") risk (including climate change)** – The risk that the Scheme's investment returns and/or reputation are damaged due to the failure to implement and adhere to its responsible investment policy.

15.1.1 Defined Benefit 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 34 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.

The emergence of a new coronavirus, COVID-19, in early 2020 has caused widespread disruption to economic activity which has been reflected in investment performance during the year, and valuations at the year end. In conjunction with our investment adviser, we are monitoring the situation and considering the effects on the operation and financial position of the Scheme.

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 AVC investments, because these are considered immaterial compared to the overall investments of the Scheme. Where the term 'invested assets' is used below, it includes the value of the annuity policies entered into by the Co-op Section in January and February 2020.

15.1.2 Defined Benefit Investment Risk Management

We invest in one pooled investment vehicle where we have control over the investment mandate. The risks related with this pooled investment vehicle are considered as if the investments were held directly.

(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 holds 'buy-in' bulk annuity policies with Pension Insurance Corporation ("PIC") and Aviva;
- 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 the pooled investment vehicles and from the tenants of directly held properties.

Credit risk – Insurance policies:

The Scheme is subject to credit risk arising from its investment in two buy-in policies with Aviva and PIC, which were purchased in January and February 2020 respectively. This risk is, however, mitigated by the fact that Aviva and PIC are regulated by the Financial Conduct Authority and in the event of insurer default, the benefits secured by the buy-in will be protected 100% by the Financial Services Compensation Scheme ("FSCS"). As at 5 April 2020, the value attributed to the buy-in policies was approximately £2,038m. (2019: £nil)

Credit risk – UK government and investment grade bonds:

We look to limit the credit risk the Scheme is exposed to through its bond holdings by diversifying holdings across a number of investment managers, ensuring that the majority of the bonds held by BlackRock, Insight, Legal and General (LGIM), Royal London Asset Management (RLAM) and 24AM 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 11).

The Scheme's investment managers are also allowed to invest in corporate bonds and similar investments which are not rated as investment grade. These investments are held at the investment managers' discretion and are subject to limits. BlackRock, Insight and 24AM are not permitted to purchase bonds which are sub-investment grade, however if a bond becomes rated sub-investment grade, Insight are allowed to hold up to 10% of Net Asset Value (NAV) exposure in sub investment grade bonds and BlackRock can hold up to 2%. 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.

At the year end a total of 0.4% of the Scheme's invested assets were rated sub-investment grade (0.4% and 0.4% of the Co-op and Bank Sections respectively). Note that this excludes the illiquid credit holdings which are set out separately below. (2019: 0.3% the Co-op Section and 0.4% of the Bank Section).

Credit risk – less liquid credit

As with the corporate bond allocations, the illiquid credit holdings, are held at the respective investment managers' discretion and are subject to the guidelines and restrictions set by each manager.

We hold some illiquid credit investments with Insight (2.8% of the total Scheme assets; 3.5% of total assets for the Co-op Section), where we are the sole investor and therefore have control over the investment mandate (see note 11). As part of the mandate, Insight are not permitted to hold more than 15% of sub-investment grade assets rated BB+ or below (and not more than 5% of B+ rated holdings or below). They also have restrictions on holding no more than 20% of bonds in emerging market bonds.

Credit risk - derivatives:

Credit risk arises on derivative contracts, which are not guaranteed by any regulated exchange, and which are therefore subject to risk of failure of the counterparty. The level of credit risk for derivative contracts is reduced by using collateral arrangements (see note 11.2 (i)). Credit risk can also arise on forward foreign currency contracts (see note 11.2 (iii)). There are no collateral arrangements for these contracts but, when used, all counterparties are required to be at least investment grade.

The Scheme's overseas bond holdings with LGIM, Insight and 24AM are exposed to credit risk on the currency hedging derivatives held by the manager (and, in the case of LGIM and Insight, interest rate derivatives), while the less liquid credit holdings with ICG, M&G and Insight are also exposed to credit risk on the currency hedging derivatives held by the managers. These risks are mitigated by the managers using a range of counterparties, undertaking on-going monitoring of counterparty creditworthiness and requiring all counterparties to maintain minimum credit ratings.

The Mercer alternatives fund is also exposed to credit risk in relation to currency hedging contracts that are used to hedge the bulk of its overseas currency exposure. This credit risk is mitigated by renewing and settling the cumulative profit or loss on these contracts at least once every two months and by Mercer undertaking on-going monitoring of counterparty creditworthiness and requiring the sole counterparty to maintain an investment grade credit rating.

Credit risk – cash:

Cash is currently held within financial institutions which are at least investment grade credit rated. We have appointed a banking services provider with an investment grade credit rating at year end, the total cash held is 0.4% and 0.5% of the Co-op and Bank Sections' total net assets respectively (2019: 0.3% the Co-op Section and 0.4% of the Bank Section).

The breakdown of the cash for the two sections are shown below:

	5 April 2020			5 April 2019
Cash Balances	Co-op Section £000	Bank Section £000	Consolidated £000	Consolidated £000
Held with Trustee bank account	36,213	10,084	46,297	28,600
Held with AVC bank account	967	217	1,184	1,369
Total	**37,180**	**10,301**	**47,481**	**29,969**

Credit risk – stock lending:

The Scheme can lend certain equity securities under a Trustee-approved stock lending programme. We managed the credit risk arising from stock lending activities by restricting the amount of overall stock that could be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements and an indemnification from the lending agent. At the year end, the Scheme had lent £836m (2019: £nil) of UK quoted securities (£835m for the Co-op section and £1m for the Bank Section), and £2m (2019: £nil) of non-UK quoted securities (all from the Co-op Section).

Credit risk – repurchase agreements and swaps:

Credit risk on repurchase agreements and swaps are mitigated through collateral arrangements. At the year end, the Scheme held £653 million in collateral posted by its counterparties, of which £508 million was held by the Co-op Section and £145 million by the Bank Section (2019: £494 million for Co-op Section and £115m for the Bank Section).

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 11.1.

The Scheme’s investments in PIVs and bonds are rated investment grade or are unrated. Direct credit risk arising from bonds and PIV 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.

At the year end a total of 15.9% and 7.5% of the Co-op and Bank Sections’ invested assets were held in pooled investment vehicles respectively (including those investments in which we have control over the investment mandates, and where the risks set out in this note have been assessed as if the investments were held directly) (2019: 13.2% for the Co-op Section and 3.0% for the Bank Section).

Credit risk – custody:

We have appointed a global custodian for the safe-keeping 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. In addition, cash balances held by the custodian are transferred to a ring-fenced fund each night to reduce the risk of losses occurring should the custodian become un-creditworthy overnight.

In addition, the investment managers for the PIVs appoint their own custodians to ensure the safe-keeping of the assets within their mandates.

Indirect credit risk:

Indirect credit risk arises in relation to underlying investments held in the bond and alternatives pooled investment vehicles as well as property pooled investment vehicles that the Scheme invests in (totalling 6.4% of assets for the Co-op Section and 0.8% of assets for the Bank Section at year end, excluding the Insight illiquid credit holdings where this is set out above; 2019: 7.2% for Co-op section and 0.9% for the Bank Section). For example, if the Scheme 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 our investment managers diversify their investments over a number of companies and investments, to minimise the impact of a default on any individual investment.

Indirect credit risk arises from the tenants of directly held properties (see note 11). We do not consider that this risk is material due to the underlying value of the direct properties and letting terms in place with tenants, however, this credit risk is mitigated by the relevant investment managers monitoring tenant credit worthiness and by diversification of type of tenant by location and industry.

(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 falls in sterling terms, we operate a policy of hedging a portion of non-Sterling currency exposure as appropriate, and where we judge this risk to be material. The management of currency risk is delegated to the appointed managers and is managed within each manager's overall risk framework.

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

	5 April 2020			5 April 2019
Currency	Co-op-Section £000	Bank Section £000	Consolidated £000	Total £000
US Dollar	10,245	4,083	14,329	6,530
Euro	(2,201)	(480)	(2,681)	728
Japanese Yen	-	-	-	-
Other	25	29	54	286
Net oversea exposure	**8,069**	**3,633**	**11,702**	**7,544**

(iii) Interest rate and inflation risk

The Scheme is subject to interest rate and inflation risk on its investments in bonds and financial derivatives, and also through its liabilities. 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 currently manages these risks through investments in a segregated LDI portfolio managed by BlackRock and long-dated corporate bond portfolios managed by Insight, LGIM and RLAM. These portfolios hold gilts, corporate bonds, derivatives and cash collateral. We monitor the level of assets available within the BlackRock LDI portfolio for use as collateral and operate a framework to ensure that if gilt yields rise then additional cash can be provided in a timely manner, should it be required.

The bulk annuity policies purchased in early 2020 by the Co-op Section also provide interest rate and inflation protection in relation to the liabilities they match.

We have set a benchmark for total investment in LDI and corporate bonds of 79.5% of the total investment portfolio for the Coop Section excluding the buy-in policies (c61% including the buy-in portfolio), and 97% for the Bank Section. Under this strategy, if interest rates fall, the value of LDI and bond 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 and bond investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. These long-term liabilities in respect of benefits due to members are not included in the Report and Accounts but are assessed at least every three years by the Scheme Actuary.

The impact of a change in interest rates of +0.01% has on the Scheme's assets and liabilities are shown below:

Change in expected interest rate of +0.01%	As at 31 March 2020 Co-op Section £m	As at 31 March 2020 Bank Section £m	As at 31 March 2020 Consolidated £m	As at 31 March 2019 Total Scheme £m
Assets	-17.1	-4.9	-22.0	-25.6
Uninsured Liabilities	-18.6	-4.8	-23.4	-26.7

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.

The impact of a change in inflation of +0.01% has on the Scheme's assets and liabilities are shown below:

Change in expected inflation of +0.01%	As at 31 March 2020 Co-op Section £m	As at 31 March 2020 Bank Section £m	As at 31 March 2020 Consolidated £m	As at 31 March 2019 Total Scheme £m
Assets	+9.8	+2.8	+12.6	+15.8
Liabilities	+10.4	+2.6	+13.0	+16.6

The assets and liabilities are both shown as less sensitive to changes in interest rates and inflation at the 2020 year-end compared to 2019 as a result of the bulk annuity transactions undertaken by the Co-op Section.

At the year end the LDI portfolio and bonds represented 60.7% of the total investment portfolio for the Co-op Section, including the buy-in; and 95.7% for the Bank Section (5 April 2019: 81.0% for the Co-op Section and 94.9% for the Bank Section).

(iv) Other price risk

The Co-op Section of the Scheme is also exposed to "other price risk", largely because of its investments in return seeking assets (which included over the year investment properties and alternative investments held in a pooled vehicle). Alternative investments include such asset classes as hedge funds, private equity and insurance linked assets. Over the year, we also invested holdings in Illiquid Credit which covers less standard and liquid areas of the credit market. To spread this risk, the Scheme invests across multiple illiquid credit managers, each of which has diversified holdings by issuer and asset class.

The Co-op Section manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets (specifically illiquid credit and alternative inflation linked property). The Co-op Section is also in the process of winding down its property holdings with LaSalle as well as its alternative assets with Mercer.

At the year end, the Co-op Section's exposures to investments subject to other price risk was 0.7%, 9.1% and 3.4% of the Section's total investment portfolio, covering alternative assets, illiquid credit and property respectively (2019: 0.9%, 10.0% and 3.5% in alternative assets, illiquid credit and property).

The Bank Section is also exposed to "other price risk", largely because of its investments in return seeking assets (which included over the year, investments in alternative investments held in a pooled vehicle), although this is lower given the differing strategy. At the year end, the Bank Section's exposure to investments subject to other price risk was 0.6%, covering alternative assets only (2019: 0.9%).

(vi) Other Defined Benefit risks

Other Defined Benefit investment risks are managed as outlined below:

- **Solvency risk and mismatching risk** – this is managed by setting appropriate investment objectives as part of our actuarial valuation every three years. Mismatching risk is also largely addressed through investing in liability matching assets. The buy-in policies held by the Co-op Section are expected to match the liabilities of the pensioner members insured in January and February 2020.

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

  While the buy-in policies held by the Co-op Section can only be liquidated by the Trustee in specific and limited pre-defined circumstances, they are designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

- **Custody risk** – this is managed by the safe custody of the assets and 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 and the Bank 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 in which we invest.

- **Hedging related risk** - the management of these risks is delegated to the Scheme's liability driven investment manager; we also review liability hedging risks each quarter as part of monitoring the manager.

- **Environmental, social and governance ("ESG") risk (including climate change)** – the Trustee considers Pace's Responsible Investment Policy when implementing its investment strategy, and reports on this annually. It also reviews the policy each year to make sure it remains appropriate. We also engage with investment managers, and where appropriate and viable, exclude specific investments from the Scheme's portfolios to comply with the policy.

15.2 Defined Contribution Section

Other Defined Contribution Risks:

As well as considering the risks that apply to the underlying funds, summarised in note 15 above, we consider the following investment related risks:

- Purchasing power risk
- Conversion risk
- Manager risk
- Lack of diversification risk
- ESG risk

15.2.1 Defined Contribution investment strategy

Our objective is to make available to members of the Scheme, an appropriate range of investment options designed to generate income and capital growth, which together with contributions from members and their employer, will provide a retirement amount which the member can use for the provision of retirement income; either by taking their defined contribution account as cash, using it to purchase a pension annuity (or other type of retirement product) or transferring it out of the Scheme to provide alternative retirement benefits.

We have an insurance policy with Legal & General. The value of the policy is linked to the value of the underlying assets or pooled funds in which we choose to invest. The day to day management of the underlying investments of the funds is the responsibility of Legal & General, including the direct management of credit and market risks.

We have determined the defined contribution investment strategy, after taking professional investment advice and following consultation with the Sponsor. We provided three Target investment options for members which are designed to be an appropriate match for the different retirement options a member can take.

The default option is Target: Lump Sum, which has been selected as appropriate for members who want to take their account as a one-off cash sum on retirement. As a member approaches retirement, the funds are steadily moved into lower risk funds. These funds may not grow so quickly but are less likely to have large falls in value in the short term.

The other options available to members are Target: Secure Income and Target: Flexible Income.

Target: Secure Income is designed to be an appropriate match for members who want to use their account to buy a pension (annuity) at retirement.

Target: Flexible Income is designed to be an appropriate match for members who want to leave their account invested after retirement, taking sums of money from it (drawdown) over time. Drawdown is not currently offered through the Scheme so members will need to transfer their account to another arrangement at retirement to take advantage of it.

Although the Target funds have been designed to be a good match for the different retirement options a member can take, they do not guarantee a particular outcome at retirement. Members are advised to consider taking independent financial advice if they are unsure as to what investment fund is right for them.

Members who would rather make their own investment decisions can select from the following range of funds:

- Pace Growth (Shares) Fund
- Pace Growth (Ethical Shares) Fund
- Pace Growth (Mixed) Fund
- Pace Pre-retirement (Inflation-linked) Fund
- Pace Pre-retirement Fund
- Pace Cash Fund

The three Target options invest in the following Funds over a member's working life:

- Target: Lump Sum - Pace Growth (Shares) Fund and Pace Cash Fund
- Target: Secure Income - Pace Growth (Shares) Fund, Pace Pre-retirement Fund and Pace Cash Fund
- Target: Flexible Income: Pace Growth (Shares) Fund and Pace Cash Fund

15.2.2 Defined Contribution Investment Risk Management

Member level exposure to the risks outlined in Section 14 will be dependent on the funds invested in by members. The funds which have significant exposure to these risks are set out below:

	Credit risk	Interest rate risk	Inflation risk	Currency risk	Other price risk	Asset Value 5 April 2020 £000
Pace Growth (Shares) Fund	YES	-	-	YES	YES	2,740
Pace Growth (Ethical shares) Fund	YES	-	-	YES	YES	1,604
Pace Growth (Mixed) Fund	YES	YES	YES	YES	YES	391,773
Pace Pre-retirement (inflation-linked) Fund	YES	YES	YES	-	YES	133
Pace Pre-retirement Fund	YES	YES	-	-	YES	473
Pace Cash Fund	YES	YES	-	-	-	33,949

(i) Credit risk

Credit risk – Insurer:
The Defined Contribution Section (DC Section) is subject to direct credit risk in relation to the Scheme's holding in unit-linked funds provided by Legal & General. Legal & General is regulated by the Financial Conduct Authority and they maintain separate funds for policyholders. We monitor the creditworthiness of Legal & General by reviewing published credit ratings. Legal & General invests all the Scheme's funds in its own investment funds, reinsured to Legal & General Assurance (Pension Management) Ltd funds, and it does not use other externally managed investment funds or reinsurance arrangements.

Credit risk – cash:
Cash is currently held within financial institutions which are at least investment grade credit rated. Over the reporting year, cash balances were held in a bank with an investment grade credit rating. The cash balance at year end was £8.6 million (£8.6 million for the Co-op Section and £50k for the Bank Section) (2019: £1.4 million in total).

Indirect credit risk:
The DC Section is also subject to indirect credit risk arising from the underlying investments held in the funds. Indirect credit risk is mitigated by the spread of assets held in the funds, which provides diversification. Within the Pre-retirement Funds, indirect credit risk is also mitigated by the funds only holding government bonds or investment grade corporate bonds. The Cash Fund invests in short-term money markets such as bank deposits or Treasury Bills. All investments are held with institutions with investment grade credit ratings.

In addition, the DC Section is subject to indirect credit risk arising from the custodians appointed by the fund provider for the safe-keeping of assets. The selection and assessment of the on-going appropriateness of the custodians is delegated to the fund provider and the indirect credit risk is addressed through the fund provider's monitoring of the custodian's activities and creditworthiness.

(ii) Indirect Currency risk

The DC Section is subject to currency risk because some of the funds invest in investments denominated in overseas currencies. The Growth (Shares) Fund mitigates this risk by currency hedging 75% of the overseas assets (excluding emerging markets) to Sterling. The Growth (Mixed) Fund mitigates currency risk through the overall risk framework of the Fund. The Growth (Ethical Shares) Fund does not hedge overseas currency risk.

(iii) Indirect Interest rate risk

The Pre-retirement Fund and Pre-retirement (inflation-linked) Funds are subject to indirect interest rate risk. This risk is mitigated through the construction of the Funds, which are designed to change in value when interest rates change in a similar way to how the price of buying a retirement income changes.

The Cash Fund is also subject to indirect interest rate risk. The Fund aims to provide capital protection and provide a return in line with short term interest rates. The value of the assets would only fall should the interest earned by the Fund's assets be insufficient to cover the Fund management charge and any additional Fund expenses.

(iv) Indirect Inflation risk

The Pre-retirement (inflation-linked) and Growth (Mixed) Funds are subject to indirect inflation risk as they invest in assets that are affected by changes in inflation expectations.

This inflation risk associated with the Pre-retirement (inflation-linked) Fund is mitigated through the construction of the Fund, which is designed to change in value when inflation expectations change in a similar way to how the price of buying an inflation-linked retirement income changes. For example, if inflation expectations increase, the value of the Fund will rise in a similar, but not exact, amount to the cost of buying an inflation-linked retirement income. Similarly, if inflation expectations fall, the value of the Fund will fall in value in a similar, but not exact, amount as the cost of buying an inflation-linked retirement income.

The inflation risk of the Growth (Mixed) Fund is considered by the Fund provider as part of the overall risk and return framework in place.

(v) Other price risk

Other price risk arises principally in relation to the Growth Funds and the Pre-retirement Funds. Other price risk in these Funds is mitigated through the diversification of assets within the Funds.

(vi) Other Defined Contribution investment risks

- **Purchasing power risk** - The purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, we have made available three Growth Funds, should members wish to select their own investment options.

- **Conversion risk** - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, we have made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.

- **Manager risk** - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by us.

- **Lack of diversification risk** – we recognise the risks that may arise from a lack of diversification within the investments. We therefore invest in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

- **ESG risk (including climate change)** – the Trustee considers Pace's Responsible Investment Policy when implementing its investment strategy for the DC Section. In 2019 the strategy for the Pace Growth (Mixed) Fund, which is used in the default option, was reviewed and in June 2019 the underlying holdings were switched into a multi-asset fund which explicitly considers ESG factors when determining how much to invest in companies' shares and bonds, as the Trustee believed this strategy was better aligned with the Responsible Investment Policy and would reduce ESG risk to members.

16 Current assets

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

	DBS **5 Apr 20** £000	**DCS** **5 Apr 20** £000	**Total** **5 Apr 20** £000
Contributions due:*			
Employer's normal contributions	-	1,065	1,065
Employer's expense allowance contributions	-	135	135
Members' AVCs	-	160	160
Cash balances	47,481	8,651	56,132
Payroll paid in advance	5,332	-	5,332
Tax debtor	55	5	60
Other debtors	3,849	1,133	4,982
	56,717	**11,149**	**67,866**

16 Current assets (continued)

	DBS 5 Apr 19 £000	DCS 5 Apr 19 £000	Total 5 Apr 19 £000
Contributions due:*			
Employer’s normal contributions	-	6,458	6,458
Employer’s expense allowance contributions	-	135	135
Members’ normal contributions	-	191	191
Members’ AVCs	-	150	150
Cash balances	29,969	1,349	31,318
Payroll paid in advance	4,467	-	4,467
Tax debtor	155	10	165
Other debtors	1,569	4	1,573
	36,160	**8,297**	**44,457**

*Contributions due at year-end were all received subsequent to the year-end on a timely basis, in accordance with the schedules of contributions.

17 Current liabilities

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

	DBS 5 Apr 20 £000	DCS 5 Apr 20 £000	Total 5 Apr 20 £000
Unpaid benefits	(2,194)	(1,528)	(3,722)
Accrued expenses	(8,651)	(8)	(8,659)
Tax creditor	(2,155)	(2)	(2,157)
Other creditors	(913)	(2)	(915)
	(13,913)	**(1,540)**	**(15,453)**

	DBS 5 Apr 19 £000	DCS 5 Apr 19 £000	Total 5 Apr 19 £000
Unpaid benefits	(3,787)	(1,006)	(4,793)
Tax creditor	(2,623)	(2)	(2,625)
Accrued expenses	(8,500)	(25)	(8,525)
Other creditors	(1,838)	(11)	(1,849)
	(16,748)	**(1,044)**	**(17,792)**

18 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 businesses within the Co-op's corporate structure or by the Bank, other related party transactions are:

- The DB Administrator is the Co-op.
- Up to the 27 September 2019, Pensioner Member Nominated Trustee Directors received pensions from the Scheme under normal terms and conditions and were paid £5,000 per annum from the Scheme.
- Up to the 27 September 2019, Member Nominated Trustee Directors were paid £2,000 per annum in respect of attendance at the quarterly Trustee meetings. 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 or the Bank, depending on which entity appointed them.
- The total of all Trustee Director remuneration paid from the Scheme during the year ended 5 April 2020 was £254,827 (6 month period to 5 April 2019: £64,192).

19 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.

20 Capital Commitment

In plain English – what does this show?	This note shows the material capital commitment the Scheme holds at the end of the year, for example a contractual commitment to purchase a property or to pay calls on shares.

As at 5 April 2020, the PGIM mandate had an agreed commitment size of £356m. The unfunded commitment was £31m at that date.

21 Subsequent Events

In plain English – what does this show?	This note shows those events, favourable and unfavourable, that occur between the end of the reporting year and the date the financial statements are authorised for issue.

Buy-in

After the scheme year end, a further buy-in policy was transacted with Aviva covering a further c. £340m of pensioner liabilities for the Co-op Section on 6 May 2020.

The Bank Section also implemented a buy-in policy after the scheme year end and paid a premium of c. £400m to PIC on 8 April 2020.

Deficit contributions due

The £12.5m per annum contribution due to the Bank DB Section for the period 1 January 2020 to 31 December 2020 originally fell due on 31 December 2019 but was deferred by agreement (as set out in the Schedules of Contributions certified by the Actuary on 20 December 2019 and 17 April 2020) so that it fell due on 31 May 2020, and was paid into the escrow arrangement by 19 June 2020.

22 Other Events

In plain English – what does this show?	This note shows other signficant events during the reporting year.

Covid-19

Further information is set out in the Trustee Annual Report on page 25.

Brexit

On 31 January 2020, the United Kingdom left the European Union. The Trustee continues to monitor the situation carefully and is taking appropriate advice on the expected impact on the investment portfolio.

23 GMP equalisation

In plain English – what does this show?	This note shows possible but uncertain obligation or a present obligation that is not probable and/or cannot be reliably determined in relation to GMP equalisation.

On 26 October 2018, in the *Lloyds Banking Group* legal case, the High Court ruled that schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) between 1990 and 1997 need to equalise benefits overall, to address the effect of unequal GMPs.

An interim solution has been implemented for equalising GMPs for transfer values and trivial commutation payments made by the Scheme, ahead of when GMP equalisation is completed for all benefits in the Scheme.

The Trustee, with the assistance of its legal and actuarial advisers, is in the process of considering with the Co-op and Bank, the most appropriate GMP equalisation methodology for equalising GMPs for main scheme benefits.

GMP equalisation is expected to increase the liabilities to the Scheme. The liability impact will vary depending on the equalisation methodology approach taken, although the differences in liability impact on the Scheme's technical provisions basis are expected to be immaterial in the context of total Scheme liabilities. Therefore, we have not included a liability in respect of GMP equalisation in these financial statements. They will be accounted for in the year they are determined.

Independent Auditor's Statement about Contributions to the Trustee of the Co-operative Pension Scheme (Pace)

We have examined the summary of contributions to the Co-operative Pension Scheme (Pace) for the Scheme year ended 5 April 2020 on page 86.

In our opinion contributions for the Bank Section for the Scheme year ended 5 April 2020 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid from 6 April 2019 to 30 April 2019 at least in accordance with the schedule of contributions certified on 17 September 2018 and subsequently in accordance with the schedule of contributions certified on 1 May 2019.

In addition, in our opinion contributions for the Coop Section for the Scheme year ended 5 April 2020 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid from 6 April 2019 to 2 June 2019 at least in accordance with the schedule of contributions certified on 6 August 2018 and subsequently in accordance with the schedule of contributions certified on 3 June 2019.

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 more fully in the Statement of Trustee's responsibilities, 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
Statutory Auditor
Reading, United Kingdo

Date: 5 November 2020

Statement of Trustee's Responsibilities in respect of Contributions

The Trustee is responsible under pensions 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 active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions 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 and reported on in the Auditor's statement in respect of the Scheme year ended 5 April 2020.

This Summary of Contributions has been prepared by, or on behalf of, and is our responsibility. It sets out the employer and employee contributions payable to the Scheme under the schedules of contributions certified by the Scheme actuary on 17 September 2018 and subsequently on 1 May 2019 for the Bank Section and on 6 August 2018 and subsequently on 3 June 2019 for the Co-op Section. The Scheme Auditor reports on these contributions payable in the Auditor's Statement about Contributions.

Contributions payable under the schedules of contributions in respect of the Scheme year ended 5 April 2020

Contributions payable under the schedules in respect of the Scheme year			
	DBS	**DCS**	**TOTAL**
	£'000	**£'000**	**£'000**
Employer:			
Normal contributions	-	110,660	110,660
Expense allowance contributions	-	1,815	1,815
Employee:			
Normal contributions	-	1,791	1,791
Contributions payable under the schedules (as reported on by the Scheme Auditor)	**-**	**114,266**	**114,266**
Reconciliation of contributions payable under schedules of contributions to total contributions reported in the financial statements			
Contributions payable under the schedules (as above)	**-**	**114,266**	**114,266**
Contributions payable in addition to those due under the schedules (and not reported on by the Scheme Auditor):			
Additional voluntary contributions	-	2,265	2,265
Total contributions reported in the financial statements	**-**	**116,531**	**116,531**

Signed for and on behalf of the Scheme's Trustee on 5 November 2020.

Bestrustees Limited,
represented by Christopher Wheeler
Trustee Director

Thomas Taylor
Secretary

Actuary’s Certification of Schedule of Contributions – Bank Section

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme	The Co-operative Pension Scheme (Pace) – Bank Section

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 can be expected to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 18 June 2020.

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	
Scheme Actuary	Neil Brougham
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	3 September 2020
Name of employer	Mercer Limited
Address	Belvedere 12 Booth Street Manchester M2 4AW

Actuary's Certification of Schedule of Contributions – Co-op Section

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme	The Co-operative Pension Scheme (Pace) – Group Section

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 can be expected to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 25June 2020.

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	
Scheme Actuary	Neil Brougham
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	25 June 2020
Name of employer	Mercer Limited
Address	Belvedere 12 Booth Street Manchester M2 4AW

Appendix 1: Co-op Section - Statement of Investment Principles – September 2020 The Co-operative Pension Scheme (Pace) – Co-op Section ("the Section")

The Co-operative Pension Scheme (Pace) – Co-op Section ("the Section")

Statement of Investment Principles – September 2020

I. Introduction

Pace Trustees Limited ("the Trustee") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group ("IGG") principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)'s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited ("the Co-op") and the Co-operative Bank ("the Bank") respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers primarily to the section of Pace of which the sponsoring employer is the Co-op, namely the Co-op Section ("the Section"). The Co-op has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section's investments.

The Section provides two types of benefit; a defined benefit section (the "Defined Benefit" section) and a defined contribution arrangement (the "Defined Contribution" section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.

The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

The Trustee has established a Manager Monitoring and Implementation Committee ("MMIC") (in conjunction with the other Co-operative pension schemes) to focus on and review the Section's investment managers. The MMIC is an advisory body that may make recommendations to the Trustee regarding investment related matters.

2. Defined Benefit section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return
- Construct a portfolio of investments that is expected to meet the investment objectives

The Trustee is committed to achieving these investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. Investing responsibly is an important consideration for the Trustee and is covered in more detail in Section 8.

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received, and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 Investment Objectives

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

With regards to the Section, the Trustee has agreed to implement an investment strategy that targets a total Section (i.e. including buy-in policies) expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk. The Trustee is aware (and comfortable) that the expected return of the investment strategy for the Section may vary from gilts + 0.8% (net of fees) from time to time as strategic changes are implemented and/or with changing market conditions.

The primary goal of the Trustee is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis.

If funding improves as a result of better than expected investment returns, the Trustee, in consultation with the Co-op, expects to consider whether to use the opportunity to reduce risk, or to continue to maintain the level of risk with a view to improving the funding level position further.

2.3 Risk Management and Measurement

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. The Trustee will continue to monitor and aim to manage the key risks, principally: -

- **Solvency risk and mismatching risk** – addressed through the asset allocation strategy, through triennial actuarial valuations and the funding objectives. The buy-in policies held by the Section are expected to match the liabilities of the pensioner members insured in 2020.

- **Manager risk** – addressed through the diversification of the Section's assets across a range of managers with different styles and through the ongoing monitoring of the managers.

- **Liquidity risk** – the monthly benefit and expenses outgo is monitored to ensure that sufficient cash balances are available. Investment in illiquid assets is kept to an appropriate level, and a prudent approach is taken to maintaining suitable levels of collateral to support derivative programmes.

  While the buy-in policies held by the Section can only be liquidated by the Trustee in specific and limited pre-defined circumstances, they are designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

- **Counterparty risk** – where the Section enters into derivative transactions, either directly or via pooled funds, these will be collateralised as appropriate. Where possible, the Section will engage a range of counterparties (with counterparty selection for specific trades delegated to investment managers), with limits placed on exposure to any individual counterparty, to reduce the impact of a potential counterparty default.

- **Custody risk** – addressed by monitoring the custodian's activities and the creditworthiness of the custodian bank, and discussing the performance of the custodian with the investment managers when appropriate.

- **Sponsor risk** – addressed by regular assessments of the ability and willingness of the sponsor to support the Section and to make good any deficit.

- **Leverage risk** – addressed by regular review of the size, amount and nature of any leveraged investments made by the Section's investment managers and monitoring of potential collateral requirements (versus the Trustee's agreed collateral stress test policy).

- **Currency risk** – addressed through hedging a portion of non-Sterling currency exposure as appropriate and where this risk is judged to be material.

- **Credit risk** – addressed through holding a diverse range of credit investments across a variety of issuers and sectors, with exposure limits in place, through having in place investment managers who assess the creditworthiness of the debt instruments in which the Section invests and through appropriate limits on credit quality. For the buy-in policies, the credit risk associated with the respective insurers was considered at the outset and is monitored on a regular basis.

- **Interest rate and inflation hedging related risks** – the buy-in policies held by the Section are expected to provide cashflows so as to match the liabilities of the pensioner members insured in 2020, thereby removing interest rate and inflation risk to the Section relating to these members. Management of the majority of the risks of the remaining uninsured liabilities is delegated to the Section's liability hedging manager. However, the Trustee also regularly reviews a range of liability hedging risks within quarterly reporting discussions (and other analysis from time to time) with professional advisors.

- **Longevity risk** – the impact of potential increases in life expectancy of the Section's pensioners was reduced with the purchase of the buy-in annuity policies in 2020.

- **Environmental, social and governance risk (including climate change)** – addressed through the incorporation of Pace's Responsible Investment policy when implementing the Section's investment strategy, and the annual review of this policy. This includes engagement with investment managers, the exclusion of specific investments from the Section's portfolios (where appropriate and viable), and the publication of an annual report on Pace's compliance with this policy.

Other risks are addressed through individual investment manager and custodian agreements.

2.4. Portfolio Construction

As of early 2020, the Section's assets are split into two parts, "The Buy-in Portfolio" and "The Main Portfolio". Both are monitored on a standalone basis.

The Buy-in Portfolio

The Trustee has purchased three insurance policies with two different insurers, who have agreed to pay the Section an amount equal to the pensions in payment for those members covered under the policies, although the pension liabilities remain a liability of the Scheme. The respective insurance contracts are held as assets of the Section.

The Main Portfolio

It is the Trustee's policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques, including but not limited to:

- Illiquid Credit
- Alternative Inflation-linked Assets
- Asset-backed Securities
- Investment-grade Credit
- Liability Driven Investment ("LDI")

The Trustee has adopted the following control framework in structuring the Section's investments:

- There is a role for active management in some asset classes where it can add value or reduce risk, while in other asset classes other approaches are appropriate, including "buy and maintain" (for investment grade credit specifically); this includes:

- To diversify risk
- To invest in markets deemed efficient where the scope for active management to add value is limited; and
- As a temporary home pending investment with an active manager

- To help diversify manager specific risk, multiple manager appointments are preferred where practical (e.g. investment grade credit and illiquid credit).
- At the Main Portfolio level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- The Trustee has a policy to consider the place for passive currency hedging for the Section's overseas assets. It has agreed, in conjunction with its Investment Adviser, to target a 100% hedge of non-Sterling currency exposure within the credit portfolio.
- Investment in illiquid investments, such as private equity, property or illiquid credit assets, may be held in limited quantities. The proportion of such investments will be monitored at the individual manager and at the total Section and / or Main Portfolio level.
- Investment in derivatives is permitted as agreed on a manager by manager basis as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Main Portfolio are predominantly invested on regulated markets.
- No investment in securities issued by the Co-op, Participating Employers or affiliated companies will be made directly (i.e. this excludes any such securities held within a pooled fund in which the Section invests and any securities provided by the Participating Employers which may be held in escrow as contingent assets).
- No investment by an appointed investment manager in the securities issued by the relevant manager's company, or any affiliated companies, will be made.
- For the Section's segregated investment grade credit mandates, the Trustee has provided the managers with a list of specific investments to exclude from further purchases, where these investments have been identified as conflicting with the key areas of Pace's Responsible Investment policy. In addition, all managers, with the exception of the LDI manager, are expected to integrate ESG factors into the portfolio construction process and report on their efforts.

2.5 Investment Strategy

The Trustee has invested a proportion of the Section's assets in "The Buy-in Portfolio" in order to match the liabilities of those pensioner members insured under the respective insurance contracts implemented in January, February and May 2020. These contracts accounted for c25% of the Section's assets at the date of the buy-in transactions.

Within the Main Portfolio, the Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the remaining uninsured liabilities. Given the on-going commitment of the Co-op to the Section, a degree of mismatching risk can be accepted on the basis that it is acceptable to the Co-op and the Trustee is satisfied that the Co-op's covenant strength is adequate to support the mismatching risk.

The Trustee has decided to set an investment strategy which is expected, over the medium term, to produce investment returns to meet the investment objectives as set out in Section 2.2, while limiting the risk inherent in the mismatch between assets and liabilities to a level acceptable to the Trustee and to the Co-op.

The Trustee has considered the effect of the volatility of assets in relation to the liabilities. In setting the investment policy, the Trustee has considered the influence that this will have on the Section's Funding Objective. It will, however, continue to monitor the position in the light of future developments.

The Investment Adviser provides advice on an appropriate investment strategy with input from the Scheme Actuary and considering the views of the Co-op on the acceptable degree of mismatch. The Trustee has also sought advice from a specialist adviser on buy-in contracts and liaised with the Investment Adviser and Scheme Actuary when implementing the buy-in policies.

The current target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below, with the approximate allocation of the Buy-in Portfolio indicated at the point of implementation (noting there is no rebalancing between the buy in policies, or the two Portfolios).

Asset Class	**Target Allocation (%)**	**Approximate % of Total Section Assets as at 30 April 2020 (%)**
Buy-in Portfolio	**100.0**	**25**
Buy-in Insurance Policy (A)	42.5	
Buy-in Insurance Policy (B)	42.5	
Buy-in Insurance Policy (C)	15.0	
Total	**100.0**	
Main Portfolio		**75**
Illiquid credit	12.0	
Alternative inflation-linked assets	4.5	
Asset-backed securities	4.0	
Investment grade credit	35.0	
Liability Driven Investment	44.5	
Total	**100.0**	

The Section may continue to have small legacy holdings not listed in the above table over the short to medium term (for example in property or alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases (for example illiquid private equity/debt holdings). These legacy holdings were less than 1.5% of total Section assets at the time of writing but will continue to be monitored on an ongoing basis. In addition, market movements may mean that the actual allocation may deviate from that shown in the table above from time to time.

The Trustee has agreed to target a hedge of 100% of the interest rate and inflation exposure of the Section's total liabilities as measured on a "gilts plus 0.25% p.a." basis.

The overall asset allocation will be monitored on a quarterly basis via the strategic monitoring reports provided by the investment adviser. The Trustee's investment advisor will propose further rebalancing if deemed appropriate (particularly if the portfolio's long term expected return moves sufficiently far away from the required level).

2.6 Expected Return

Over the long term, the Trustee's expectation is for the total section assets (including the Buy-in assets) to achieve a rate of return which is at least 0.8%p.a. (net of fees) in excess of gilts and for the Main Portfolio to achieve a rate of return which is at least 0.9%p.a. (net of fees) in excess of gilts, to support the approach used to value the Section's liabilities. (The actual expected excess return on the assets will vary with market movements and the underlying asset class assumptions, but the Trustee aims to maintain it broadly in line with the specified target over time.)

Returns over shorter periods are assessed against benchmarks set by the Trustee.

3 Defined Contribution Section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the risks faced by members of the Defined Contribution Section
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life. One of the self-select options available for members is a growth fund that uses ethical considerations to screen potential investments; in addition, the Trustee considers the appointed investment manager's environmental, social and corporate governance processes when setting the default strategy for the Defined Contribution Section.

In considering the appropriate investments for the Defined Contribution Section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

3.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members, the Co-op and Participating Employers, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the Pace Growth (Mixed) Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings into the Pace Cash Fund to provide capital protection.

3.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- **Shortfall or 'opportunity cost' risk** - the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- **Capital risk** - the risk of a fall in the value of the members' funds.
- **Custody risk** - the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- **Purchasing power risk** - the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- **Conversion risk** - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.
- **Manager risk** - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- **Lack of diversification risk** – the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the defined contribution section of Pace have been chosen, in part, to help members mitigate these risks.

3.4 Investment Strategy

The Defined Contribution Section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the Pace objective set out in 3.2 and controlling the risks identified in 3.3 for the membership as a whole.

3.5 Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

4. Day–to-Day Management of the Assets

In compliance with the Financial Services and Markets Act 2000, day to day management of the assets is delegated to professional Investment Managers (in relation to the Main Portfolio for the Defined Benefit section assets and the Defined Contribution section assets) who are all regulated by the Financial Conduct Authority ("FCA") or the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints and applicable legislation.

For the Defined Benefit section (in relation to the Main Portfolio), the Investment Managers have been selected for their expertise in different specialisations and each manages investments for the Defined Benefit section to a specific mandate which includes performance objectives, risk parameters and timescales over which their performance will be measured.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. Investment Manager Appointment, Engagement and Monitoring

5.1 Aligning Manager Appointments with Investment Strategy

When engaging with investment managers to implement the Trustee's investment strategy, the Trustee believes that as appropriate and to the extent applicable, its appointed investment managers should be incentivised to align their strategy and decisions with the objectives of the Section.

Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.

Defined Benefit Section

The Trustee has agreed criteria in the Investment Manager Agreements ("IMAs") so that the assets are managed in line with the Trustee's specific investment requirements.

With regard to the Liability Driven Investments portfolio, the manager has been appointed to manage the assets in line with a Section-specific benchmark based on the liability profile, with restrictions set out in the IMA in order to manage portfolio-specific risks.

The Trustee utilises the Investment Adviser's forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the Investment Adviser's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Section invests in. The Investment Adviser's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee (or the MMIC) and are used in decisions around selection, retention and realisation of manager appointments.

5.2 Manager Appointments and Performance

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods. The Trustee reviews the absolute performance and where relevant, will also consider relative performance against a suitable index used as the benchmark and/or against the manager's stated target performance (over the relevant time period) on a net of fees basis. In terms of reporting, the Trustee's focus is primarily on long term performance, but short-term performance is also reviewed.

The Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager;
- There is a significant change to the Investment Adviser's rating of the manager; or
- There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager or in some circumstances ask the manager to review the Annual Management Charge.

5.3 Portfolio Turnover Costs

Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

Defined Benefit Section

The Trustee has engaged a third party to collect cost information (under the Cost Transparency Initiative). Once set up, the aim is for them to analyse data from the Main Portfolio's investment managers to determine the underlying costs involved with its investments. The Trustee aims to use this information to prompt discussion with its investment managers on costs and in order to compare its investments with other managers in the same asset class to ensure consistency.

The Trustee also receives portfolio turnover information for some of its mandates as part of the quarterly reporting provided by its Investment Adviser.

The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.

5.4 Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

6. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

For the Defined Benefit section, the Trustee monitors the allocation between the appointed managers and between asset classes, and rebalances the portfolio as appropriate. This includes consideration of the split within the broad asset classes shown above and the selection, monitoring and termination of the underlying investment managers.

7. Additional Assets

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

8. Socially Responsible Investment and Corporate Governance

The Trustee has a Responsible Investment ("RI") Policy which it reviews at least annually. This document details the policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, assessing Pace's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

In accordance with its fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk over the Section's anticipated lifetime (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

The Trustee will apply these considerations in setting Pace's RI Policy, with the Trustee assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Co-op when developing the Policy.

At the time of writing, the RI policy reflects three broad RI issues which the Trustee believes represent particular risk to the Scheme and which the Trustee believes can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- Protection of the environment.
- Labour conditions and equal pay.
- Corporate governance.

The Trustee seeks to address these issues through Pace's engagement with its investment managers and the application of specific exclusion lists for some mandates held by the Defined Benefit section to restrict investment in companies identified as conflicting with the Trustee's aims under these issues.

The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Pace members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response. In addition, the Trustee reserves the right to use more direct engagement with investee companies, including those issuing debt. In such situations this may include working with investment managers and other institutions to engage with companies or contacting companies directly.

Investment managers are asked to report to the Manager Monitoring and Implementation Committee on the issue of responsible investment. In addition, the Trustee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship. This is documented at least annually.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.

While the Trustee will meet with certain managers from time to time (including the LDI manager which the Trustee aims to meet at least annually), the MMIC is typically responsible for meeting with the Section's investment managers. At any manager presentation, the MMIC on behalf of the Trustee will ask the investment managers to provide further detail about ESG considerations such as voting history, engagement activity and AAF reports.

In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.

Within the Defined Contribution section, the Trustee offers an ethical equity fund, the Pace Growth (Ethical Shares) fund, and also considers ESG factors as part of the Scheme's process for selecting and retaining investment options.

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so, and to report to the Trustee.

9. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the defined benefit section of the Section (with the exception of investment related advice on the suitability of the buy-in policies, which was provided by a 3rd party professional adviser). The Trustee has appointed Willis Towers Watson to provide advice in relation to the principles and fund choice set out in this document relating to the defined contribution section.

10. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Approved by Pace Trustees Limited on 24 September 2020

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
▪ Overall responsibility for the Section's investments. ▪ Make day-to-day decisions relevant to the operation of the Defined Benefit section's investment strategy. ▪ Appoint and monitor the Investment Adviser. ▪ Review of the Responsible Investment Policy. ▪ Define the terms of appointment of the Defined Contribution Committee. ▪ Appoint the members of Defined Contribution Committee.	The Trustee
▪ Make day-to-day decisions relevant to the operation of the Defined Contribution section's investment strategy.	The Defined Contribution Committee
▪ Monitor appointed Investment Managers and other service providers	The Manager Monitoring and Implementation Committee / Defined Contribution Committee as applicable
▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Trustee and Manager Monitoring and Implementation Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles.	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
▪ Operate within the conditions set down by the Investment Management Agreement (or equivalent documentation) ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity.	The Investment Managers and insurance providers

Appendix 2: Bank Section - Statement of Investment Principles – September 2020

The Co-operative Pension Scheme (Pace) - Co-operative Bank Section (“the Section”)

Statement of Investment Principles – September 2020

1. Introduction

Pace Trustees Limited (“the Trustee”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group (“IGG”) principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)‘s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited (“the Co-op”) and the Co-operative Bank (“the Bank”) respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers primarily to the section of Pace of which the sponsoring employer is the Bank, namely the Co-operative Bank Section (“the Section”). The Bank and the Co-op have been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section’s investments.

The Section provides two types of benefit; a defined benefit section (the “Defined Benefit” section) and a defined contribution arrangement (the “Defined Contribution” section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.

The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

The Trustee has established a Manager Monitoring and Implementation Committee (“MMIC”) to focus on and review the Section’s investment managers. The MMIC is an advisory body that may make recommendations to the Trustee regarding investment related matters.

2. Defined Benefit section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return

- Construct a portfolio of investments that is expected to meet the investment objectives

The Trustee is committed to achieving these investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. Investing responsibly is an important consideration for the Trustee and is covered in more detail in Section 8.

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received, and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 Investment Objectives

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

With regards to the Section, the Trustee has agreed to implement an investment strategy that targets a total Section (i.e. including buy-in policy) expected return of around 0.5 % p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk. The Trustee is aware (and comfortable) that the expected return of the investment strategy for the Section may vary from gilts + 0.5% (net of fees) from time to time as strategic changes are implemented and/or with changing market conditions.

The primary goal of the Trustee is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis.

If funding improves as a result of better than expected investment returns, the Trustee, in consultation with the Co-op and the Bank, expects to consider whether to use the opportunity to reduce risk, or to continue to maintain the level of risk with a view to improving the funding level position further.

2.3 Risk Management and Measurement

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. The Trustee will continue to monitor and aim to manage the key risks, principally: -

- **Solvency risk and mismatching risk** - addressed through the asset allocation strategy, through triennial actuarial valuations and the funding objectives. The buy-in policy held by the Section is expected to match the liabilities of the pensioner members insured in March 2020.

- **Manager risk** - addressed through the diversification of the Section's assets across a range of managers with different styles and through the ongoing monitoring of the managers.

- **Liquidity risk** - the monthly benefit and expenses outgo is monitored to ensure that sufficient cash balances are available. Investment in illiquid assets is kept to an appropriate level, and a prudent approach is taken to maintaining suitable levels of collateral to support derivative programmes.

While the buy-in policy held by the Section can only be liquidated by the Trustee in specific and limited pre-defined circumstances, it is designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

- **Counterparty risk** – where the Section enters into derivative transactions, either directly or via pooled funds, these will be collateralised as appropriate. Where possible, the Section will engage a range of counterparties (with counterparty selection for specific trades delegated to investment managers), with limits placed on exposure to any individual counterparty, to reduce the impact of a potential counterparty default.

- **Custody risk** – addressed by monitoring the custodian's activities and the creditworthiness of the custodian bank and discussing the performance of the custodian with the investment managers when appropriate.

- **Sponsor risk –** addressed by regular assessments of the ability and willingness of the sponsor to support the Section and to make good any deficit.

- **Leverage risk** – addressed by regular review of the size, amount and nature of any leveraged investments made by the Section's investment managers and monitoring of potential collateral requirements (versus the Trustee's agreed collateral stress test policy).

- **Currency risk** – addressed through hedging a portion of non-Sterling currency exposure as appropriate and where this risk is judged to be material.

- **Credit risk** – addressed through holding a diverse range of credit investments across a variety of issuers and sectors, with exposure limits in place, through having in place investment managers who assess the creditworthiness of the debt instruments in which the Section invests and through appropriate limits on credit quality. For the buy-in policy, the credit risk associated with the insurer was considered at the outset and is monitored on a regular basis.

- **Interest rate and inflation hedging related risks –** the buy-in policy held by the Section is expected to provide cashflows so as to match the liabilities of the pensioner members insured in March 2020, thereby removing the interest rate and inflation risk to the Section relating to these members. Management of the majority of the risks associated with the remaining uninsured liabilities is delegated to the Section's liability hedging manager. However, the Trustee also regularly reviews a range of liability hedging risks within quarterly reporting discussions (and other analysis from time to time) with professional advisors.

- **Longevity risk** – the impact of potential increases in life expectancy of the Section's pensioners was reduced with the purchase of the buy-in annuity policy in March 2020.

- **Environmental, social and governance risk (including climate change)** – addressed through the incorporation of Pace's Responsible Investment policy when implementing the Section's investment strategy, and the annual review of this policy. This includes engagement with investment managers, the exclusion of specific investments from the Section's portfolios (where appropriate and viable), and the publication of an annual report on Pace's compliance with this policy.

Other risks are addressed through individual investment manager and custodian agreements.

2.4. Portfolio Construction

As of March 2020, the Section's assets are split into two parts, "The Buy-in Portfolio" and the "Main Portfolio". Both are monitored on a standalone basis.

The Buy-in Portfolio

The Trustee has purchased an insurance policy with an insurer who has agreed to pay the Section an amount equal to the pensions in payment for those members covered by the policy, although the pension liabilities remain a liability of the Scheme. The insurance contract is held as an asset of the Section.

The Main Portfolio

It is the Trustee's policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques, including but not limited to:

- Asset-backed Securities
- Investment-grade Credit
- Liability Driven Investment ("LDI")

The Trustee has adopted the following control framework in structuring the Section's investments:

- There is a role for active management in some asset classes where it can add value or reduce risk, while in other asset classes other approaches are appropriate, including "buy and maintain" (for investment grade credit specifically); this includes:
  - To diversify risk
  - To invest in markets deemed efficient where the scope for active management to add value is limited; and
  - As a temporary home pending investment with an active manager
- To help diversify manager specific risk, multiple manager appointments are preferred where practical (e.g. investment grade credit).
- At the Main Portfolio level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- The Trustee has a policy to consider the place for passive currency hedging for the Section's overseas assets. It has agreed, in conjunction with its Investment Adviser, to target a 100% hedge of non-Sterling currency exposure within the credit portfolio.
- Investment in derivatives is permitted as agreed on a manager by manager basis as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Main Portfolio are predominantly invested on regulated markets.

- No investment in securities issued by the Sponsoring and Participating Employers or affiliated companies will be made directly (i.e. this excludes any such securities held within a pooled fund in which the Section invests). Note that this also excludes any securities provided by the Participating Employers to be held in escrow as contingent assets.

- No investment by an appointed investment manager in the securities issued by the relevant manager's company, or any affiliated companies, will be made.

- For the Section's segregated investment grade credit mandates, the Trustee has provided the managers with a list of specific investments to exclude from further purchases, where these investments have been identified as conflicting with the key areas of Pace's Responsible Investment policy. In addition, all managers, with the exception of the LDI manager, are expected to integrate ESG factors into the portfolio construction process and report on their efforts.

2.5 Investment Strategy

The Trustee has invested a proportion of the Section's assets in "The Buy-in Portfolio" in order to match the liabilities of those members insured under the insurance contract implemented in March 2020. This contract accounted for c20% of the Section's assets at the date of the buy-in transaction.

Within the Main Portfolio, the Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the remaining uninsured liabilities. Given the on-going commitment of the Bank to the Section, a degree of mismatching risk can be accepted on the basis that it is acceptable to the Bank and the Trustee is satisfied that the Bank's covenant strength is adequate to support the mismatching risk.

The Trustee has decided to set an investment strategy which is expected, over the medium term, to produce investment returns to meet the investment objectives as set out in Section 2.2, while limiting the risk inherent in the mismatch between assets and liabilities to a level acceptable to the Trustee and to the Bank.

The Trustee has considered the effect of the volatility of assets in relation to the liabilities. In setting the investment policy, the Trustee has considered the influence that this will have on the Section's funding objectives. It will, however, continue to monitor the position in the light of future developments.

The Investment Adviser provides advice on an appropriate investment strategy with input from the Scheme Actuary and considering the views from the Bank on the acceptable degree of mismatch. The Trustee has also sought advice from a specialist adviser on buy-in contracts and liaised with the Investment Adviser and Scheme Actuary when implementing the buy-in policy.

The current target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below, with the approximate allocation of the Buy-in Portfolio indicated at the point of implementation (noting that there is no rebalancing between the two portfolios).

Asset Class	Target Allocation (%)	Approximate % of Total Section Assets as at 30 April 2020 (%)
Buy-in Portfolio		**20%**
Buy-in Insurance Policy	100.0	
Main Portfolio		**80%**
Asset-backed securities	4.0	
Investment grade credit	45.0	
Liability Driven Investment	51.0	
Total	**100.0**	

The Section may continue to have small legacy holdings not listed in the above table over the short to medium term (for example in alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases (for example illiquid private equity/debt holdings). These legacy holdings were less than 1% of total Section assets at the time of writing but will continue to be monitored on an ongoing basis. In addition, market movements may mean that the actual allocation may deviate from that shown in the table above from time to time.

The Trustee has agreed to target a hedge of 100% of the interest rate and inflation exposure of the Section's liabilities as measured on a "gilts plus 0.25% p.a." basis.

The overall asset allocation will be monitored on a quarterly basis via the strategic monitoring reports provided by the investment adviser. The Trustee's investment advisor will propose further rebalancing if deemed appropriate (particularly if the portfolio's long term expected return moves sufficiently far away from the required level).

2.6 Expected Return

Over the long term, the Trustee's expectation is for the total Section assets (including the Buy-in assets) to achieve a rate of return which is at least 0.5% p.a. (net of fees) in excess of gilts and for the Main Portfolio to achieve a rate of return which is at least 0.6% p.a. (net of fees) in excess of gilts to support the approach used to value the Section's liabilities. (The actual expected excess return on the assets will vary with market movements and the underlying asset class assumptions, but the Trustee aims to maintain it broadly in line with the specified target over time.)

Returns over shorter periods are assessed against benchmarks set by the Trustee.

3 Defined Contribution Section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives

- Consider the risks faced by members of the Defined Contribution Section
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life. One of the self-select options available for members is a growth fund that uses ethical considerations to screen potential investments; in addition, the Trustee considers the appointed investment managers environmental, social and corporate governance processes when setting the default strategy for the Defined Contribution Section.

In considering the appropriate investments for the Defined Contribution Section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

3.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Bank, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the Pace Growth (Mixed) Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings into the Pace Cash Fund to provide capital protection.

3.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- **Shortfall or 'opportunity cost' risk** - the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- **Capital risk** - the risk of a fall in the value of the members' funds.
- **Custody risk** - the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- **Purchasing power risk** - the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- **Conversion risk** - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to

retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.

- **Manager risk** - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- **Lack of diversification risk** – the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the defined contribution section have been chosen, in part, to help members mitigate these risks.

3.4 Investment Strategy

The Defined Contribution Section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the objective set out in 3.2 and controlling the risks identified in 3.3 for the membership as a whole.

3.5 Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

4. Day–to-Day Management of the Assets

In compliance with the Financial Services and Markets Act 2000, day to day management of the assets is delegated to professional Investment Managers (in relation to the Main Portfolio for the Defined Benefit section assets and the Defined Contribution section assets) who are all regulated by the Financial Conduct Authority ("FCA") or the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints and applicable legislation.

For the Defined Benefit section (in relation to the Main Portfolio), the Investment Managers have been selected for their expertise in different specialisations and each manages investments for the Defined Benefit section to a specific mandate which includes performance objectives, risk parameters and timescales over which their performance will be measured.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. Investment Manager Appointment, Engagement and Monitoring

5.1 Aligning Manager Appointments with Investment Strategy

When engaging with investment managers to implement the Trustee's investment strategy, the Trustee believes that as appropriate and to the extent applicable, its appointed investment managers should be incentivised to align their strategy and decisions with the objectives of the Section.

Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.

Defined Benefit Section

For the Defined Benefit Section, the Trustee has agreed criteria in the Investment Manager Agreements ("IMAs") so that the assets are managed in line with the Trustee's specific investment requirements. With regard to the Liability Driven Investments portfolio, the manager has been appointed to manage the assets in line with a Section-specific benchmark based on the liability profile, with restrictions set out in the IMA in order to manage portfolio-specific risks.

The Trustee utilises the Investment Adviser's forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the Investment Adviser's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Section invests in. The Investment Adviser's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee (or the MMIC) and are used in decisions around selection, retention and realisation of manager appointments.

5.2 Manager Appointments and Performance

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods. The Trustee reviews the absolute performance and where relevant, will also consider relative performance against a suitable index used as the benchmark and/or against the manager's stated target performance (over the relevant time period) on a net of fees basis. In terms of reporting, the Trustee's focus is primarily on long term performance but short term performance is also reviewed.

The Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager;
- There is a significant change to the Investment Adviser's rating of the manager; or
- There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager or in some circumstances ask the manager to review the Annual Management Charge.

5.3 Portfolio Turnover Costs

Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

Defined Benefit Section

The Trustee has engaged a third party to collect cost information (under the Cost Transparency Initiative). Once set up, the aim is for them to analyse data from the Main Portfolio's investment managers to determine the underlying costs involved with its investments. The Trustee aims to use this information to prompt discussion with its investment managers on costs and in order to compare its investments with other managers in the same asset class to ensure consistency.

The Trustee also receives portfolio turnover information for some of its mandates as part of the quarterly reporting provided by its Investment Adviser.

Defined Contribution Section

Transaction costs are collated and reported annually through the Trustee Report and Accounts.

The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.

5.4 Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.

- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

6. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

For the Defined Benefit section, the Trustee monitors the allocation between the appointed managers and between asset classes, and rebalances the portfolio as appropriate. This includes consideration of the split within the broad asset classes shown above and the selection, monitoring and termination of the underlying investment managers.

7. Additional Assets

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

8. Socially Responsible Investment and Corporate Governance

The Trustee has a Responsible Investment ("RI") Policy which it reviews at least annually. This document details the policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, assessing Pace's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

In accordance with its fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk over the Section's anticipated lifetime (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

The Trustee will apply these considerations in setting Pace's RI Policy, with the Trustee assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Sponsors when developing the Policy.

At the time of writing, the RI policy reflects three broad RI issues which the Trustee believes represent particular risk to the Scheme and which the Trustee believes can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- Protection of the environment.

- Labour conditions and equal pay.
- Corporate governance.

The Trustee seeks to address these issues through Pace's engagement with its investment managers and the application of specific exclusion lists for some mandates held by the Defined Benefit section to restrict investment in companies identified as conflicting with the Trustee's aims under these issues.

The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Pace members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.

In addition, the Trustee reserves the right to use more direct engagement with investee companies, including those issuing debt. In such situations this may include working with investment managers and other institutions to engage with companies, or contacting companies directly.

Investment managers are asked to report to the Manager Monitoring and Implementation Committee on the issue of responsible investment. In addition, the Trustee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship. This is documented at least annually.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.

While the Trustee will meet with certain managers from time to time (including the LDI manager which the Trustee aims to meet at least annually), the MMIC is typically responsible for meeting with the Section's investment managers. At any manager presentation, the MMIC on behalf of the Trustee will ask the investment managers to provide further detail about ESG considerations such as voting history, engagement activity and AAF reports.

In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.

Within the Defined Contribution section, the Trustee offers an ethical equity fund, the Pace Growth (Ethical Shares) fund, and also considers ESG factors as part of the Scheme's process for selecting and retaining investment options.

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so and to report to the Trustee.

9. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the Defined Benefit section of the Section (with the exception of investment related advice on the suitability of the buy-in policy, which was provided by a 3rd party professional adviser). The Trustee has appointed Willis Towers Watson to provide advice in relation to the principles and fund choice set out in this document relating to the defined contribution section.

10. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Approved by Pace Trustees Limited on 24 September 2020

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
▪ Overall responsibility for the Section's investments. ▪ Make day-to-day decisions relevant to the operation of the Defined Benefit section's investment strategy. ▪ Appoint and monitor the Investment Adviser. ▪ Review of the Responsible Investment Policy. ▪ Define the terms of appointment of the Defined Contribution Committee. ▪ Appoint the members of the Defined Contribution Committee.	The Trustee
▪ Make day-to-day decisions relevant to the operation of the Defined Contribution section's investment strategy.	The Defined Contribution Committee
▪ Monitor appointed Investment Managers and other service providers	The Manager Monitoring and Implementation Committee / Defined Contribution Committee as applicable
▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Trustee and Manager Monitoring and Implementation Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles.	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
▪ Operate within the conditions set down by the Investment Management Agreement (or equivalent documentation). ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity.	The Investment Managers and insurance provider

Appendix 3: Chair's Statement - Co-op Section of Pace DC Charges and Transaction Costs (for the year ended 5 April 2020)

Legal & General funds - Co-op Section

The annual charges applied to the DC default investment, the 'Target: Lump Sum' lifestyle strategy, during the scheme year ranged from 0.25% to 0.29%.

The charges applied to all other funds (excluding the default arrangement) used by members of the DC Section and Legal & General AVCs during the period to which this Statement relates ranged from 0.28% to 0.46% per annum. The following table shows how the charges are broken down by individual funds.

Fund	AMC (% p.a.)	FMC (% p.a.)	Fund expenses (% p.a.)	Total expense ratio (% p.a.)	Transaction costs* (% p.a)
Funds within the default fund:					
Pace Growth Mixed Fund	0.16	0.13	0.00	0.29	0.08
Pace cash fund	0.16	0.09	0.00	0.25	-0.05
Other funds:					
Pace Growth (Shares) Fund	0.16	0.14	0.00	0.30	0.04
Pace Growth (Ethical Shares) Fund	0.16	0.30	0.00	0.46	0.00
Pace Pre-retirement (Inflation-linked) Fund	0.16	0.13	0.00	0.29	0.01
Pace Pre-Retirement Fund	0.16	0.12	0.00	0.28	-0.02

Notes

AMC — Annual management charge. The AMC is a charge paid to Legal & General to cover its administration costs.

FMC — Fund management charge. The FMC is the charge paid to Legal & General to cover fund management expenses for each of Pace DC's funds and is paid in addition to the AMC.

Fund expenses — Any expense not covered by the AMC or FMC

Transaction costs: — Transaction costs are those incurred as a result of routine fund management activities such as buying, selling, lending or borrowing investments.

Implicit transaction costs have been calculated as the difference between the price at which a deal was struck and the mid-market price of an asset at the time the order is placed in the market ('arrival price'). This is consistent with the implicit cost calculation methods allowable under PRIIPS guidance. The proportion of trades across Legal & General Investment Management for which the arrival price methodology was used to calculate implicit costs for the reporting period was 98% for equity trades, 89% for fixed income trades, 71% for FX trades, and 0% for other OTC and ETD derivative trades. Where the arrival price was not available, the implicit cost was calculated as the difference between the price at which a deal was struck and the mid-market opening price on the day of the trade. Where the mid-market opening price was not available, the mid-market previous closing price was used. Where the previous mid-market closing price was not available, a fixed fee was used to estimate the implicit costs of each trade.

For any funds which hold an investment managed by a third party, the transaction costs provided by the third party manager are represented in this report as an indirect external fund transaction cost. Legal & General cannot guarantee the accuracy, integrity or completeness of such third party data. The recipient understands and acknowledges that any third party data in the disclosure may contain inaccuracies and/or omission and may not be independently verified. Where transaction cost information was not made available by the third party, transaction costs incurred by the externally managed fund have not been included.

Appendix 4: Chair's Statement - Bank Section of Pace DC Charges and Transaction Costs (for the year ended 5 April 2020)

Legal & General Funds - Co-op Bank Section

The annual charges applied to the DC default investment, the 'Target: Lump Sum' lifestyle strategy, during the scheme year ranged from 0.22% to 0.26%.

The charges applied to all other funds (excluding the default arrangement) used by members of the DC Section and Legal & General AVCs during the period to which this Statement relates ranged from 0.25% to 0.43% per annum. The following table shows how the charges are broken down by individual funds.

Fund	AMC (% p.a.)	FMC (% p.a.)	Fund expenses (% p.a.)	Total expense ratio (% p.a.)	Transaction costs* (% p.a)
Funds within the default fund:					
Pace Growth Mixed Fund	0.13	0.13	0.00	0.26	0.08
Pace cash fund	0.13	0.09	0.00	0.22	-0.05
Other funds:					
Pace Growth (Shares) Fund	0.13	0.14	0.00	0.27	0.04
Pace Growth (Ethical Shares) Fund	0.13	0.30	0.00	0.43	0.00
Pace Pre-retirement (Inflation-linked) Fund	0.13	0.13	0.00	0.26	0.01
Pace Pre-Retirement Fund	0.13	0.12	0.00	0.25	-0.02

Notes

AMC	Annual management charge. The AMC is a charge paid to Legal & General to cover its administration costs.
FMC	Fund management charge. The FMC is the charge paid to Legal & General to cover fund management expenses for each of Pace DC's funds and is paid in addition to the AMC.
Fund expenses	Any expense not covered by the AMC or FMC
Transaction costs:	Transaction costs are those incurred as a result of routine fund management activities such as buying, selling, lending or borrowing investments.

Implicit transaction costs have been calculated as the difference between the price at which a deal was struck and the mid-market price of an asset at the time the order is placed in the market ('arrival price'). This is consistent with the implicit cost calculation methods allowable under PRIIPS guidance. The proportion of trades across Legal & General Investment Management for which the arrival price methodology was used to calculate implicit costs for the reporting period was 98% for equity trades, 89% for fixed income trades, 71% for FX trades, and 0% for other OTC and ETD derivative trades. Where the arrival price was not available, the implicit cost was calculated as the difference between the price at which a deal was struck and the mid-market opening price on the day of the trade. Where the mid-market opening price was not available, the mid-market previous closing price was used. Where the previous mid-market closing price was not available, a fixed fee was used to estimate the implicit costs of each trade.

For any funds which hold an investment managed by a third party, the transaction costs provided by the third party manager are represented in this report as an indirect external fund transaction cost. Legal & General cannot guarantee the accuracy, integrity or completeness of such third party data. The recipient understands and acknowledges that any third party data in the disclosure may contain inaccuracies and/or omission and may not be independently verified. Where transaction cost information was not made available by the third party, transaction costs incurred by the externally managed fund have not been included.

Appendix 5: Chair's Statement - Example Illustrations for the Co-op DC Section

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at July 2020.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges
We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.13%
This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Target: Lump-Sum. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Target: Lump-Sum	FMC	Growth rate	Transaction costs
Pace Growth (Mixed) Fund	0.13%	1.0%	0.08%
L&G PMC Cash 3	0.09%	-1.8%	-0.05%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 0.6% a year to 0.2%.		Investment growth after inflation reduced from 0.6% a year to 0.3%.	
	No charges	After all charges	No charges	After all charges
1	6,242	6,222	34,766	34,655
3	8,674	8,603	44,111	43,728
5	11,044	10,904	53,223	52,500
10	16,715	16,330	75,077	73,219
20	27,172	25,990	115,556	110,224
30	35,918	33,642	149,385	139,444
35	37,590	34,959	155,256	143,866

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Appendix 6: Chair's Statement - Example Illustrations for the Bank DC Section

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at July 2020.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges
We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.13%
This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Target: Lump-Sum. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Target: Lump-Sum	FMC	Growth rate	Transaction costs
Pace Growth (Mixed) Fund	0.13%	1.0%	0.08%
L&G PMC Cash 3	0.09%	-1.8%	-0.05%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 0.6% a year to 0.2%.		Investment growth after inflation reduced from 0.6% a year to 0.3%.	
	No charges	After all charges	No charges	After all charges
1	6,242	6,222	34,766	34,655
3	8,674	8,603	44,111	43,728
5	11,044	10,904	53,223	52,500
10	16,715	16,330	75,077	73,219
20	27,172	25,990	115,556	110,224
30	35,918	33,642	149,385	139,444
35	37,590	34,959	155,256	143,866

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Appendix 7: Implementation Statement

The Co-operative Pension Scheme (Pace) ("the Scheme")
Implementation Statement

21 September 2020

Background

In 2019, the government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

These regulations introduced new requirements for pension schemes like Pace, setting out the policies they need to explicitly include in their Statement of Investment Principles (the document that governs the way the Scheme's assets are invested). In particular, by 1 October 2020 the Statement of Investment Principles (or "SIP") needs to include the Trustee's policies in relation to its arrangements with the asset managers that invest Pace's assets on behalf of the Trustee.

This expanded legislation which was introduced in 2018 required schemes' SIPs to include (from 1 October 2019) the Trustee's policies on how it takes account of Environmental, Social and Corporate Governance ("ESG") considerations when setting investment strategy, and how it exercises voting rights in, and undertakes engagement activities with, those they invest in.

In addition, the 2018 and 2019 regulations introduced a requirement for Pace to produce a statement setting out (among other things) how the Trustee has followed the SIP over the year, and in particular how it has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities. This document is intended to meet those requirements, and will be included in the Scheme's Report and Accounts and published on the Scheme's website.

The Trustee's review of the SIP over the year

The Trustee maintains Statements of Investment Principles for the two sections of Pace (the Co-op Section and the Co-operative Bank Section), each of which set out the investment principles for both Defined Benefit (DB) and Defined Contribution (DC) benefits. The two SIPs are reviewed at least annually and following any significant changes in investment policy.

The Co-op Section SIP was reviewed in early 2019 and updated in April 2019 to formally incorporate the Trustee's consideration of Environmental, Social and Corporate Governance issues (and specifically consideration of climate risk) when determining investment strategy for both DB and DC investments (reflecting Pace's existing Responsible Investment Policy – see below). The SIP was subsequently updated in April 2020 to reflect changes to the investment strategy agreed as part of the implementation of two pensioner buy-ins in February and March, and again in August 2020 following a third bulk annuity transaction implemented in May 2020. The latest version of the SIP was agreed in September 2020 to reflect the new legislative requirements requiring trustees to explain their policies on how they monitor their asset managers. The current version of the Co-op Section SIP is available on Pace's website, via https://coop.pacepensions.co.uk/useful-information/pace-investments/.

The Co-operative Bank Section SIP was also updated in April 2019 to incorporate the Trustee's consideration of Environmental, Social and Corporate Governance issues (and specifically consideration of climate risk) when determining investment strategy, and in August 2020 to reflect changes to the investment strategy agreed as part of the implementation of a pensioner buy-in implemented in April 2020. The latest version of the SIP was agreed in September 2020 to reflect the new legislative requirements requiring trustees to explain their policies on how they monitor their asset managers. The current version of the Co-operative Bank Section SIP is available on Pace's website, via https://bank.pacepensions.co.uk/useful-information/pace-investments/.

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the SIP has been followed throughout the year for both the Co-op and Bank Sections.

The Trustee's policies for choosing and realising investments, and the kinds of investments to be held

The SIPs for both the Co-op and Bank Sections set out the Trustee's policies for choosing investments - specifically by identifying appropriate objectives which reflect each Section's risk and return requirements, and then constructing a portfolio of investments to meet these objectives for DB investments, or identifying a suitable range of options for members of the DC Section.

In considering these objectives and selecting investments, the Trustee obtains and considers written advice from a regulated investment adviser. One change was made to the investment strategy for the DB Section over the year, with the Trustee entering into insurance policies with Aviva and Pension Insurance Corporation, two UK insurers, to match the pension payments due to some of the members of the Co-op Section; in addition, as discussed below changes were made in June 2019 to the funds available to members in the DC Section. In each case, formal advice was provided to the Trustee by regulated investment advisers prior to the change, confirming the suitability of the investments for the purposes of Section 36 of the Pensions Act 1995.

The investment managers have discretion in the timing of realisation of investments, and this has continued over the year.

In addition, the Trustee reviews the asset allocation for the DB Sections on a quarterly basis, and is comfortable that over the year the investments held were in line with the respective SIPs.

The Trustee's policies on managing and measuring risk, and expected returns

DB Sections

For the DB Sections, the Trustee's investment objective is to target an expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Co-op Section's liabilities, and around 0.5% p.a. (net of fees) above gilts for the Bank Section; this approach was determined following professional advice and considering the Trustee (and the sponsors') risk tolerance. Over the year, the Trustee monitored the expected return on assets on a quarterly basis and considered rebalancing where appropriate (in particular following the purchase of bulk annuity policies in early 2020).

DC Sections

For the DC Sections of both the Co-op and Bank Sections of Pace, the Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Scheme's employers will provide a fund at retirement with which to provide an income in retirement. In particular, the default arrangement aims to grow member contributions ahead of inflation over a member's working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. The default strategy was reviewed in 2019 and the Trustee's conclusion was that the target remained appropriate given the Sections' membership profiles, but that a higher return component should be considered for younger members. This is expected to be implemented later in 2020.

The Trustee's policies on ESG considerations

The Trustee is committed to achieving these investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. The Trustee believes that as both DB and DC pensions are long-term investments, this is important, and it would also like the Scheme's approach to responsible investment to reflect the views of Pace members as far as reasonably possible, and to be consistent with the values of Pace's sponsors, and their members and colleagues. As a result, Pace has developed a Responsible Investment policy covering both DB and DC investments (and both the Co-op and Co-operative Bank Sections of Pace). The policy was developed with input from the Co-op and the Co-operative Bank, and having considered feedback collected via a survey of current employees of the Co-op.

The Responsible Investment Policy is available on the Scheme's website (along with an annual report detailing how Pace has implemented the policy over the year), via https://coop.pacepensions.co.uk/useful-information/pace-investments/ and https://bank.pacepensions.co.uk/useful-information/pace-investments/.

The Responsible Investment policy should be read in conjunction with, and as if it formed part of, this implementation statement.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities

The Trustee's specific policies on engagement are common to the Co-op and Bank Section SIPs and are summarised below, together with the Trustee's assessment of how and the extent to which these policies have been implemented over the scheme year to April 2020:

Policy	**Assessment (applicable for both Co-op and Co-operative Bank Sections of Pace)**
The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.	The DB Section applies explicit exclusion lists where possible to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. Members' pension pots in the DC Section are invested entirely in pooled investment funds alongside other investors, and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies, although further detail on the approach taken by Legal & General ("L&G") to

	exercise voting rights is set out in the section below this table. The default option currently invests in the Pace Growth (Mixed) Fund, switching into a cash fund as members approach their expected retirement date. Following a review in 2018/19, the Trustee and the sponsors decided to invest 100% of the Pace Growth (Mixed) Fund in the L&G Future World Multi-Asset Fund, which the Trustee and the sponsors believe is better aligned with their shared values. This fund “tilts” investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less carbon-intensive or earn green revenue; it also excludes investment in coal miners, and companies involved in the manufacture or distribution of controversial weapons (companies on the “Future World Protection List”). L&G also applies its “Climate Impact Pledge” to the fund – each year they engage with the largest companies across the world identified as key to meeting global climate change goals to help improve their strategies, and commit to disinvesting from companies that fail to demonstrate sufficient action.
The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.	Ad hoc queries have been raised throughout the year through the Co-op Pensions Department (for example, in early 2020 to understand in more detail Insight Investment’s rationale for disinvesting from a specific holding in the automotive sector for corporate governance reasons, and implications for holdings in the rest of the sector - the Trustee was satisfied that Insight’s rationale for its disinvestment was consistent with the Trustee’s policies).
Investment Managers are asked to report to the Manager Monitoring and Implementation Committee and the Trustee on the issue of responsible investment.	The Trustee has directly or through the Co-op Pensions Department’s Manager Monitoring and Implementation Committee met with each of the Scheme’s managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers’ approaches to incorporating ESG considerations in the initial selection of

	investments (and any disinvestments or sales), and areas of engagement as well as developments over the year. In particular, L&G report on their compliance with their engagement policies annually, via their Active Ownership Report, with the 2019 report having been published in April 2020. This will be reviewed later in 2020 by the DC Committee alongside L&G's 2020 update on their Climate Impact Pledge.
In addition, the Manager Monitoring and Implementation Committee and the Trustee monitor how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.	As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Trustee receives reporting from its investment consultants integrated into the Scheme's quarterly performance monitoring on its researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.
The Trustee considers how ESG and stewardship are integrated within investment processes in appointing new managers, and all existing managers are expected to have policies in these areas. Within the Defined Contribution section, the Trustee offers an ethical equity fund, the Pace Growth (Ethical Shares) fund, and also considers ESG factors as part of the Scheme's process for selecting and retaining investment options.	No new asset managers were appointed over the year, although the Trustee's assessment of the strength of L&G's ESG processes were a driving consideration in the switch to L&G's Future World Multi-Asset fund for the default investment option for the DC Section in mid 2019.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year. In the coming year, the Trustee plans to enhance its processes further by carrying out a formal and more detailed review of L&G's voting record for the DC Sections; this will be included on the DC Committee's business plan for 2020/21.

Exercise of voting rights

Following changes to reduce risk in its investment strategy in late 2017, the DB Sections of Pace no longer invest in company shares (either directly or through pooled funds) and therefore do not hold investments with attaching voting rights.

The DC Sections offer options for investment to members which do include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors. Voting rights are exercised by L&G using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by L&G and strategic decisions are made by L&G's Corporate Governance Team in accordance with their governance policies for each region.

L&G disclose their voting records on their website at the end of each month, including summaries of their positions for significant shareholder votes. L&G apply a consistent voting policy across shares held through pooled funds, whether in the multi-asset fund or equity funds.

A significant vote to highlight over the year was the successful shareholder resolution put forward by L&G and other major shareholders at BP's May 2019 AGM calling on it to explain how its strategy is consistent with the Paris Agreement on climate change.