



the Cheviot **trust**

Chairman's Review Sir Derek Morris

Year End 31 December 2019

Chairman's review

Sir Derek Morris, Chairman



My third year as Chair of Cheviot Trustees Limited was initially dominated by our application to be authorised as a Master Trust by the Pensions Regulator, together with our ongoing work to improve outcomes for members through a proactive approach and a new administration system. More recently it has inevitably been dominated by the Covid-19 virus, its effects on the economy and on the pension funds which we manage.

The skills provided by the directors of Cheviot Trustees Limited have ensured that we are able to rise to the challenge of new regulations and volatile investment conditions without losing our focus on meeting the needs of members and participating employers. As a result, we were in a strong position to tackle the unprecedented challenges arising from the coronavirus pandemic. The sections below seek to cover all these items. These accounts are necessarily focused on the year end but clearly assets values have all been affected by the significant market falls since then.

Master Trust Application

We were very pleased to be authorised as a Master Trust by the Pensions Regulator in August 2019. The application process and review were very detailed and granular. Over half of all Master Trusts have ceased to operate as a result of the regulatory regime. Gaining authorisation demonstrates that our governance is at a very high standard, our trustees are knowledgeable and skilled and that our administration systems and processes are robust and effective.

New Administration System

Having introduced a new administration for the Money Purchase and With Profits Sections early in 2019, we continue to work on implementing the system for our Final Salary Schemes. The new system has already delivered benefits in terms of more efficient administration and work continues on developing a new website for members including a dashboard which will allow them to see all the key information in one place.

The new administration system has made the operational challenges of working from home relatively easy to manage and members and employers can still contact us by phone or email.

Audit and Assurance Framework Report

The Audit and Assurance Framework Report to 31 December were signed in May 2020. With only one small exception against the agreed procedures, these independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a trustee governance level as well as those which relate to pensions and financial administration across the organisation.

Investment Performance

Return-seeking assets had a positive 2019 and performance was above target across the board. After the difficult conditions at the end of 2018, the exposure to on risk assets was increased gradually during the year as the market conditions improved. Most return-seeking asset classes performed positively. Sovereign bond prices rose sharply with unprecedented high returns on these safe haven assets. The liability hedges remained

in place for most Final Salary Schemes and the With Profits Section to provide protection from changes in interest rates and inflation.

The Board's dynamic approach to investment has enabled it to make changes to asset allocation to reduce the risk profile during the current crisis so that, while nearly all funds have fallen in value, the Board has so far managed to mitigate the impact to some extent. It is too early to predict with any certainty the economic impact of this crisis, although it is likely to be significant and therefore to impact asset values for some time to come.

With Profits Section

An update of the funding position of the With Profits Section was undertaken at 31 December 2019. It showed a funding level on an ongoing funding basis of around 101% at the valuation date. The valuation makes specific provision for expenses over a five-year period to the end of 2022. An employers' meeting was held in February 2020.

Since then, the funding position has fallen as a result of the crisis and the Trustee has been considered how best to address these additional risks. The action taken will depend on how far markets have recovered from the current crisis, but it seems very likely that it will be necessary to continue to hold assets on risk whilst liabilities reduce further. The Trustee continues to work with its advisers to manage risks within the Section. The Section may also be impacted by COVID-19 in relation to the ability of participating employers to support it financially but the number and spread of employers involved makes this less likely.

The next valuation is due at the end of 2020 and the Trustee will engage with employers in relation to the options in the first half of 2021.

Money Purchase Section

Returns for the Money Purchase Section were, until the recent crisis, very positive reflecting good market conditions during the year. The value of all options grew during the year. The performance remained well ahead of the long-term targets against Consumer Price Inflation over three years.

The falls in asset value due to the COVID-19 crisis will now have worsened the position for nearly all members. Although the falls to date have been less than the markets, the Trustee recognises the impact on members and their retirement plans.

Report to Members

The Report to Members was issued to all members and pensioners in July 2019. The Chair's Governance Statement, as required by the DC Code of Practice, is included on pages 49 to 65 of these accounts.

Derek Morris

Sir Derek Morris
Chairman