



# Consolidated Annual Report and Accounts of the Cheviot Trust

## Annual Report and Accounts

For the year ended 31 December 2022

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## Trustee and advisers

### Trustee: Cheviot Trustees Limited

Co-opted Directors	Employer Nominated Directors	Member Nominated Directors
Sir Derek Morris, Chairman <sup>1</sup>	Ian Gault, Vice Chairman	Diane Elliott-Smith
Elspeth McKinnon <sup>2</sup>	Stephen Jones	Frances Longmore
	Gerald Kidd	Giles Orton
	Martin Poore <sup>3</sup>	Maralyn Thomas

#### Scheme Actuaries

Final Salary Schemes:  
Edward Spencer of Barnet Waddingham LLP  
Cheviot Pension:

#### Investment Advisers

Peter Black of XPS Pensions Group  
Schroders IS Limited part of the Schroders Group<sup>4</sup>  
Isio Group Limited

#### Auditor

Crowe U.K. LLP

#### Bankers

National Westminster Bank plc

#### Investment Managers

The Trustee has direct contractual relationships with the managers shown below. All Schemes and Sections invest in blended funds held on the Mobius Life Limited investment platform. This platform invests in the underlying managers. Details can be found in the Statements of Investment Principles available on the website. Columbia Threadneedle Investments<sup>5</sup> (Final Salary Schemes)  
Marshall Wace Asset Management Limited<sup>6</sup> (Cheviot Pension and Final Salary Schemes)

Mobius Life Limited (Cheviot Pension and Final Salary Schemes)  
Phoenix Investment Adviser LLC (Cheviot Pension and Final Salary Schemes)  
PIMCO Europe Limited (Cheviot Pension)  
Schroders IS Limited (Cheviot Pension)

#### Buy in providers

Royal London Asset Management Limited (Cheviot Pension)  
Aviva (Wilkinson Maughan Retirement Benefit Scheme)  
Legal & General (Holman Fenwick Willan Pension Scheme)  
Rothsay Life (Dickinson Dees Pension Scheme)  
Scottish Widows (Whittles Retirement Benefits Scheme)

#### Custodian

Caceis Bank

#### Solicitors

ARC Pensions Law LLP  
Pinsent Masons LLP

#### Covenant Adviser

PricewaterhouseCoopers LLP

<sup>1</sup> Reappointed 1 July 2022

<sup>2</sup> Reappointed 29 September 2022

<sup>3</sup> Reappointed 29 September 2022

<sup>4</sup> River & Mercantile Group plc purchased by Schroders group effective from 1 February 2022.

<sup>5</sup> BMO Global Asset Management was purchased by Columbia Threadneedle on 8 November 2021 and rebranded as Columbia Threadneedle Investments on 4 July 2022.

<sup>6</sup> Merged with Lumyna on 21 January 2022.

## Chair's review

### Sir Derek Morris, Chairman

Economic conditions in 2022 continued to be impacted by the Covid-19 virus, its effects on the economy and on the supply chain for goods. The shocking events of February 2022 moved our focus to the war in Ukraine with its terrible human cost. The Trustee has focused on the significant impact of the conflict on the geopolitical and economic environment and the investments held by the Trust. Investment conditions were exceptionally poor with both high and lower risk assets falling in value significantly.



Despite the challenges, the Trust has continued to focus on its governance and services to members with the support of the committed and knowledgeable directors of the Trustee, Cheviot Trustees Limited, advisers and staff.

### Trustee issues

The Trustee has moved to a mixture of in person, hybrid and virtual meetings, balancing convenience and cost effectiveness with the positive impact of in person meetings. Each Committee is now meeting in person at least once a year and the Board plans to meet in person at least twice a year and more often if the business of the meeting makes it appropriate.

The Trustee adopted a bespoke net zero commitment which explicitly reflects the Trustee's fiduciary responsibilities as well as our ambition to contribute to the world's efforts to reduce global warming. You can read more about this in the Implementation Statements and the TCFD report<sup>7</sup> available on our corporate website.<sup>8</sup>

### Investment performance 2022

Markets were tumultuous in 2022, driven by soaring commodity prices, global uncertainty, spiralling inflation and supply chain disruption across Europe. Together with the political uncertainty in the UK, this made for difficult investment conditions during 2022 and the outlook for 2023 is also challenging.

On-risk assets fell during a broad market downturn. All major asset classes were materially down offering little opportunity for protection. Performance was in line with markets but this still resulted in very disappointing performance for members of the Money Purchase Section which has also impacted the 3 and 5 year return numbers against Cheviot's targets. This has particularly impacted those who are approaching retirement as gilts, the main defensive asset other than cash, fell significantly as well. Whilst performance was also poor for on risk assets in the Final Salary Scheme and With Profits Section, members in those arrangements are protected from direct market falls through the support of employers.

The Investment Committee continued to meet as required during 2022 and, in addition to reviewing investment performance, considered the impact of rising inflation on the current investment performance targets for the Money Purchase Section, which are based on the Consumer Price Index. This resulted in some asset allocation changes to reflect the challenging targets for the longer term funds. The directors focus on materially financial issues likely to impact risks and returns. Environmental, social and governance factors (otherwise known as ESG) can be financially material factors including climate change.

The Investment Committee also closely monitored the market crisis in September and October in relation to the Final Salary Schemes and the With Profits Section which have liability hedges which were affected by the volatility and additional collateral demands.

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

<sup>8</sup> [www.cheviottrust.com](http://www.cheviottrust.com)



## Operational issues

Hybrid working is now the standard approach for the in-house administration, finance and governance teams. Most staff work at least two days in the office each week. Working from home is now seamless and all staff remain accessible through our usual phone lines and email.

## Communications

Member communications moved largely online in April 2022 after a communication exercise with members. Our member website, [www.mycheviotpension.com](http://www.mycheviotpension.com), is easy to navigate and includes a member guide booklet for members of the Money Purchase Section, together with a series of factsheets focusing on investment and retirement. Other factsheets cover the other pension arrangements provided within the Trust.

Members can access live information about their savings through the member portal, accessible through the member website or through an app. Cheviot pension benefit statements were issued in May 2022 in line with the simpler annual benefit statement guidance issued by the Department for Work and Pensions. The statements can be printed on two sheets of paper and were accompanied by a factsheet which set out additional information.

The Report to Members included information about a new ESG equity fund available to members from the beginning of 2023, Cheviot's net zero commitment the new member website and benefit statements.

## With Profits Section

The actuarial report of the With Profits Section at 31 December 2021 is available on the website. The funding level during 2022 was impacted by poor investment conditions and the liability hedge crisis in October and fell to 88% at the end of 2022. The Trustee will be engaging with employers to discuss possible options.

## Authorised Master Trust

The Trustee submitted the annual return in respect of the Money Purchase Section by 31 March 2022 as required. The Pensions Regulator had no comments or questions on the return. The 2022 Annual Return was also submitted on time in March 2023. The Chair's Governance Statement for 2022, as required by the DC Code of Practice, is included on pages 46 to 72 of these accounts and sets out how the Section was managed during 2022.

## Audit and Assurance Framework Report

The Report for the year ended 31 December 2022 was signed on 30 March 2023. 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. The auditors conducting the review did not identify any exceptions to the operation of the controls in place.

*Sir Derek Morris*

Sir Derek Morris  
**Chairman**



## Trustee's Report

### Scheme constitution

The Cheviot Trust (Cheviot) has been providing occupational pensions since 1930. It is an innovative, not for profit organisation committed to providing straightforward and effective pension services to employers and members. It provides defined contribution and cash balance benefits through the **Cheviot Pension (Money Purchase and With Profits Sections)** and defined benefits through a series of individually funded schemes (**Final Salary Schemes**). All Sections benefit from shared governance, management, investment strategy and administration.

### Management of the Trust

All Schemes are managed by Cheviot Trustees Limited. The structure of the Board is compliant with the governance requirements for Master Trusts. A detailed Governance Policy is in place and reviewed regularly. The Trustee uses a committee structure to undertake some of the governance requirements.

Four employer representative Directors

Four member representative Directors

Two co-opted Directors

### Trustees

The membership of the Cheviot Trustee Board currently comprises four employer nominated representatives, four member nominated representatives and two co-opted Directors. All Trustee Directors meet the fit and proper requirements of the Master Trust authorisation process. There are two professional trustees, including the Chair.

Employer and Member representatives are currently appointed by the Trustee, following the relevant selection process, for a term of three years<sup>9</sup> or until a representative resigns, ceases to be eligible or the other Directors decide that the term of office should end. Directors may put themselves forward for re-appointment. Co-opted Directors are also appointed for a three year period.

The term of one employer representative, Mr Martin Poore, expired in 2022. No additional candidates came forward and Mr Poore was reappointed on 29 September 2022 after an open, fair and transparent process. The relevant external checks were completed.<sup>10</sup>

Sir Derek's non affiliation period expired in 2022 and he was reappointed on 1 July 2022 for the period to 31 March 2027, following a short tender process, considered by the Board's legal advisers to constitute an open and transparent process having regard to TPR's guidance. The relevant external checks were completed.

The term of the second co-opted Director, Ms Elspeth McKinnon, expired in September 2022. Ms McKinnon put herself forward for re-appointment. The Trustee Board re-appointed Ms McKinnon on 29 September 2022. The relevant external checks were completed.

More information about the Trustees is available in the Chair's Statement on pages 46 to 72.

### Audit Assurance reports

The Trust has obtained a type 2 Combined AAF 05/20 assurance report on Master Trusts and 01/20 internal controls assurance report across all Sections and Schemes and covers the period of reporting. These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a trustee governance level as

<sup>9</sup> Or until replacement or re-appointment following the next appointment process under Article 7.7.4 after the expiry of the three year period or as agreed by the Board.

<sup>10</sup> Mr Poore is designated as non-affiliated as the appointment process was open and transparent.



well as those which relate to pensions and financial administration across the organisation. The auditors conducting the review did not identify any exceptions to the operation of the controls in place.

## Trustee meetings in 2022

Four full Trustee Board meetings and seven conference calls were held during the year ended 31 December 2022. The Trustee operates a committee structure with six Committees. Each Committee has delegated powers from the Board to undertake certain business on its behalf.

During 2022:

- The Finance and Operations Committee held four meetings.
- The Funding Committee held four meetings.
- The Investment Committee held twelve meetings.<sup>11</sup>
- The Legal Committee held three meetings.
- The Risk and Compliance Committee held four meetings.
- The Human Resources Committee held two meeting during the year.

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

Working parties are established for key projects. There are currently two working parties in operation.

## Changes to the Trust Deed and Rules

A new version of the Trust Deed and Rules document was executed in December 2022. A further version of the document was executed in February 2023 to correct some statutory references. The new document is largely a consolidation of the various deeds of amendments since the previous consolidation in 2017 together with some changes to the order of the relevant sections.

## Cost allocation

All generic costs are incurred by Cheviot Trustees Limited directly and then the appropriate share of those costs is invoiced to the relevant Scheme or Section, to provide transparency for both management and regulatory purposes. No change has been made to the underlying allocation basis between the Schemes and Sections during the year.

Costs incurred in respect of a specific Scheme or Section are charged directly to the relevant entity. Minimum fees are in place in respect of some professional services to ensure fairness between Schemes.

## Financial statements

These financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995. The financial statements summarise the net assets of the Trust. They do not take account of future obligations to pay pensions and benefits which fall due after the end of the reporting year.

Financial statements are produced separately for the Cheviot Pension and each Final Salary Scheme, which include reports on actuarial liabilities where appropriate.

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<sup>11</sup> Additional meetings were held to consider action required in respect of the market crisis in October.



## Financial developments in the year

The value of the net assets of the Trust as at 31 December 2022 is shown below. The 2021 numbers are shown in brackets. Further details can be found in the Fund Account.

	<b>Combined Final Salary Schemes</b>	<b>Cheviot Pension</b>	<b>Total</b>
Assets at 31 December 2022	£158.1m (£234.1m)	£206.6m (£251.4m)	£364.7m (£485.0m)

The split of the Cheviot Pension assets for 2022 is: Money Purchase Section £142.1m and With Profits Section £64.5m (2021: £161.4m and £90.0m respectively). Please refer to the Money Purchase Section and the With Profits Section annual report and accounts for more details on the Cheviot Pension financial developments.

## Investment matters

### Market overview

Markets were tumultuous in 2022, driven by soaring commodity prices, global uncertainty, spiralling inflation and supply chain disruption across Europe. Together with the political uncertainty in the UK, this made for difficult investment conditions during 2022.

On-risk assets fell during a broad market downturn. All major asset classes were materially down offering little opportunity for protection. Performance was in line with markets but this still resulted in very disappointing performance for members of the Money Purchase Section, particularly those who are closest to retirement. The 2022 returns have also impacted the 3 and 5 year return numbers against Cheviot's targets. Performance was also poor for on risk assets in the Final Salary Schemes and With Profits Section which is challenging for the scheme sponsors. Members in those arrangements are protected from direct market falls through the support of employers.

### Strategy

The investment strategy was set out in the Statement of Investment Principles for each Scheme or Section, which incorporates the investment strategy, in accordance with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. All statements are publicly available or can be obtained on request from Cheviot.

### Final Salary Scheme strategy

The investment strategy for the Final Salary Schemes is based on the covenant of each sponsoring employer; the employer's attitude to risk; and takes account of each scheme's estimated future cash flows. Cheviot provides a series of investment building blocks which are used to create a tailored strategy for each scheme. The investment strategy is reviewed at least triennially during the valuation process. All employers continue to provide regular updates to the covenant adviser.

All schemes are either hedged against interest rate movements and inflation risk or hold solely gilts. The Investment Committee closely monitored the market disruption in September/October 2022 and most liability hedges were retained at their existing level during the crisis.





## With Profits Section strategy

The investment strategy approach for the With Profits Section of the Cheviot Pension is based on the combined covenant of the participating employers and includes a hedge against interest rate movements and inflation risks. The strategy included a significant proportion of on risk assets, given the very strong covenant as assessed by the Trustee's covenant advisers, PwC. Despite the derivatives in place to provide some downside protection, the asset value fell very significantly in 2022 both through negative investment returns and members accessing their benefits. This has significantly impacted the funding position. The Trustee is in consultation with employers about the future funding of the With Profits Section.

## Money Purchase Section strategy

The strategy for the core options used in the Cheviot Lifeplan<sup>12</sup> is to target above inflation returns and, utilising a number of investment options, to provide a more stable journey for members as they progress through their lifetime of employment up to retirement. This had been achieved through dynamic management of the underlying assets.

The Chair's Statement includes more information and is available online.

The main feature of the investment strategy during 2022 was to reduce risk, primarily from investment grade bonds but also some small reductions from equity holdings. Gilts were used as a defensive holding but significantly underperformed which impacted members approaching retirement. The performance for 2022 was disappointing, impacted by the market conditions, but remains in line with market returns and other DC arrangements.

The annual strategy review undertaken in July 2022 focused on the impact of rising inflation on CPI + targets and the draft on performance of a large cash allocation as members approached retirement. Asset allocation changes are in progress to reflect these discussions.

## Management and custody of the assets

All Money Purchase Section assets and a proportion of the With Profit Section and the Final Salary Section were held on an investment platform with Mobius Life which provides custody services and invests in the underlying managers who manage the investments according to their written mandates. This structure enabled the Trustee to adopt a dynamic approach in managing return seeking assets. The With Profit Section and the Final Salary Section have assets held by fund managers separate to the Mobius Life Platform. Asset allocation was reviewed at least monthly.

The With Profits Section holds a portfolio of swaps to provide a liability hedge in respect of movements in interest rates and inflation. The custody of the swaps is managed by Caceis Bank.

Detailed investment performance information is shown in Appendix 1 – Investment on page 42.

## Environmental, social and governance factors

When selecting and monitoring an investment the Trustee will consider financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change.

The Trustee has been considering the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Trustee also considers those

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<sup>12</sup> The default option



elements of the investment strategy where the fundamental investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.

The Investment Committee has considered the implications of climate change on the portfolio's future investment returns in detail based on the data available. As a result, the Trustee has adopted a bespoke net zero commitment by 2050, reflecting the Paris Agreement's objectives. It reflects the Board's fiduciary responsibilities to members and employers and the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris agreement.

Work has focused on improving the data available from managers in relation to climate change to enable more accurate setting of targets. Since the underlying investment funds used are pooled products (i.e. funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors or give directions on stewardship such as how voting rights are used. It continues to engage with managers and the platform provider to gather more information and analysis.

The primary way the Trustee considers long term financial performance including ESG factors and stewardship is through advice from the Investment Adviser and its engagement with investment managers. Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. Such factors may also be important criteria for considering the replacement of a manager. Once a manager is appointed, the Trustee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and use its Investment Adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate).

More information about how the Trustee implements the policies in the Statement of Investment Principles is available in the implementation statements included in each scheme's accounts.

## Non-financial material factors

The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) when making investment decisions on behalf of members as there is not likely to be a common view on any ethical matters amongst members; but makes available two funds, one consistent with Shariah principles and one reflecting a particular ethical approach, which aim to satisfy certain sets of beliefs. These are available to all members and an additional ESG equity fund has been introduced from January 2023. The Trustee has no plans to seek the views of the membership on ethical considerations at the current time.

## Task Force on Climate-related Finance Disclosures

The Trustee has prepared a report setting out its approach to climate related financial disclosures as required by the Task Force on Climate-related Financial Disclosures (TCFD). This report can be found on the Cheviot Trust website [https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile\\_FILE/TCFD-Report.pdf](https://www.cheviottrust.com/Uploads/Documents/00/00/00/72/DocumentFile_FILE/TCFD-Report.pdf)



## Membership

The membership of the Trust is shown below. More detail is provided in the individual financial statements.

<b>31 December 2022</b>						
	<b>Active</b>	<b>Deferred</b>	<b>Pensioner</b>	<b>Total</b>	<b>LAO<sup>13</sup></b>	<b>Total</b>
<b>The Final Salary Schemes</b>	-	559	802	1,361	-	1,361
<b>The Cheviot Pension<sup>14</sup></b>	1,707	4,799	681	7,187	559	7,746

## Scope of accounts

These financial statements show the overall position of the Trust and the breakdown between the Cheviot Pension and the Final Salary Schemes. Separate financial statements are prepared for the individual Final Salary Schemes and the With Profits Section and Money Purchase Section of the Cheviot Pension. The Money Purchase Section of the Cheviot Pension financial statements include the Chair's Governance Statement. The Trust's auditors, Crowe U.K. LLP, are also the auditors to the individual schemes and the Cheviot Pension. The Trust's financial statements are made available to all participating members and employers through the website.

## Collection of contributions

Procedures are in place to monitor the collection of contributions to ensure they are paid to the Trust on an accurate and timely basis for both the Cheviot Pension and each Final Salary Scheme. No contributions are currently required to be paid to the With Profits Section.

A summary of contributions payable during 2022 is shown on page 39.

<sup>13</sup> LAO = Life assurance only members included in the Cheviot Pension solely for lump sum death in service benefits.

<sup>14</sup> Members are only shown once even if they have benefits in more than one Section.



## Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year end;
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes; and
- are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis. The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal controls.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and, if necessary, revising schedules of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedules of contributions. Where breaches of the schedules occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

This Trustee's Report was approved by the Trustee on 28 July 2023 and signed on behalf of the Trustee by:

*Sir Derek Morris*

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Sir Derek Morris

**Chairman**



## Independent Auditor's Report

### Opinion

We have audited the financial statements of the Cheviot Trust ("the Scheme") for the year ended 31 December 2022 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

### Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine



whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Trustee

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

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.
- Non-receipt of contributions due to the Scheme from the Employers. This is addressed by testing contributions due are paid to the Scheme in accordance with the Schedules of Contributions and Payment Schedules agreed between the Employers and the Trustee.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.



A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**Crowe U.K. LLP**  
Statutory Auditor  
London

Date: 28 July 2023

## Fund Account

*for the year ended 31 December 2022*

		2022	2022	2022	2021
		Final	The	Total	Total
		Salary	Cheviot		
		Schemes	Pension		
	<i>Note</i>	£'000	£'000	£'000	£'000
<b>Contributions and benefits</b>					
Employer contributions		3,370	3,574	6,944	5,742
Employee contributions		-	3,163	3,163	3,262
Total contributions	5	3,370	6,737	10,107	9,004
Transfers	6	-	2,021	2,021	2,837
		3,370	8,758	12,128	11,841
Benefits payable	7	6,367	6,282	12,649	12,320
Payments to and on account of leavers	8	333	6,141	6,474	6,337
Administrative expenses	9	1,536	2,216	3,752	3,050
		8,236	14,639	22,875	21,707
<b>Net withdrawals from dealings with members</b>		<b>(4,866)</b>	<b>(5,881)</b>	<b>(10,913)</b>	<b>(9,866)</b>
<b>Returns on investments</b>					
Investment income	10	1,059	2,021	3,080	2,388
Change in market value of investments	12, 13	(72,054)	(40,829)	(112,883)	22,405
Investment management expenses	14	(129)	(158)	(287)	(354)
<b>Net return on investments</b>		<b>(71,124)</b>	<b>(38,966)</b>	<b>(110,090)</b>	<b>24,439</b>
<b>Net movement in the fund during the year</b>		<b>(75,990)</b>	<b>(44,847)</b>	<b>(120,837)</b>	<b>14,573</b>
<b>Net assets of the Trust:</b>					
At 1 January		234,074	251,414	485,488	470,915
At 31 December		158,084	206,567	364,651	485,488

The notes on pages 19 to 37 form part of these financial statements.





## Statement of Net Assets (available for benefits)

at 31 December 2022

	Note	2022 £'000	2021 £'000
<b>Final Salary Schemes</b>			
<b>Investments</b>			
Investment assets			
Pooled investment vehicles	12a	131,250	230,597
Insurance Policies	12a	26,637	3,952
		<b>157,887</b>	<b>234,549</b>
<b>Current assets</b>	16	<b>642</b>	<b>478</b>
<b>Current liabilities</b>	17	<b>(445)</b>	<b>(953)</b>
<b>NET ASSETS</b>		<b>158,084</b>	<b>234,074</b>
<b>The Cheviot Pension</b>			
<b>Investments</b>			
Investment assets			
Pooled investment vehicles	13a	183,210	221,552
Bonds	13a	24,681	23,480
Derivatives	13c	3,060	6,790
Other investment balances	13a	-	41
Accrued fixed interest on securities	13a	83	66
Cash	13a	36	26
		<b>211,070</b>	<b>251,955</b>
Investment liabilities			
Derivatives	13c	(6,299)	(1,734)
		<b>(6,299)</b>	<b>(1,734)</b>
		<b>204,771</b>	<b>250,221</b>
<b>Current assets</b>	16	<b>2,261</b>	<b>1,475</b>
<b>Current liabilities</b>	17	<b>(465)</b>	<b>(282)</b>
<b>NET ASSETS</b>		<b>206,567</b>	<b>251,414</b>
<b>TOTAL NET ASSETS</b>		<b>364,651</b>	<b>485,488</b>

The notes on pages 19 to 37 form part of these financial statements.

The consolidated financial statements summarise the transactions of the Trust's Cheviot Pension and Final Salary Schemes and deal with the net assets of the Trust and its subsidiary undertakings. They do not take account of liabilities to pay



pensions and other benefits which fall due after the accounting year. The actuarial position of each scheme, which does take account of such liabilities, is dealt with in separate actuarial statements in respect of each Final Salary Scheme and for the With Profits Section of the Cheviot Pension. The relevant actuarial statements are attached to each scheme's financial statements.

These financial statements were approved by the Trustee on 28 July 2023 and signed on behalf of the Trustee by:

*Sir Derek Morris*

.....

Sir Derek Morris

**Chairman**

*Elspeth McKinnon*

.....

Elspeth McKinnon

**Director**



## Notes to the Financial Statements

(forming part of the financial statements)

### 1. Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102- the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (Revised 2018).

### 2. Identification of the financial statements

The Scheme is established as a trust under English Law. The address for enquiries to the Scheme is on the front cover of these Annual Report and Accounts.

### 3. Tax status of the Scheme

The Scheme is an exempt approved scheme under Chapter 2, Part 4 of the Finance Act 2004 and is therefore exempt from income tax, capital gains tax and certain withholding taxes. To the Trustee's knowledge, there is no reason why such approval should be prejudiced or withdrawn.

### 4. Accounting policies

The following accounting policies are adopted by the Trust:

#### (a) Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Cheviot Pension and the Final Salary Schemes.

#### (b) Contributions

Contribution income reflects contributions received and receivable up to 31 December 2020 for both the Cheviot Pension and the Final Salary Schemes.

Additional Voluntary Contributions (AVCs) are accounted for on an accruals basis in the same way as other contributions and the resulting investments are included in the net assets statement.

#### Cheviot Pension

The rates of contributions for members and participating employers of the Money Purchase Section are governed by the Cheviot Pension rules and vary between employers.

No contributions are currently due in respect of the With Profits Section.

#### Final Salary Schemes

Contributions to each Final Salary Scheme is determined through consultation between the Employer and the Trustee in light of advice and recommendations by the Scheme Actuary, who reviews the position at three yearly intervals. Contribution income is accounted for on an accruals basis. Contributions are paid in accordance with the Schedules of Contributions attached to each Final Salary Scheme.



### **(c) Investment income**

Income from pooled investment vehicles is reinvested and used to purchase additional units in the pooled fund, and consequently is not shown separately in the Fund Account, but is included within the change in market value of investments.

Income from fixed interest securities (such as gilts), annuity income and interest receivable on cash deposits are all accounted for on an accruals basis.

Receipts or payments under swap contracts, represent the difference between the swapped cashflows.

### **(d) Investment management expenses**

Where investments are held in pooled investment vehicles, the investment manager takes his fees from the fund and consequently they are not shown separately in the Fund Account, but are included within the change in market value of investments. Other investment managers' expenses are accounted for on an accruals basis.

### **(e) Investments**

Investments other than subsidiary undertakings are valued as follows:

- i. Fixed interest securities are valued at bid market values or the official closing price ruling at the year end date.
- ii. Pooled investment vehicles are valued at the bid market values for funds with bid/offer spreads, or a single price where there are no bid/offer spreads, as provided by the relevant investment manager on the last dealing day prior to the year-end date.
- iii. Swaps are valued at the net present value of future cash flows arising therefrom. The amounts included in the change in market value are the unrealised gains or losses on open contracts.
- iv. Options are valued at their mark to market value. If a quoted market price is not available on a recognised exchange the fair value is calculated using pricing models, where inputs are based on market data at the year end date.
- v. Where material, the value of the bulk annuity policies held by Final Salary Schemes as at the year-end has been determined by the Actuary based on the expected cost of securing the benefits with an insurer at the calculation date.
- vi. AVCs invested in the Cheviot Pension have been valued on the basis of the current account value.

### **(f) Financial reserve**

In order to meet the financial sustainability requirements for Master Trusts, there is a Financial Reserve in the Money Purchase Section of the Cheviot Pension. The Financial Reserve holds funds which are not allocated to a member's Money Purchase Account. The Trustee may at its discretion utilise any funds for the general purposes of the Money Purchase Section.

### **(g) Foreign currency**

Investments denominated in foreign currencies are translated into their sterling equivalent at the rates applicable at the year-end. The functional and presentational currency is sterling.

### **(h) Benefits and transfers**

Benefits, including the purchase of annuities, are accounted for on an accruals basis and are therefore reported on the later of the leaving date and the date on which any option is communicated to the Trustee. Transfers to and from other schemes

are accounted for on a cash basis, with the exception of bulk transfers where liability may be accepted before the funds are received, which are accounted for on an accruals basis.

## 5. Contributions receivable

		2022	2022	2022	2021	2021	2021
		Final	The	Total	Final	The	Total
		Salary	Cheviot		Salary	Cheviot	
		Schemes	Pension		Schemes	Pension	
		£'000	£'000	£'000	£'000	£'000	£'000
Employers							
	Employers Normal	-	3,574	3,574	-	3,291	3,291
	Additional	1,298	-	1,298	401	-	401
	Deficit funding	2,072	-	2,072	2,050	-	2,050
		<b>3,370</b>	<b>3,574</b>	<b>6,944</b>	<b>2,451</b>	<b>3,291</b>	<b>5,742</b>
Employees							
	Normal	-	3,098	3,098	-	3,235	3,235
	AVCs	-	65	65	-	27	27
		-	<b>3,163</b>	<b>3,163</b>	-	<b>3,262</b>	<b>3,262</b>
		<b>3,370</b>	<b>6,737</b>	<b>10,107</b>	<b>2,451</b>	<b>6,553</b>	<b>9,004</b>

## 6. Transfers in and other income

		2022	2022	2022	2021	2021	2021
		Final	The	Total	Final	The	Total
		Salary	Cheviot		Salary	Cheviot	
		Schemes	Pension		Schemes	Pension	
		£'000	£'000	£'000	£'000	£'000	£'000
Individual transfers in from other schemes		-	328	328	-	787	787
Individual transfers between Sections		-	1,653	1,653	-	1,950	1,950
Claims on term insurance policies		-	40	40	-	100	100
		-	<b>2,021</b>	<b>2,021</b>	-	<b>2,837</b>	<b>2,837</b>

During the year, individuals transferred from the With Profits Section of the Cheviot Pension to the Money Purchase Section of the Cheviot Pension to enable them to access their retirement benefits flexibly.

## 7. Benefits payable

	2022	2022	2022	2021	2021	2021
	Final	The	Total	Final	The	Total
	Salary	Cheviot		Salary	Cheviot	
	Schemes	Pension		Schemes	Pension	
	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	5,371	2,961	8,332	5,137	3,015	8,152
Commutation of pensions	985	2,857	3,842	493	2,834	3,327
Payments on death	11	464	475	54	787	841
	<b>6,367</b>	<b>6,282</b>	<b>12,649</b>	<b>5,684</b>	<b>6,636</b>	<b>12,320</b>

Since the provision of flexible benefits at retirement, including drawdown, the Money Purchase Section now pays both regular and irregular income to some members from their account. These payments are described as pensions in these accounts but are not guaranteed.

## 8. Payments to and on account of leavers

	2022	2022	2022	2021	2021	2021
	Final	The	Total	Final	The	Total
	Salary	Cheviot		Salary	Cheviot	
	Schemes	Pension		Schemes	Pension	
	£'000	£'000	£'000	£'000	£'000	£'000
Individual transfers between Sections	-	1,870	1,870	-	1,870	1,870
Individual transfers to other schemes	333	4,094	4,427	781	3,323	4,104
Purchase of annuities	-	177	177	-	283	283
AVCs transferred to the Cheviot Pension	-	-	-	80	-	80
	<b>333</b>	<b>6,141</b>	<b>6,474</b>	<b>861</b>	<b>5,476</b>	<b>6,337</b>



## 9. Administrative expenses

	2022 Final Salary Schemes £'000	2022 The Cheviot Pension £'000	2022 Total £'000	2021 Final Salary Schemes £'000	2021 The Cheviot Pension £'000	2021 Total £'000
Legal fees	157	62	219	63	8	71
Audit fees	61	61	122	50	62	112
Administration fees	825	1,789	2,614	669	1,529	2,198
Professional fees	641	216	857	410	171	581
Other expenses	3	11	14	3	9	12
Irrecoverable VAT	-	39	39	-	33	33
TPR Levy	15	38	53	11	32	43
Expenses recovered from Employers	(166)	-	(166)	-	-	-
	<b>1,536</b>	<b>2,216</b>	<b>3,752</b>	<b>1,206</b>	<b>1,844</b>	<b>3,050</b>

An allowance for expenses is generally included in the Schedule of Contributions for each scheme. One Final Salary Scheme paid a proportion of expenses directly during 2022 (2021: nil).

## 10. Investment income

	2022 Final Salary Schemes £'000	2022 The Cheviot Pension £'000	2022 Total £'000	2021 Final Salary Schemes £'002	2021 The Cheviot Pension £'001	2021 Total £'000
Income from fixed interest securities	-	1,455	1,455	-	1,538	1,538
Fee income deducted from investments	-	566	566	-	617	617
Income from annuities	1,059	-	1,059	233	-	233
	<b>1,059</b>	<b>2,021</b>	<b>3,080</b>	<b>233</b>	<b>2,155</b>	<b>2,388</b>

The Money Purchase Section of the Cheviot Pension invests in blended funds on the Mobius Life Limited investment platform. Charges of £566k (2021: £617k) were deducted from the blended funds during 2022 to meet Cheviot's administration, governance and professional adviser costs.



## 11. Fair value determination

The investments have been analysed according to the basis on which the fair value has been determined. The best evidence of fair value is a quoted price of an active security on a recognised exchange and thus falling into the top category, (Level 1). The greatest amount of judgement is involved where a fair value is based on valuation techniques and such investments fall into the bottom category (Level 3). The basis of the fair value hierarchy is described in more detail below:

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

### 11a. Fair Value Hierarchy Analysis

The Trust's investments have been analysed using the above hierarchy categories as follows:

	At 31 December 2022			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Final Salary Schemes</b>				
Pooled investment vehicles	-	131,250	-	131,250
Insurance policies	-	-	26,637	26,637
AVCs	-	-	-	-
	-	131,250	26,637	157,887
<b>Cheviot Pension</b>				
<b>Money Purchase Section:</b>				
Pooled investment vehicles	-	140,766	-	140,766
Other investment balances	-	-	-	-
<b>With Profits Section:</b>				
Pooled investment vehicles	-	42,444	-	42,444
Bonds	-	-	24,681	24,681
Derivatives	-	-	(3,239)	(3,239)
Cash and cash in transit	36	-	-	36
Other investment balances	83	-	-	83
	119	183,210	21,442	204,771
	119	314,460	48,079	362,658





	At 31 December 2021			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Final Salary Schemes</b>				
Pooled investment vehicles	-	230,597	-	230,597
Insurance policies	-	-	3,952	3,952
AVCs	-	-	-	-
	-	230,597	3,952	234,549
<b>Cheviot Pension</b>				
<b>Money Purchase Section:</b>				
Pooled investment vehicles	-	160,792	-	160,792
Other investment balances	41	-	-	41
<b>With Profits Section:</b>				
Pooled investment vehicles	-	60,760	-	60,760
Bonds	-	-	23,480	23,480
Derivatives	-	-	5,056	5,056
Cash and cash in transit	26	-	-	26
Other investment balances	66	-	-	66
	133	221,552	28,536	250,221
	133	452,149	32,488	484,770

## 12. Reconciliation of Investments – Final Salary Schemes

### (a) Purchases, sales and change in value

	Market Value at 1 January 2022 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Market Value at 31 December 2022 £'000
Pooled Investment Vehicles	230,597	145,438	(181,846)	(62,939)	131,250
Fixed Interest Securities	-	-	-	-	-
Insurance Policy - Rothesay Life	3,236	-	-	(845)	2,391
Insurance Policy - Scottish Widows	716	-	-	(170)	546
Insurance Policy - Legal & General	-	21,764	-	(4,564)	17,200
Insurance Policy - Aviva	-	10,036	-	(3,536)	6,500
	234,549	177,238	(181,846)	(72,054)	157,887

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. All associated costs of purchase are included in the cost of acquisition. No associated costs are incurred on the sale of investments, with proceeds being calculated at the appropriate market rate on the day of disinvestment.

There were a number of changes in strategy which resulted in a number of sales and purchases to implement. In addition, it was also necessary to sell some assets to provide sufficient cash to support the collateral requirements for the liability hedge.



In consultation with two employers, the Trustee purchased insurance policies amounting to £32m from Legal and General and Aviva to underwrite the two Scheme's benefits in April 2022. These policies, with effect from April 2022 forms the main asset of the respective Schemes.

Final Salary Schemes' assets are held as unitised funds as shown:

		<b>31 December 2022 £'000</b>	31 December 2021 £'000
Columbia Threadneedle Investments	LDI Swap Funds (liability matching funds)	<b>46,252</b>	64,386
Columbia Threadneedle Investments	LDI Sterling Liquidity Fund	<b>32,116</b>	23,045
Lumyna Marshall Wace	Alternatives (equities)	<b>6,584</b>	13,579
Mobius Life	FSS Investment Fund (blended)	<b>19,661</b>	39,803
Mobius Life	FSS Lower Risk Investment Fund (blended)	<b>9,064</b>	46,671
Mobius Life	FSS 15Y Fixed Interest Gilts	<b>588</b>	1,950
Mobius Life	FSS 5Y Index Linked Gilts	<b>104</b>	1,691
Mobius Life	FSS 5-15Y Fixed Interest Gilts	<b>1,130</b>	-
Mobius Life	FSS 5-15Y Index Linked Gilts	<b>626</b>	-
Mobius Life	FSS Credit Fund	<b>12,698</b>	35,982
Mobius Life	FSS Cash Fund	<b>2,385</b>	3,438
Phoenix Investment Adviser LLC	JLP (Stressed Debt Fund)	<b>42</b>	52
<b>Total</b>		<b>131,250</b>	230,597

Interest and inflation linked swaps are held in pooled vehicles with Columbia Threadneedle Investments. A cash holding of £32.1m (2021: £23.0m) was held in Columbia Threadneedle investments' Sterling Liquidity Fund as collateral.

## Concentration of Investments - Final Salary Schemes

The concentration of assets held within the blended Long Term Investment Fund and Lower Risk Investment Fund at Mobius Life Limited as at year end were:

	Long Term		Lower Risk	
	2022	2021	2022	2021
<b>Equity</b>	<b>50.5%</b>	58.9%	<b>17.9%</b>	24.4%
<b>Bonds</b>	<b>29.4%</b>	21.7%	<b>42.3%</b>	38.5%
<b>Alternatives</b>	<b>16.4%</b>	10.5%	<b>23.0%</b>	16.0%
<b>Commodities</b>	<b>3.5%</b>	0.0%	<b>1.9%</b>	0.0%
<b>Cash</b>	<b>0.2%</b>	8.9%	<b>14.9%</b>	21.1%
<b>TOTAL</b>	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%

The investments at the year end which are more than 5% of the total value of the net assets of the Scheme comprise:

Holding	2022		2021	
	£'000	%	£'000	%
Mobius BlackRock Institutional Sterling Liquidity	1,807	1.14	15,678	6.68
Mobius Life Credit Fund	12,698	8.04	35,982	15.34
Lumyna Marshall Wace Systematic Alpha UCITS Fund Class B GBP	3,854	2.44	13,578	5.79
Mobius LGIM North America Equity Idx GBP Hedged	4,682	2.97	17,190	7.33
BMO Liability Driven Investment Fund – Regular Profile Real	14,226	9.01	20,664	8.81
BMO Liability Driven Investment Fund – Short Profile Real	19,673	12.46	23,146	9.87
BMO Liability Driven Investment Fund – Short Profile Nominal	7,356	4.66	12,091	5.15
BMO Sterling Liquidity Fund	32,116	20.34	23,045	9.83
Annuities	26,637	16.87	3,952	1.68

The Credit Fund was invested 66% in the Royal London Duration Hedged Credit Fund and 34% in the PIMCO Diversified Income Duration Hedged Fund.

### 13. Reconciliation of Investments – The Cheviot Pension

#### (a) Purchases, sales and change in value

	Market Value at 1 January 2022 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Market Value at 31 December 2022 £'000
<b>Money Purchase Section:</b>					
Pooled investment vehicles:					
- Allocated to members	160,006	21,303	(19,715)	(21,719)	139,875
- Not allocated to members (Cash Reserve)	216	50	-	3	269
- (Financial Reserve)	570	45	-	7	622
<b>With Profits Section:</b>					
- Pooled investment vehicles	60,760	5,753	(19,260)	(4,809)	42,444
- Fixed interest securities	23,480	17,782	(10,565)	(6,016)	24,681
- Derivative contracts	5,056	-	-	(8,295)	(3,239)
	<b>250,088</b>	<b>44,933</b>	<b>(49,540)</b>	<b>(40,829)</b>	<b>204,652</b>
Cash Deposits	26				36
Other Investment Balances	41				-
Accrued fixed Interest on securities	66				83
<b>Total</b>	<b>250,221</b>				<b>204,771</b>

As part of the Master Trust Application the Money Purchase Section is required to hold a Financial Reserve which is not allocated to members. This is invested within the Cash Fund £622k (2021: £570k).



The Money Purchase Section continued to invest in a Cash Reserve during the year which is not allocated to members. This is invested within the Cash Fund £269k (2021: £216k).

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. All associated costs of purchase are included in the cost of acquisition. No associated costs are incurred on the sale of investments, with proceeds being calculated at the appropriate market rate on the day of disinvestment.

Investments held by the Money Purchase Section are allocated to provide benefits to the individuals on whose behalf contributions have been paid. The investments are unitised and the Section's administrator allocates investment units to members.

The assets of the Money Purchase Section of the Cheviot Pension are held within pooled investment vehicles and designated to members. They do not form a common pool of assets available to members. Members' AVC funds are included within pooled investment vehicles and are not separately identifiable.

**(b) Holdings – The Cheviot Pension (pooled investment vehicles)**

**(b)(i) With Profits Section**

		<b>31 December 2022 £'000</b>	<b>31 December 2021 £'000</b>
Mobius Life	With Profits Investment Fund (blended)	9,425	25,865
Lumyna Marshall Wace	Alternatives (equities)	4,108	5,533
Phoenix Investment Adviser LLC	JLP (Stressed Debt Fund)	24	30
PIMCO	Diversified Income (bonds)	8,991	9,436
RLAM	Hedged Credit Fund (bonds)	19,896	19,896
<b>Total</b>		<b>42,444</b>	<b>60,760</b>

**Concentration of Investments – With Profits Section**

The concentration of assets held within the blended Investment Fund at Mobius Life was as follows:

	<b>2022</b>	<b>2021</b>
<b>Equity</b>	<b>62.6%</b>	<b>72.9%</b>
<b>Bonds</b>	<b>19.1%</b>	<b>12.0%</b>
<b>Alternatives</b>	<b>14.4%</b>	<b>9.1%</b>
<b>Commodities</b>	<b>3.6%</b>	<b>0.0%</b>
<b>Cash</b>	<b>0.3%</b>	<b>6.0%</b>
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>



The investments at the year end which are more than 5% of the total value of the net assets of the Scheme comprise:

Holding	2022		2021	
	£'000	%	£'000	%
Mobius LGIM North America Equity Index GBP Hedged	1,642	2.57	7,831	8.76
Mobius LGIM All Stocks Gilt Index	1,607	2.51	6,463	7.23
Lumyna Marshall Wace Systematic Alpha UCITS Fund	2,099	3.28	5,534	6.19
Pimco Diversified Income Duration Hedge	8,991	14.05	9,436	10.56
Royal London Asset Management Duration Hedged Credit Fund	19,896	31.10	19,896	22.26

**(b)(ii) Money Purchase Section**

		31 December 2022	31 December 2021
		£'000	£'000
Mobius Life	Cheviot Growth (blended)	26,207	29,744
Mobius Life	Cheviot Moderate (blended)	61,271	71,499
Mobius Life	Cheviot Cautious (blended)	29,399	34,336
Mobius Life	Cheviot Retirement Planning (blended)	16,283	18,003
Mobius Life	Cash Fund (blended)	6,505	6,075
Mobius Life	Annuity Protection (blended)	263	360
Mobius Life	Mobius (Islamic Global Equity)	56	15
Mobius Life	Mobius (Ethical Global Equity)	40	13
Mobius Life	Mobius (UK Equity)	49	13
Mobius Life	Mobius (Emerging Markets)	39	41
Mobius Life	Mobius (Global Equity)	161	80
Mobius Life	Low Cost (blended)	493	613
<b>Total</b>		<b>140,766</b>	<b>160,792</b>

The investments at the year end which are more than 5% of the total value of the net assets of the Scheme comprise:

Holding	2022		2021	
	£'000	%	£'000	%
BLK Life AQC Corporate Bond All Stocks	10,444	7.42	10,038	6.24
BLK IM Institutional Sterling Liquidity	9,588	6.81	8,681	5.40
BLK Life AQC Emerging Markets Equity	15,232	10.82	16,884	10.50
BNY Mellon Efficient US High Yield Beta Fund L Hedged Inc	10,113	7.18	13,813	6.77
L&G Life EE North America Equity Index - GBP Currency Hedged Fund	21,225	15.08	26,155	16.27
L&G Life S North America Equity Index Fund	18,887	13.42	26,705	16.61

## Concentration of Investments

The concentration of assets held within the blended long term investment options at Mobius Life at 31 December 2022 is as follows:

	Growth	Moderate	Cautious	Retirement Planning	Cash	Annuity Protection	Low Cost
Equity	90.6%	69.7%	40.4%	40.4%	0.0%	0.0%	72.8%
Bonds	5.6%	17.3%	18.5%	18.5%	0.0%	0.0%	8.7%
Gilts	1.9%	6.4%	26.5%	26.5%	0.0%	100.0%	18.5%
Commodities	0.2%	0.9%	1.9%	1.9%	0.0%	0.0%	0.0%
Cash	1.7%	5.7%	12.7%	12.7%	100.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The concentration of assets held within the blended long term investment options at Mobius Life at 31 December 2021 is as follows:

	Growth	Moderate	Cautious	Retirement Planning	Cash	Annuity Protection	Low Cost
Equity	80.4%	69.6%	47.7%	47.7%	0.0%	0.0%	68.3%
Bonds	12.3%	15.8%	17.6%	17.6%	0.0%	0.0%	8.9%
Gilts	4.7%	9.4%	26.9%	26.9%	0.0%	100.0%	22.8%
Cash	2.6%	5.2%	7.8%	7.8%	100.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## (c) Derivatives

At the year end the With Profits Section had the following derivatives:

	2022		2021	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps (Note c(i))	1,909	(6,299)	4,235	(1,734)
Equity Derivative Overlay Strategy (Note c(ii))				
- Equity Options	1,151	-	2,555	-
	<b>3,060</b>	<b>(6,299)</b>	<b>6,790</b>	<b>(1,734)</b>

## Objectives and policies

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the With Profits Section of the Cheviot Pension as follows:

The Global Equity Derivative Overlay strategy aims to achieve shaped equity market returns where extreme upside equity returns are forgone in return for the downside being limited against the majority of significant market falls. This is expected to provide a greater certainty of returns within the Investment Fund.

The Trustee aims to match the Liability Driven Investment (LDI) portfolio and the With Profits Section of the Cheviot Pension's long term liabilities, in particular in relation to their sensitivities to interest rate movements and inflation. The



Trustee has entered into Over The Counter (OTC) interest rate swaps during the year, that extend the duration of the fixed income portfolio to better match the long term liabilities of the With Profits Section of the Cheviot Pension.

#### (c)(i) Swaps

The risk of bond prices increasing (and subsequent impact on the liabilities) is managed via a liability hedge overlay, which uses a portfolio of interest rate swaps (derivative contracts) to mirror the projected movement in the liabilities over time based on the growth in accounts as measured by the Actuary. This overlay provides exposure of 100% of the value of the With Profits Section's liabilities as measured on an actuarial basis.

A portfolio of inflation swaps is used to manage the risk of inflation rate increases. These swaps provide protection against 80% of the total economic exposure to inflation rate changes within the With Profits Section's liabilities.

Details of the contracts in place at 31 December 2022 are set out below. The notional principal of the swap is the amount used to determine the value of swapped interest or inflation receipts and payments.

	Expiration	Notional Principal £'000	Asset Value £'000	Liability Value £'000
<b>Interest rate swaps</b>				
Floating for fixed (LIBOR)	06 February 2024	2,500	-	(104)
Floating for fixed (LIBOR)	13 June 2024	17,700	-	(786)
Floating for fixed (LIBOR)	02 April 2024	5,500	-	(292)
Floating for fixed (LIBOR)	22 June 2025	1,180	-	(131)
Floating for fixed (LIBOR)	14 October 2025	4,470	-	(536)
Floating for fixed (LIBOR)	06 February 2029	6,000	-	(919)
Floating for fixed (LIBOR)	02 April 2029	9,700	-	(1,645)
Floating for fixed (LIBOR)	13 June 2029	4,500	1,717	-
Floating for fixed (LIBOR)	22 June 2030	1,260	-	(308)
Floating for fixed (LIBOR)	14 October 2030	4,100	-	(1,026)
Floating for fixed (LIBOR)	06 February 2034	2,500	-	(552)
<b>Total interest rate swaps 2022</b>		<b>59,410</b>	<b>1,717</b>	<b>(6,299)</b>
Total Interest rate swaps 2021		64,410	3,816	(1,734)
	Expiration	Notional Principal £'000	Asset Value £'000	Liability Value £'000
<b>Inflation rate swaps</b>				
Floating for fixed (RPI)	06 February 2025	1,032	192	-
<b>Total Inflation rate swaps 2022</b>		<b>1,032</b>	<b>192</b>	<b>-</b>
Total Inflation rate swaps 2021		7,485	419	-
<b>Total Swaps 2022</b>			<b>1,909</b>	<b>(6,299)</b>
Total Swaps 2021			4,235	(1,734)



**(c)(ii) Equity Derivative Overlay Strategy**

Details of the contracts in place at 31 December 2017 are set out below:

	Expiration	Notional Principal £'000	Market Value £'000
<b>Equity index options</b>			
EDOS 9	12 February 2024	11,200	621
EDOS 10	12 February 2024	6,160	530
<b>Total 2022</b>			<b>1,151</b>
Total 2021			2,555

Both EDOSs comprise of an investment in gilts plus an asset swap (cash component) and a portfolio of equity options. The objective is to produce a return of at least 5% per annum in excess of the compounded six month sterling LIBOR return over the period

**(c)(iii) Collateral**

Collateral held in the form of gilts of £1.4m (2021: £5.3m) was held at the year-end with Cheviot's Custodian in the event of a default by the counterparties to the swaps and equity overlay strategy. The collateral position is reviewed on a daily basis to ensure that exposure to default by the counterparty is kept to a minimum.

**14. Investment Management Expenses**

	2022 Final Salary Schemes £'000	2022 The Cheviot Pension £'000	2022 Total £'000	2021 Final Salary Schemes £'000	2021 The Cheviot Pension £'000	2021 Total £'000
Investment management fees	129	158	287	117	237	354
	<b>129</b>	<b>158</b>	<b>287</b>	117	237	354

Investment management fees for some investment holdings are paid by unit deduction or price adjustment and are not included above.

Other than those costs disclosed above, direct transaction costs of £0 (2021: £29,133) and £0 (2021: £0) were incurred for the Final Salary Schemes and With Profit Section of the Cheviot Pension respectively. Indirect transaction costs are incurred for all Sections through the bid-offer spread on investments within pooled investment vehicles and are reflected within the change in market value of the investment.





## 15. Investment risk disclosures

### (a) Investment strategy

#### Final Salary Schemes

The investment objective for the Final Salary Schemes is based on the covenant of each sponsoring employer, the employer's attitude to risk and takes account of each scheme's estimated future cash flows. The investment performance objective is to achieve a stable level of return which will enable the Trustee to pay all the promised benefits and reduce the level of on risk assets held over time.

An Investment Fund / Matching Fund structure is adopted for the management of asset allocation. Within the Matching Fund a Credit Fund may be used in certain circumstances. The strategic allocation to each fund is reviewed as part of each triennial valuation or more frequently if necessary. The strategy is set out in the Statement of Investment Principles of each Final Salary Scheme.

The asset allocation of the Investment and Credit Funds are reviewed at least monthly. The review process includes a review of the risks identified below.

#### Cheviot Pension

##### With Profits Section

The investment objective for the With Profits Section is to achieve a stable level of return which will enable the Trustee to pay all the promised benefits and reduce the level of on risk assets in the future. The Trustee takes into account the following risks; mortality risk, guaranteed returns on contributions, interest rate and inflation risk, sponsor risk and investment risk.

An Investment Fund/Matching Fund/Credit Fund structure is adopted for the management of asset allocation. The strategic allocation to each fund is reviewed as part of each triennial valuation or more frequently if necessary. The allocation is based on an assessment of the strength of the combined employers' covenant Adviser and advice from the Investment Adviser. The strategy is set out in the Statement of Investment Principles.

The asset allocation of the Investment and Credit Funds are reviewed at least monthly. The review process includes a review of the risks identified below.

##### Money Purchase Section

The primary investment objectives for the Money Purchase Section are to provide a range of suitable investment options for members to select both before and after retirement and to provide a default plan to take the appropriate level of risk for members depending on their age and planned retirement date.

The primary investment objective for each long term growth is to achieve an inflation-related return over a five year period. The secondary investment objective is to provide those returns with less fluctuation in value than the markets. The primary investment objective for the other options is to achieve a return consistent with the stated objective.

The asset allocation of the long and medium term investment options are reviewed at least monthly. The review process includes a review of the risks identified as inflation risk, pension conversion risk and capital protection risk.

### (b) Credit Risk

The Trust is directly and indirectly exposed to credit risks through its holdings in pooled investment vehicles which hold bonds, derivatives (through exposure to the counterparties) and cash. The value of the assets exposed to credit risk and split of underlying assets by section is set out below:



The direct credit risk for all sections of the Trust is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environment in which the pooled managers operate and the diversification of Trust assets across a number of pooled funds.

### Final Salary Schemes

The holdings are unrated as they are held in pooled investment vehicles. The value of the underlying assets exposed to credit risk at the year-end was £85.1m (2021: £167.8m). The majority of underlying assets are gilts (9%), investment grade bonds (11%), derivatives (54%), and cash (9%). The Trustee regularly monitors the underlying split.

### Cheviot Pension

The value of the underlying assets exposed to credit risk at the year-end was £112.4m (2021: £95.2m). The holdings are unrated as they are held in pooled investment vehicles. The majority of underlying assets are investment grade bonds (25%), cash (21%), alternatives (19%), high yield non-investment grade bonds (15%) and gilts (18%). The Trustee regularly monitors the underlying split.

The With Profits Section of the Cheviot Pension is also exposed to direct credit risk in respect of the investments in fixed interest securities and derivatives. The credit risk for the fixed interest securities is mitigated by controls on the ratings of these holdings. Credit risk in respect of the derivatives held is reduced by collateral arrangements in place with the counterparty.

Pooled investment arrangements used by the Scheme comprise units in open ended credit investment funds of £33.0m (2021: £34.9m) and unit linked insurance contracts £150.2m (2021: £186.6m).

### (c) Currency Risk

The Trust is indirectly exposed to currency risk through its holdings in pooled investment vehicles which include global equities and overseas bonds.

### Final Salary Schemes

The value of the assets exposed to currency risk at the year-end for the Final Salary Schemes was £13.3m global equities, £10.4m overseas bonds, (2021: £37.8m global equities and £25.7m overseas bonds). The Trustee's policy for the Final Salary Schemes is to hedge approximately 50% of the currency risk through investing in hedged pooled vehicles. The proportion of assets in hedged pooled vehicles at the year-end was 86% (2021: 95%).

### Cheviot Pension

The value of the assets exposed to currency risk at the year-end for the With Profits Section of the Cheviot Pension was £2.7m global equities, £12.0m overseas bonds, (2021: £14.5m global equities and £10.9m overseas bonds) and for the Money Purchase Section of the Cheviot Pension was £80.8m global equities, £10.2m overseas bonds, (2021: £93.8m global equities and £13.8m overseas bonds).

The Trustee's policy for the With Profits Section of the Cheviot Pension is to hedge approximately 50% of the currency risk through investing in hedged pooled vehicles. The proportion of assets in hedged pooled vehicles at the year-end was 100% (2021: 100%).

The proportion of assets in hedged pooled vehicles in the Money Purchase Section of the Cheviot Pension was 50% (2021: 50%).

### (d) Interest rate and inflation rate risk

The Trust is indirectly exposed to interest rate and inflation risk through its holdings in pooled vehicles which holds bonds and cash. It also holds swaps in pooled vehicles to offset the impact of interest rate and inflation on the cost of providing



the benefits. The Trust is also directly exposed to interest rate and inflation rate risk through directly held fixed interest securities and swaps in the With Profits Section.

The value of the assets directly and indirectly exposed to interest/inflation rate risk at the year-end was:

	2022 £m	2021 £m
Final Salary Schemes	152.0	194.9
Cheviot Pension:		
Money Purchase Section	55.2	53.0
With Profits Section	39.5	45.8
	<b>246.7</b>	<b>293.7</b>

(e) Other Price Risk

The Trust is indirectly exposed to other price risk through its holdings in pooled vehicles which hold equities. The value of the assets exposed to other price risk at the year-end was:

	2022 £m	2021 £m
Final Salary Schemes	14.0	39.7
Cheviot Pension:		
Money Purchase Section	85.6	99.2
With Profits Section	2.9	14.9
	<b>102.5</b>	<b>153.8</b>

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

The Trustee regards hedge funds as an asset class in their own right and do not monitor other price risk at the underlying investment level.

## 16. Current assets

	2022 Final Salary Schemes £'000	2022 The Cheviot Pension £'000	2022 Total £'000	2021 Final Salary Schemes £'000	2021 The Cheviot Pension £'000	2021 Total £'000
Contributions due						
Employers	29	318	347	47	229	276
Employees	-	161	161	-	229	229
Cash balances	490	1,688	2,178	281	806	1,087
Prepayments and accrued income	65	19	84	70	7	77
Other debtors	58	46	104	10	53	63
Amounts due from related parties (Note 18)	-	29	29	70	151	221
	<b>642</b>	<b>2,261</b>	<b>2,903</b>	<b>478</b>	<b>1,475</b>	<b>1,953</b>

Employer and employee contributions due at the year-end were subsequently paid to the Scheme in all material respects within the timescale set out in the relevant Payment Schedules.

## 17. Current liabilities

	2022 Final Salary Schemes £'000	2022 The Cheviot Pension £'000	2022 Total £'000	2021 Final Salary Schemes £'000	2021 The Cheviot Pension £'000	2021 Total £'000
Amounts due from related parties (Note 18)	(10)	-	-	-	(9)	(9)
Benefits payable						
Retirement	(36)	(90)	(126)	(27)	(18)	(45)
Other accruals	(202)	(272)	(474)	(141)	(131)	(272)
Other creditors including taxation and social security	(197)	(103)	(300)	(785)	(124)	(909)
	<b>(445)</b>	<b>(465)</b>	<b>(900)</b>	<b>(953)</b>	<b>(282)</b>	<b>(1,235)</b>



## 18. Related party transactions

All generic costs are incurred by Cheviot Trustees Limited directly and the relevant share of those costs invoiced to the relevant Scheme or Section.

Costs incurred in respect of a specific Scheme or Section will be charged directly to the relevant entity. At the year end Cheviot Trustees Limited:

- Owed the Final Salary Schemes £0k (2021: £70k)
- Was owed by the Final Salary Schemes £10k (2021: £0k)
- Owed the Cheviot Pension £29k (2021: £142k)

There were no other related party transactions other than those disclosed in the financial statements.

## 19. Employer related investment

There were no employer related investments at the end of the year.

## 20. Cheviot Trust Staff Pension Scheme

Certain current and former members of staff of The Cheviot Trust are members of The Cheviot Trust Staff Pension Scheme, a defined benefit arrangement with Cheviot Trustees Limited as the Principal Employer. The FRS102 valuation as at 31 December 2022 in respect of this scheme shows a surplus of £360k (2021: surplus of £334k).



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

### Statement about contributions payable under the Schedules of Contributions and Payment Schedules

We have examined the summary of contributions payable to the Cheviot Trust ("the Trust"), for the year ended 31 December 2022 which is set out on page 39.

In our opinion contributions for the year ended 31 December 2022 as reported in the summary of contributions and payable under the Schedules of Contributions and Payment Schedules have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary and the Payment Schedules agreed with the participating employers.

### Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions and Payment Schedules. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Trust and the timing of those payments under the Schedules of Contributions and Payment Schedules.

### Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised Schedules of Contributions and Payment Schedules which set out the rates and due dates of certain contributions payable towards the Trust by or on behalf of the employers and the active members of the Trust. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Trust and for monitoring whether contributions are made to the Trust by the employers in accordance with the Schedules of Contributions and Payment Schedules.

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

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and Payment Schedules and to report our opinion to you.

### Use of our statement

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

**Crowe U.K. LLP**

Statutory Auditor

London

Date: 28 July 2023



## Summary of Contributions

	<b>2022 Final Salary Schemes £'000</b>	<b>2022 The Cheviot Pension £'000</b>	<b>2022 Total £'000</b>
Employer deficit funding contributions	2,072	-	2,072
Employer normal contributions	-	3,574	3,574
Members' normal contributions	-	3,098	3,098
<b>Total</b>	<b>2,072</b>	<b>6,672</b>	<b>8,744</b>

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

	<b>2022 Final Salary Schemes £'000</b>	<b>2022 The Cheviot Pension £'000</b>	<b>2022 Total £'000</b>
Employer Additional	1,298	-	1,298
AVCs	-	65	65
<b>Total contributions as per note 5.</b>	<b>3,370</b>	<b>6,737</b>	<b>10,107</b>

This Summary of Contributions was approved by the Trustee on 28 July 2023 and signed on behalf of the Trustee by:

*Sir Derek Morris*

.....

Sir Derek Morris

**Chairman**



## Report on the Actuarial Liabilities of the Final Salary Scheme

The Cheviot Trust includes individual Final Salary Schemes, each of which has its own individual benefit and contribution structure. The financial statements show the total assets of the Final Salary Schemes as amounting to £166.2 million as at 31 December 2021. Each year, actuarial valuations are carried out for a number of the Final Salary Schemes with each Scheme normally valued at least once every three years.

I act as Scheme Actuary to the Final Salary Schemes and will be carrying out the actuarial valuations due with an effective date of 31 December 2022.

There are five schemes with valuations due as at 31 December 2022 which are due to be completed by 31 March 2024.

An actuarial statement has been issued for each scheme as part of its last actuarial valuation and copies are available on request in accordance with the disclosure requirements. However, it has not been practical to include in this report separate actuarial statements for each scheme.

The actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004. These requirements focus on the ability of each scheme to meet the Statutory Funding Objective and the preparation of a Statement of Funding Principles setting out how this will be satisfied. It is also necessary for each scheme to prepare a Schedule of Contributions and, where a deficit exists, a Recovery Plan to make good this deficit. The Scheme Actuary is required to provide a certificate confirming the adequacy of the contributions shown on the Schedule of Contributions for the purposes of meeting the Statutory Funding Objective.

The Scheme Actuary's certification of the adequacy of the Schedule of Contributions to meet the Statutory Funding Objective does not mean that a scheme's assets would be sufficient to secure members' benefits in full via the purchase of deferred and immediate annuity policies with an insurance company. Therefore, in the event of a scheme being wound-up, it is possible that sufficient assets will not be available to provide benefits in full.

Further details of the method and assumptions used for each valuation are set out in each Final Salary Scheme's valuation report and copies are available on request in accordance with disclosure requirements.





## Report on Actuarial Liabilities of the With Profits Section of the Cheviot Pension

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 ongoing liabilities. The ongoing liabilities represent the present value of the benefits members are entitled to, based on pensionable service at the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the With Profits Section of the Cheviot Pension was carried out as at 31 December 2020. This showed that on that date:

The value of the ongoing liabilities was: £95.5 million

The value of the assets at that date was: £95.9 million

The method and significant actuarial assumptions used to determine the liabilities are as follows:

The valuation has been carried out on a "market-related" basis. This means that assets are taken into account at their market value. For comparison with the assets, a consistent measure is needed for the liabilities that are expected to arise in respect of benefits already earned at the valuation date - otherwise known as the "ongoing liabilities".

A summary of the key assumptions used for the valuation is included in the financial statements for the With Profits Section of the Cheviot Pension.



## Appendix 1 – Investment overview

### Annual market commentary to 31 December 2022

#### Economic review

As 2022 began, concerns were already growing over rising inflation and the likely need for major central banks to raise interest rates swiftly. Those inflation worries were exacerbated by Russia's invasion of Ukraine in February. The invasion led Western nations to impose sanctions on Russian oil and other commodities, which fed through into further price rises.

As the year progressed, worries grew that European economies that had previously been dependent on Russian natural gas could face power shortages. However, a combination of LNG imports, milder winter weather and reduced consumption meant these shortages did not transpire.

The debate over rising inflation, potential interest rate rises, and the consequent impact on economic growth dominated the year. US GDP contracted in Q1 and Q2 2022, but expanded again in Q3 and Q4. The eurozone avoided recession, despite the impact of significantly higher energy prices for much of the year. US inflation hit a peak of 9.1% for the year in June, slowing thereafter but still remaining well above the Federal Reserve's 2% target. Eurozone inflation hit 10.6% in October, slowing slightly in the following months.

Given the still-elevated inflation, major central banks reaffirmed their commitment to tighten monetary policy in order to bring inflation back towards target. By the end of the year, the US Federal Reserve had raised the federal funds rate to 4.25-4.5%, while the Bank of England's base rate was 3.5%. The European Central Bank's deposit rate was 2.0%. Even the Bank of Japan took steps to tighten monetary policy, tweaking its yield curve control policy so as to allow long-dated yields to rise further.

The UK political situation proved volatile. Boris Johnson stepped down as prime minister in the summer and Liz Truss was elected by Conservative party members as the new party leader and by extension new UK prime minister. However, her tenure proved short-lived after a "mini-budget" from her chancellor Kwasi Kwarteng was poorly received by markets. In October she was replaced as prime minister by Rishi Sunak.

While most regions had emerged from pandemic restrictions by early 2022, China was a significant exception. The "zero-Covid" policy held firm for much of the year, with lockdowns affecting major cities and weighing on economic activity. The policy was lifted towards year-end. China was in further focus during the autumn as the 20th Party Congress signalled a shift from a laissez-faire era of economic growth to a more managed form of growth, including greater self-sufficiency in key technologies.

#### Equity market review

Stock markets had a difficult year against the backdrop of higher inflation and rising borrowing costs. Global equities, as measured by the MSCI World index, fell 18.1% in US dollar terms. There was wide variation within the market though with value shares strongly outperforming compared to growth stocks. This was because of higher interest rates making the future cash flows of those growth stocks less valuable.

Meanwhile, energy – a lowly valued sector – experienced strong gains as a result of increased demand as economies continued their recovery from the pandemic, and due to sanctions placed by the West on Russian oil exports.

Emerging markets experienced slightly weaker performance, with the MSCI Emerging Markets index returning -20.1% in US dollar terms. Commodity producers – such as the Latin American markets – were among the few to post gains.



## Fixed income market review

The Global Aggregate bond market recorded its largest annual loss for over 40 years. Higher inflation led to an aggressive response by global central banks, driving up yields and volatility. Yields move inversely to prices so rising yields meant falling prices.

The US 10-year yield rose from 1.51% to 3.88%, with the two-year rising from 0.73% to 4.42%. Germany's 10-year yield increased from -0.18% to 2.57%. The UK 10-year yield increased from 0.97% to 3.67% and 2-year rose from 0.68% to 3.56%.

Rising US interest rates were dollar-supportive for much of the year, though this shifted more recently amid signs US inflation may have peaked. Signs of softer inflation have prompted slower rate hikes. Despite the reversal in the dollar's fortunes in the final quarter, it remained the best performing G10 currency in 2022.

It was a particularly challenging year for risk assets, with high yield bearing the brunt of the market sell-off and broad underperformance of credit compared to government bonds. There was some improvement in the performance of credit towards the end of the year as sentiment improved.

## The Money Purchase Section of the Cheviot Pension

The investment options available to members in 2022 were the existing Cheviot diversified and specialist funds plus three equity only funds, an Islamic fund and an ethical fund, all provided by external managers.

For those members who do not make an investment choice, the Cheviot Lifeplan switches between the core Cheviot options according to the member's planned retirement date.

Statements of  
Investment  
Principles are  
available on  
Cheviot's  
website.

### Investment strategy

The three long term Cheviot options have the flexibility to invest in a variety of underlying funds holding different types of investments, including UK and overseas shares, corporate and government bonds, property and cash. This mix of investments is regularly reviewed by the Investment Committee and Investment Consultant and updated depending on market conditions and prospects. The mix of investments and vehicles used are compliant with the cap on investment charges (total charges must be capped at 0.75% p.a.). The Low Cost option has a static allocation to facilitate a lower annual management charge.

Each option seeks to achieve capital growth with more stability than equity markets. The stability or fluctuations of these returns and consequently the size of the long term returns varies according to the amount of risk taken. Each option has a clearly identified risk rating.

### Investment structure

The assets are held on Mobius Life's investment platform.



## Investment performance

One, three and five year returns for each of these options, together with the long term objectives (based on CPI) are shown below. The Cautious and Retirement Planning options both performed particularly poorly, due to the very poor performance of gilts (Government bonds). This can be seen through a comparison with the Annuity Planning option performance which is more heavily invested in bonds with a view to matching annuity prices.

	1 year		Annual return over 3 years <sup>15</sup>		Annual return over 5 years		Objective
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
<b>Growth</b>	(12.2)	15.0	2.8	9.9	3.9	8.4	CPI + 4.50%
<b>Moderate</b>	(13.0)	14.0	1.2	8.9	2.6	7.4	CPI + 3.50%
<b>Low Cost</b>	(17.0)	(18.1)	0.4	0.1	n/a	n/a	CPI + 2.50%
<b>Cautious</b>	(16.2)	13.0	(1.9)	7.9	0.6	6.4	CPI + 2.50%
<b>Retirement Planning</b>	(16.2)	13.0	(2.2)	7.9	(0.2)	5.9	CPI + 2.50%
<b>Annuity Planning</b>	(29.2)	(27.3)	(9.0)	(7.8)	(3.6)	(2.5)	FTSE + 15Yr Index
<b>Cash</b>	1.1	1.4	0.4	0.6	0.4	0.7	7 day Sterling LBID

## The With Profits Section of the Cheviot Pension

### Investment strategy

The With Profits Section splits its assets between an Investment Fund and a Matching Fund. The Investment Fund holds assets which are designed to contribute towards meeting the cost of the benefits. It is invested in a diversified range of investments to manage investment risk. Managers are appointed either directly or via the Mobius Life platform and are required to act within the terms of their appointment.

The Matching Fund holds lower risk assets which more closely match the cost of the benefits. The Matching Fund is invested in gilts, corporate bonds (through the Credit Fund) and swaps which are designed to minimize the impact of movements in interest and inflation rates on the funding level of the With Profits Section.

The swaps form a liability hedge, which is implemented by Schroders to help manage the risks to which the Section's liabilities are exposed from interest rate and inflation movements. Given the significant volatility in the liability hedging market and the movement in the Section's cash flow during 2022, not yet reflected in the hedge design, the movement in the value of the hedge was significantly more than the movement in liabilities, contributing to an increasing deficit in the Section by the end of the year.

### Investment structure

Most Investment Fund assets are held on the Mobius Life Limited platform which allows the Trustee to adopt a more dynamic approach to asset allocation. The Investment Fund also includes an allocation to one structured equity product, which is designed to protect the With Profits Section in the event of falling global equity markets below a certain level. The falls in 2022 were not sufficient to trigger the protection and therefore the on risk assets fell sharply during the year.

One, three and five year returns for the With Profits Section, together with the long term objectives (based on Swaps) are shown below. The poor performance during 2022 was sufficient to lead to under performance over three and five years as well.

<sup>15</sup> The performance of funds not showing 5 year figures have an inception date below the requirement.



	1 year		Annual return over 3 years		Annual return over 5 years		Objective*
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
Investment Fund	(9.2)	5.2	(1.0)	4.3	0.7	4.3	Swaps + 2.7% p.a.
Credit Fund	(1.5)	2.9	1.3	2.1	1.8	2.1	SONIA + 1.3% p.a

\*Swaps based objective is a liability related objective which reflects the profile of the With Profits Section.

## Final Salary Schemes

### Investment strategy

The investments of the Final Salary Schemes are managed using an investment /matching asset allocation approach adapted to the needs of each Scheme.

There are two options within the investment allocation: the Long Term Investment Fund, suitable for investments over a market cycle (circa five years) and the Lower Risk Investment Fund, suitable for shorter term investments with reduced return and volatility targets, introduced during 2017. The Lower Risk Investment Fund is being used primarily by Schemes which are well funded where stability of returns is the priority, and a higher rate of return is not required.

Within the matching allocation, a series of pooled swap funds managed by Columbia Threadneedle Investments are used to hedge a Scheme specific proportion of inflation and interest rate risk, with the aim of mirroring the movements in the liabilities due to changes in interest rates and inflation as much as possible. Any excess cash after the hedge is in place is usually invested in the Credit Fund which invests primarily in higher rated corporate bonds, both in the UK and globally.

### Investment performance

Most of the Investment Fund assets are held on the Mobius Life Limited platform which allows the Trustee to adopt a more dynamic approach to asset allocation. This Fund is invested across several asset classes and investment managers, with the allocation to the different managers actively rotated on an ongoing basis to reflect the prevailing market conditions.

Over the twelve months ended 31 December 2022, the Investment Fund returns for one, three and five years, and the Credit Fund returns over one and three years, together with their objectives are set out below:

	1 year		Annual return over 3 years		Annual return over 5 years		Objective
	Fund %	Target %	Fund %	Target %	Fund %	Target %	
Long Term Fund	(11.8)	5.2	0.0	4.3	1.3	4.3	SONIA + 3.8% p.a.
Lower Risk Fund	(10.5)	4.2	(1.9)	3.3	0.1	3.3	SONIA + 2.8% p.a.
Credit Fund	(1.9)	2.9	0.9	2.1	1.5	2.1	SONIA + 1.3% p.a.



# Money Purchase Section

of the Cheviot Pension  
An authorised Master Trust

## Chair's Governance Statement

July 2023  
For the year ended 31 December 2022



## Background

1. This statement explains how the governance requirements for the Money Purchase Section are met. The Money Purchase Section is part of the Cheviot Pension under the Cheviot Trust. The Cheviot Trust also includes defined benefit schemes and a cash balance section which are all managed by the same trustee, Cheviot Trustees Limited ("the Trustee").
2. The structure and content of this document reflects the requirements of the Pensions Regulator for Chair's Statements for money purchase schemes. It is publicly available on the Cheviot website. Members are signposted to the Statement in relevant communications.
3. The Trustee obtained a type 2 report across all the sections and schemes for the 12-month period to 31 December 2022 assessed against the Combined AAF 01/20 assurance reports on Master Trusts and 05/20 internal control assurance reports. No exceptions were identified in the reports. These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a Trustee governance level as well as those which relate to pensions and financial administration across the organisation.
4. The Money Purchase Section is authorised by the Pensions Regulator as a Master Trust and is now subject to regular review of its structure, financial stability, directors and systems and processes. Updated information was provided to the Pensions Regulator in the annual return in March 2023.

## The Trustee

5. Cheviot Trustees Limited is a company limited by guarantee. The articles and the trust deed provide for the Trustee Board to consist of a minimum of six directors, with equal numbers of directors drawn from members (including pensioners) and employers. Currently, there are ten directors in total: four member directors, four employer directors and two co-opted directors.
6. All directors who were appointed or re-appointed to the Board during 2022 were subject to external fit and proper checks. All other directors have completed declarations confirming that there is no change in circumstances that would affect their fit and proper status since the last assessment.

## Appointments

7. **Employer representatives** are nominated by Participating Employers and appointed by the Trustee Board. The term of one employer representative, Mr Martin Poore, expired in 2022. All employers were invited by email to put candidates forward as part of an open, fair and transparent process. The invitation included a link to an information sheet about serving on the Board on the website. No additional candidates were put forward. After consideration of his skills and competency, the Trustee Board re-appointed Mr Poore in September 2022. The relevant external checks were completed.<sup>1</sup>
8. **Co-opted Directors** may be appointed to bring specific skills and experience to the Trustee Board. There are currently two co-opted Directors, the Chair and the Chief Executive.
9. The trust deed governing the Cheviot Trust requires that a majority of the directors, including the Chair, are **non-affiliated** as defined by the legislation.<sup>2</sup> The current Chair, Sir Derek Morris, was designated as non-affiliated on his initial appointment in April 2017.<sup>3</sup> The original appointment was made after a tender exercise involving several independent trustees and trustee companies was undertaken to identify suitable candidates and a series of interviews of those candidates conducted by the Performance Review

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<sup>1</sup> Mr Poore can be designated in the future as non-affiliated as the appointment process was open and transparent.

<sup>2</sup> Non-affiliated means independent of any undertaking which provides advisory, administration or investment or other services in respect of the Money Purchase Section

<sup>3</sup> Reappointed in July 2022



Committee<sup>4</sup> of the Trustee.

10. Sir Derek's non affiliation period expired in 2022 and he was reappointed on 1 July 2022 for the period to 31 March 2027,<sup>5</sup> following a tender exercise, based on a review of the exercise in 2017. Three candidates, including Sir Derek, were considered by the Legal Committee against the criteria set by the Board for the appointment. This was considered a proportionate and focused approach, based on the Board's experience of market participants, the Trust's structure and circumstances and the balance of skills and experience on the Board. This process was considered in detail and considered by the Board's legal advisers to constitute an open and transparent process having regard to TPR's guidance. The relevant external checks were completed.
11. The term of the second co-opted director, Ms Elspeth McKinnon, Chief Executive, expired in September 2022. Ms McKinnon put herself forward for re-appointment. As she is not designated as a non-affiliated director, an open process was not required and the legal advice received confirmed that it was not necessary to undertake a full tender process. After consideration of her skills and competency, the Trustee Board re-appointed Ms McKinnon in September 2022. The relevant external checks were completed.
12. Appendix 1 sets out how the requirement for non-affiliated directors is met. Three member representatives, two employer representatives and one co-opted director (the Chair) are designated as non-affiliated.

### Trustee's knowledge and understanding

13. The directors come from a wide range of backgrounds. All bring different skills to the Cheviot Pension. The directors have also appointed suitably qualified and experienced advisers to complement their own knowledge and to ensure they have access to the required skills.

### Analysis of skills

14. The Trustee operates six Committees and two Working Parties to help it fulfil its functions. Skills analyses are carried out each year through self-evaluation questionnaires based on the Pensions Regulator's standard at an individual, Committee and Trustee level. The training plan is drafted to include any areas where skills need to be improved or additional adviser support is sought. The individual and combined skills analyses demonstrate the breadth and depth of experience of the directors.
15. Four directors are professional trustees and have completed the PMI's Award in Pension Trusteeship.<sup>6</sup> The Chief Executive also holds this award. Sir Derek and Mr Orton have been awarded professional trustee accreditation from the Association of Professional Pension Trustees Limited. Ms Thomas has completed the PMI's Certificate in Pension Trusteeship.

### Training

16. An induction process is in place for new directors. There were no new directors during 2022.
17. An annual training plan is required by the Governance Policy. It reflects the annual skills analysis and documents how all the key areas will be addressed, including Cheviot specific training. All directors are encouraged to attend at least one external session per year.<sup>7</sup> The Governance Policy requires all directors to complete at least twelve hours of training per year, including training at Board and Committee meetings.<sup>8</sup> Directors commit to completing the training, either at the relevant meetings or by personal study or a combination. Training slides are made available on the extranet. All directors completed the required training hours in 2022.
18. An Education session for directors is held at least once a year, usually in January following an analysis of

<sup>4</sup> Now renamed the HR Committee

<sup>5</sup> Completing his 10 years tenure as non-affiliated.

<sup>6</sup> Sir Derek, Mr Orton, Mr Poore, Ms Thomas.

<sup>7</sup> Includes online training.

<sup>8</sup> Professional trustees are required to undertake 25 hours per year.





skills in December of the previous year. The session was held in January 2022 and allowed training to be undertaken outside the constraints of a Trustee Board meeting. This process is repeated each year. The Education session in January 2022 addressed gaps identified in the skills analysis in Q4 2021.<sup>9</sup>

19. All Directors have completed the Pensions Regulator's trustee toolkit and regular training is provided on aspects of the Trustee Knowledge and Understanding requirements, including the Trust Deed and Rules, the Statement of Investment Principles and internal dispute resolution procedure.<sup>10</sup> All Board papers include a cross reference to the appropriate provision in the trust deed or other document or policy if relevant.
20. Training relevant to the Master Trust during 2022<sup>11</sup> included:
  - (i) Master Trust supervision
  - (ii) Scheme administration, including transaction processing, member data and complaints.
  - (iii) AAF reports
  - (iv) Risk management and internal controls
  - (v) Climate Change and TCFD
  - (vi) Market themes for 2022
  - (vii) Trust Deed and Rules and trustee protections.
  - (viii) The requirements of the Pensions Dashboard Programme
  - (ix) Changes in pensions legislation, including the Pension Schemes Act 2021
  - (x) Defined contribution strategy review including value for members, member outcomes, decisions at retirement and default investment strategies
  - (xi) DC Code of practice and the draft combined code of practice
  - (xii) Management and assessment of advisers
  - (xiii) Investment issues including implementation statements, Statement of Investment Principles and TCFD reporting
  - (xiv) Cyber security
  - (xv) Assessing Board effectiveness
21. All directors are members of the Pensions Management Institute and receive regular updates and opportunities for further training. Three directors are also members of the Association of Pension Lawyers.
22. Three Directors<sup>12</sup> serve on industry groups and several attended external virtual conferences during the year. A co-opted Director is a member of the Pensions and Lifetime Savings Association's Master Trust Committee. A member representative writes technical articles for publication.

## Conclusion

23. Based on the skills analysis undertaken and training provided, the Trustee Board considers that the Directors' combined knowledge and understanding together with the legal, covenant, investment, and actuarial advice which they receive, enables them to properly exercise their functions in relation to the Cheviot Trust as set out in the Governance Policy and relevant legislation and guidance and to monitor these activities through the Strategic Plan. The combined knowledge and understanding includes:
  - a working knowledge of the core scheme documents (the Trust Deed and Rules, the Statement of Investment Principles, and the Governance Policy),
  - sufficient knowledge and understanding of the law relating to pensions and trusts and
  - sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational pension schemes.

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<sup>9</sup> A further session was held in January 2023 based on the skills analysis in December 2022.

<sup>10</sup> January 2022

<sup>11</sup> Some training was presented at Committee meetings but was made available to all Directors.

<sup>12</sup> Elspeth McKinnon, Ian Gault, Maralyn Thomas



## Board effectiveness

24. The Trustee Board reviews its own effectiveness as a group regularly and pursues any actions that flow from its conclusions. All directors completed a questionnaire based on the TPR's template in advance of the June 2022 Board meeting. The combined results were then discussed at that meeting. No changes were proposed following the discussion which included consideration of the following issues:
- The difficulty of improving diversity. This was not felt to detract from decision making.
  - The importance of the standard and timeliness of the Board papers, particularly the headers provided which directed attention to the key points of each paper to support effective decision making.
  - The benefit of each Committee and the Board meeting at least once per year in person and the usefulness of breakout groups when considering difficult issues.

## Governance

25. There is a clearly articulated governance policy, reviewed at least annually,<sup>13</sup> setting out the roles and responsibilities of the directors and the different Committees and Working Parties, together with policies regarding delegations, decision making powers, conflicts of interest, data protection, reporting requirements, appointment of advisers and climate change.
26. A strategic and operational plan is reviewed quarterly together with a detailed governance report. Performance of the Trust as a whole, including the Trustee, is measured against these documents. Risks are a standing item on each Committee and Board meeting. All core documents and board papers, including training, are readily available to Directors on Cheviot's extranet.

## Committee structure

27. A committee structure is used to provide more focus on key areas. Each Committee has written terms of reference which set out delegated powers from the Trustee Board. Actions and risks relevant to each Committee are standing items on the relevant agendas. Two Working Parties were introduced in 2022 to oversee certain projects which required oversight from more than one Committee.
28. Four full Trustee Board meetings and six Board conference calls were held during 2022. The Finance and Operations, Funding and Risk and Compliance Committees each held four meetings, the Investment Committee held 12 meetings, the Legal Committee held three meetings, and the Human Resources Committee held two meetings during the year.

## Feedback from members

29. The Money Purchase Section provides benefits across more than 50<sup>14</sup> employers which are non-associated and based in multiple locations across the country. Approximately 32% of the membership of 5,365 are active members and making contributions.<sup>15</sup>
30. Given the diversity of employers and location, an in-person meeting is not effective although we are considering whether a virtual meeting may be useful. We will keep this under review. Our approach to encouraging feedback is largely based on regular communications and the website. Approximately 78% of members receive electronic communications, with the rest receiving member specific information by post. This proportion increased significantly during 2022 following a communication exercise with members. The open rate for the benefit statement email in 2022 was around 60%.
31. The Trust issues a report each year to all members which includes topical and relevant items and encourages

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<sup>13</sup> The Governance Policy was regularly reviewed during 2022.

<sup>14</sup> Only includes Active Employers

<sup>15</sup> Figures as at 31 December 2022



members to pass on feedback about how the Trust is managed.<sup>16</sup> We also include contact details on the website which enables members to write to a specific email address: [people@cheviottrust.com](mailto:people@cheviottrust.com). Any comments are considered by Cheviot staff and significant feedback reported to the Trustee if appropriate.

32. The 2022 report included articles on Cheviot's net zero target and the introduction of a new ESG equity fund together with a market overview explaining the disappointing 2022 performance as both higher and lower risk assets performed poorly.
33. The 2021 benefit statements were issued in April 2022 and are in line with the DWP statutory guidance for simpler statements. They were made available through the member dashboard, accessed through the member website. To ensure security, all members received a hard copy of the log in details for the dashboard which has two factor authentication. The Board continues to monitor the response to the dashboard. More than 50% of members are accessing the dashboard through the app.

## Core financial transactions

34. The Directors have agreed written financial authorities<sup>17</sup> and service level requirements<sup>18</sup> with the internal administration team<sup>19</sup> to ensure that core financial transactions are processed promptly and accurately. This includes service standards for responses to member enquiries, transfers to and from the scheme, other benefit payments from the scheme to or in respect of members, investment switches, investment of contributions, lifestyle switches and reconciliation of member unit holdings to the investment manager.
35. The Trustee has put processes in place to ensure that core financial transactions are processed accurately and in a timely manner, including daily monitoring of bank accounts, clear processes for managing contributions and appropriate authorisation of investment and banking transactions (which includes at least two signatories).

## Monitoring process

36. A quarterly Governance report on performance against service level requirements is discussed at each Finance and Operations meeting and reported to the Board. The report includes the timeliness and accuracy of the processing of transactions, switches, contributions received and the investment of those contributions, member statistics, accuracy of benefit payments, contributions received late from employers, reconciliation of member unit holdings and a communications report.
37. The administration aspects of the Governance report are based on automated and robust management information reporting from the administration system, enabling any slippage in service standards to be discussed and plans to improve service standards to be agreed if necessary. Based on this management information, the Finance and Operations Committee reviews and discusses any slippage in service standards as necessary and reports to the Board. All service standards were met during 2022.
38. The auditors reviewed key elements of the Governance reports during 2022 as part of their audit process and produced a detailed report which was reviewed by the Finance Committee. No substantive or systemic issues were identified.

## Conclusion

39. The service standards agreed with the administrators have been met during 2022. Regular governance reports enable the Board to monitor service standards and identify any issues which need to be remedied. No such issues arose during 2022. The secure member portal enables members to make basic changes to their records.
40. As a result of the provision of detailed management information, and the confirmation from the Trust's

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<sup>16</sup> Report to Members 2022, page 2.

<sup>17</sup> The financial authorities were updated during 2022 to reflect changes in staff.

<sup>18</sup> The service level requirements were reviewed as part of the Governance Policy in December 2022. Bank accounts are monitored daily.

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



auditors that there were no material issues identified in the reports, the Directors are satisfied that core financial transactions were processed promptly and accurately and reported in line with the agreed service level requirements in all material respects during 2022. This is kept under close review.

## Investment issues

41. For members of a defined contribution scheme, the absolute returns delivered by the investment strategy are the most important element in delivering the best possible outcome at retirement. The Directors recognise that stable returns are also highly valued by members. The absolute returns and the stability of those returns are reflected in the Trustee Board's investment strategy.

## Investment governance

42. Investment governance is critical to the success of the investment strategy. It is delegated to an Investment Committee which met twelve times during 2022. Although the investment options are expressed simply to members to make them easy to understand, the underlying strategy is much more sophisticated and usually includes around 20 different underlying funds. The asset allocation is managed actively. It is reviewed at least monthly and more often if warranted by market conditions.

## Investment performance

43. The Investment Committee and Trustee Board reviews investment performance quarterly against performance targets set for each option which include both return and stability targets, risk budgets and market conditions. The Investment Committee also consider an annual report from a third party adviser on the performance of the assets. For the blended funds within the default strategy, the dynamic asset allocation approach has delivered more stable performance within the parameters set by the Directors but, as result of the very poor market performance in 2022, returns were below the long-term CPI+ targets over three and five years as inflation continued to rise.<sup>20</sup> Performance for these blends was slightly ahead of their short-term targets in 2022. The Low Cost self-select blend also underperformed its CPI+ target over three and five years but was ahead of its short-term target in 2022. The remaining self-select funds performed broadly in line with their targets over three years.

## Investment platform provider

44. All the funds are held on Mobius Life's investment platform to facilitate the Trustee's dynamic asset allocation strategy. All funds trade daily. The prices for five funds which are included in the investment strategy, the HSBC Islamic Global Equity Index Fund, the BlackRock ACS World Equity ESG funds (GBP hedged and unhedged), the Legal and General 0 to 5 Year Gilts Index Fund and the Invesco Physical Gold fund are available one day later than the other funds. The Investment Committee reviews an assessment of the security of assets each year.<sup>21</sup>

## Range of options

45. No new funds were introduced in 2022. The range includes five diversified investment options, three equity funds and four specialist funds.<sup>22</sup> The investment information available on the member website explains details of the options and provides quarterly performance information.<sup>23</sup> The diversified options target returns above inflation to reflect the need for funds to grow in real terms to deliver an adequate retirement income for members. The equity and specialist options target market returns in the relevant asset class. Performance is reviewed against these objectives quarterly to ensure returns are consistent with the objectives for each fund. These options allow members to access the most appropriate investment strategy for their individual circumstances and preferences.

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<sup>20</sup> As at 31 December 2022.

<sup>21</sup> September 2022

<sup>22</sup> The specialist funds and the equity funds are provided by external managers except for Cheviot Cash fund.

<sup>23</sup> Or links to the performance information for external funds.



## The Cheviot Lifeplan

46. For those members who do not wish to select their own investment options, Cheviot provides the Cheviot Lifeplan,<sup>24</sup> which aims to provide members with an adequate retirement income in as smooth a manner as possible – taking risk where it is best rewarded and offering protection when it is most needed.
47. The Lifeplan uses four of the diversified options to transition members through their membership, with the objective of reducing risk as they approach their target retirement date. The target retirement date is set by the member or defaults to the member's State Pension Age. Given the significant fall in UK Government bonds reflecting higher interest rates due to inflation and political changes, members close to retirement were particularly impacted by poor returns in 2022, although the performance has been in line with market returns.
48. The Trust also provides post-retirement options to cater for members who want to access their benefits flexibly. The post-retirement investment options set out in the Statement of Investment Principles are currently under review and are not available to members. Since April 2015, a significant proportion of members accessing their benefits have taken advantage of the flexible benefits offered within the Trust.

## Strategy review

49. A review of the investment options and Cheviot Lifeplan's objectives and design is completed annually. This review is conducted by the Investment Committee and is reported to the Trustee Board.
50. The annual strategic review took place in May 2022. It involved reviewing the performance and strategy of the Cheviot Lifeplan based on the Trustee's aims, objectives, and investment approach as set out in the Statement of Investment Principles. It included the following related items:
  - (i) Whether members were likely to receive "good"<sup>25</sup> retirement outcomes based on their current holdings and future expected returns
  - (ii) Whether the investment return assumptions behind each of the blends remained reasonable
  - (iii) Whether members' investment needs were met through the range of options available to them both pre and post-retirement.<sup>26</sup>
51. As a result of this review, the Investment Committee concluded that:
  - (i) the range of options remained sufficiently broad in terms of the choice offered to members and consistent with other Master Trusts.
  - (ii) introducing an ESG fund to the self-select range would be positive, but the messaging would need to be carefully managed to avoid suggesting that the other funds do not take ESG into account.
  - (iii) the return expectations for the growth element of the Cheviot Lifeplan remained reasonable, following an increase in the equity holdings in August 2022 to reflect future return expectations.<sup>27</sup>
  - (iv) higher interest rates led to a change in the gilts holding to reduce the impact of interest rate changes in the Cautious and Retirement Planning blends.
  - (v) most members were likely to receive good retirement outcomes, based on three different measures of "good".<sup>28</sup>
  - (vi) a reduction in cash held in the Lifeplan as members approach retirement would reduce the drag on performance, and
  - (vii) closer alignment to the FCA pathways would be helpful, including providing a growth only option.

<sup>24</sup> The default option for the purposes of the legislation.

<sup>25</sup> Whilst the definition of "good" is unique to each member depending on their retirement goals, the Investment Committee assessed it against the UK Living Wage, the Pensions Commission's Target Replacement Ratio and the PLSA's Retirement Living Standards.

<sup>26</sup> Retirement in this context is when a member takes their tax-free cash as this is when the investment priorities change.

<sup>27</sup> Cheviot's investment targets are CPI+

<sup>28</sup> Living Wage, Replacement Ratio and PLSA Retirement Living Standards, all at April 2021.



## Implementation of strategic changes

52. The introduction of an ESG equity option for members to select was completed in January 2023.
53. The increase in equity allocation in the growth period was implemented in August 2022 together with the change in the gilts holdings.
54. The change in the allocation to cash at retirement and the alignment to the FCA pathways will be completed during 2023.<sup>29</sup>

## Statement of Investment Principles

55. The Statement of Investment Principles was reviewed in 2022 to include the changes identified as part of the strategic review. It was issued for consultation in early 2023 and signed on 29 March 2023. It is attached to this Chair's Statement. It is publicly available online.

## Value for members

56. All charges are borne by members. A key responsibility of the Trustee is to provide good value for money for members.
57. The Trustee appointed consultants<sup>30</sup> to carry out an assessment of the Money Purchase Section's services based on their knowledge of the market and operation of other trustee boards, and using a framework provided by the Pensions Regulator. This considered the charges paid by members for a list of features and services in three core areas of scheme management as set out in the DC code of practice (governance and management, investment, administration and communication). The quality of the services was assessed through establishing whether the Money Purchase Section's services are suitable, relevant and valuable to members and whether each of the services had performed effectively.
58. The Investment Committee has delegated powers to review the assessment. The Committee concluded that services provided in each area were high quality and overall provided good value for members in the three key areas of governance and management, investment charges, administration and communications. The AAF reports support the assessment of excellent administration as no exceptions to agreed procedures were identified.
59. The blended funds underperformed their long-term inflation-linked benchmarks to 31 December 2022. Despite a robust governance structure and well diversified assets, there were no available alternative investments during 2022 offering the prospect of better performance. Most members saw negative returns which contributed to an amber rating for performance.
60. The governance structure meets the high standards required for authorised Master Trusts. It provides for a detailed annual review of the membership and projected retirement income to enable the Investment Committee to assess whether the Cheviot Lifeplan remains appropriate to meet the long-term target of providing an adequate retirement income.
61. The finance and administration team met the service standards set by the Trustee during 2022. Only one complaint was received by the administration team during 2022 which was not upheld. The member portal is working effectively. The introduction of the Cheviot app has improved take up, with most members preferring to access their account via mobile devices (phones and tablets) rather than desk top computers. These services made a positive contribution to member outcomes.
62. The overall charge was within the range identified by Schroders Solutions of master trusts of a similar size and management style. The charge is at the higher end compared to the wider master trust market, given the discounting available from the largest commercial providers in the Master Trust market. The Trustee

<sup>29</sup> Reflecting the key findings of the FCA's Investment Pathways: post implementation review

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



continues to focus on reducing overall charges, having reduced charges in both 2020 and 2021. Value for members is a standing item on all agendas to ensure that any items which may affect it going forward are recognised and considered in that context.

## Charges and costs

63. The Cheviot Lifeplan meets the requirements of the charge cap. The charge cap is a limit set by the Government on the amount that can be charged to members of a pension scheme.<sup>31</sup> The actual charges depend on how close the member is to retirement.
64. All funds available to members during 2022 (either through the Cheviot Lifeplan or through individual choice) are identified in the table below which includes details of charges in 2022. Charges include investment management, additional expenses, governance, administration, consultant fees and legal fees. Transaction costs, the fees incurred in buying and selling investments, are excluded. Estimated transaction costs in 2022 are set out in Appendix 2.

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

Details of the charges are available to members and employers via the website. Members' benefit statements include a worked example of how to calculate charges for their own funds.

65. The estimated cumulative impact on members' savings of both charges and other costs is shown in Appendix 1 and has been calculated having regard to the DWP guidance updated in October 2021. The Trustee considered the results and concluded that they are reasonable in the context of the investment strategy objectives. The Trustee believes that the assumptions used in these projections (outlined in Appendix 3) are reasonable in the context of the Scheme's membership and are consistent with the DWP guidance issued in October 2021.
66. Cheviot investment performance information is shown after deduction of charges and costs so members can see the actual performance of each option as reflected in their own account value. The information below complies with the relevant regulations.<sup>33</sup> Performance over one, three and five-year periods for the core options used in the Cheviot Lifeplan together with the self-select options is shown below. Performance over all reported periods has been materially impacted by the very poor returns in 2022.

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

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

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



Fund	1 year %		3 year annual return % <sup>34</sup>		5 year annual return %		Long term objective
	Fund	Target	Fund	Target	Fund	Target	
<b>Cheviot Lifeplan</b>							
<b>Growth</b>	-12.2%	15.0%	2.7%	9.9%	3.9%	8.4%	CPI + 4.50%
<b>Moderate</b>	-13.0%	14.0%	1.1%	8.9%	2.6%	7.4%	CPI + 3.50%
<b>Cautious</b>	-16.2%	13.0%	-1.8%	7.9%	0.6%	6.4%	CPI + 2.50%
<b>Retirement Planning</b>	-16.2%	13.0%	-2.2%	7.9%	-0.2%	5.9%	CPI + 2.50%
<b>Self-select funds</b>							
<b>Low Cost</b>	-17.0%	13.0%	0.4%	7.9%	2.3%	5.9%	CPI + 2.50%
<b>Annuity Planning</b>	-29.2%	-27.3%	-9.0%	-7.8%	-3.4%	-2.9%	FTSE Annuities Index
<b>Cash</b>	1.1%	1.4%	0.3%	0.6%	0.2%	0.5%	Sterling Overnight Index Average
<b>HSBC Shariah</b>	-16.0%	-15.8%	#N/A	#N/A	#N/A	#N/A	In line with Dow Jones Islamic Market Titans 100 Index
<b>LGIM Ethical</b>	-6.8%	-6.1%	8.5%	9.3%	#N/A	#N/A	In line with FTSE 4Good Index
<b>LGIM UK Equity Index Fund</b>	0.0%	0.3%	2.0%	2.3%	#N/A	#N/A	In line with FTSE All-Share Index
<b>LGIM World Equity Fund (50% GBP hedged)</b>	-12.1%	-11.5%	6.3%	6.8%	#N/A	#N/A	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged
<b>Blackrock Aquila Connect Emerging Markets Fund</b>	-9.7%	-9.5%	0.8%	1.6%	#N/A	#N/A	In line with MSCI Emerging Markets Index

## Conclusion

67. The Directors are confident that the Trust is managed effectively on behalf of members and employers as described in this Statement and in compliance with relevant statutory provisions and other guidance.

*Sir Derek Morris*

**Sir Derek Morris**  
Chair, Cheviot Trustees Limited

28 July 2023

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





## Appendix 1

### Confirmation of non-affiliated status

Non-affiliated means independent of any undertaking which provides advisory, administration, investment or other services in respect of the Money Purchase Section. All directors are asked to confirm their non-affiliation status annually. As six of the ten Directors (including the Chair) are designated non-affiliated, the requirement that a majority of the Directors, including the Chair, are non-affiliated has been met.

Name	Position	Affiliation status	Non-affiliated since	Last appointed <sup>35</sup>	Non-affiliation expires
<b>Sir Derek Morris</b>	Chair and co-opted Director	Director certification	April 2017	July 2022	March 2027 (10 years)
<b>Mr Ian Gault</b>	Employer Director and Vice Chair	Director certification	Feb 2021	June 2021	Feb 2026
<b>Ms Diane Elliott-Smith</b>	Member Director	Director certification	Jan 2019	Jan 2022	Jan 2027
<b>Ms Frances Longmore</b>	Member Director	Director certification	Jan 2019	Jan 2022	Jan 2027
<b>Mr Gerald Kidd</b>	Employer Director	Director certification	June 2015	Dec 2020	May 2025
<b>Mr Giles Orton</b>	Member Director	Director certification	Sept 2018 (as a co-opted Director)	March 2021 (as a member Director).	March 2026

<sup>35</sup> Following expiry of their three year term.



## Appendix 2

### Impact of Transaction Costs

- Day-to-day trading costs are incurred when the manager of an underlying fund buys and sells investments within their pooled fund and are reflected in the fund's performance. The transaction costs are in addition to the published annual management charge.
- The table below sets out transaction costs for each option invested through the Mobius Life platform in 2022. Mobius Life has sourced transaction costs from the underlying fund managers. Each underlying fund manager provides data in 12-month periods. Transaction costs are not fully available for 2022 and reflect the latest available information, with most costs covering the 12-month period to 30 September 2022. It is likely that transaction costs will usually include some estimated costs; and finalised figures will be disclosed retrospectively in next year's report. The Trustee and its advisers continue to press investment managers for more timely reporting.
- Members will experience varying levels of cost depending on which options they are invested in (either through the Cheviot Lifeplan or through individual choice). Similar costs to those shown are expected to continue in the future. A negative cost means that the fund benefited from transaction activity of other investors, rather than incurring a transaction cost. The actual transaction costs for 2021 are included for comparison purposes where available, having regard to the Department for Work and Pensions' guidance (and any future guidance).<sup>36</sup>

Investment option	Estimated costs in 2022	Actual costs in 2021
<b>Investment options used in the Lifeplan<sup>37</sup> and available for members to select</b>		
Cheviot Growth	0.02%	-0.00%
Cheviot Moderate	0.02%	-0.03%
Cheviot Cautious	0.03%	-0.04%
Cheviot Retirement Planning	0.03%	-0.04%
Cheviot Cash	0.00%	-0.02%
<b>Investment options for members to select</b>		
Cheviot Low Cost	0.03%	-0.01%
Cheviot Annuity Planning	0.00%	0.02%
HSBC Islamic Global Equity	0.00%	0.02%
L&G Ethical Global Equity	0.08%	0.04%
BlackRock Aquila Connect Emerging Markets Fund	-0.10%	-0.04%
Cheviot Global Equity Fund	0.08%	-0.04%
L&G UK Equity Index Fund	0.06%	0.01%

Source: 2022 transaction costs Mobius Life. 2021 transaction costs, Mobius Life. These figures represent the latest available information as at the time of publication.

All of the blended funds have reported positive transaction costs over the 2022 scheme year (therefore resulting in a negative impact on members), compared to the majority reporting a negative cost in 2021. There was no single factor which resulted in a different impact year-to-year. The difference was a function of manager cash flows, trading activity and general changes to the cost of trading.

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

<sup>36</sup> The full transaction costs were not available in the 2021 Chair's Statement but were based on an annual cost to 30 September 2020.

<sup>37</sup> The Lifeplan is the default arrangement.



## Appendix 3

### Cumulative costs

#### Cheviot Lifeplan

The level of transaction costs depends on which investment option is selected. The Cheviot Lifeplan automatically switches members between options through their working life to manage investment risk on their behalf. The chart below shows an illustrative example<sup>38</sup> of the effect over time of the application of both the fixed charges and the variable costs on the value of a member's **estimated** account at their Target Retirement Date.<sup>39</sup> It assumes that the account is invested in the Cheviot Lifeplan for the whole period. The after charges figure therefore include the automatic switching process of the Lifeplan, transaction costs (shown in Appendix 2) and the ongoing annual management charge (shown in para 62). Costs can change over time.

The figures are based on the following assumptions based on the Cheviot membership:

- Starting pension account of £10,000 at age 23.
- Inflation of 2.5% each year.<sup>40</sup>
- Member salary of £25,000
- Salary and contributions increase each year by 1% over inflation.
- Combined contributions from member and employer of 12% each year.
- Transaction costs used are an average of the last three years of data in respect of the underlying pooled fund where available and are assumed to continue for future years. This is expected to be representative of the costs incurred by Cheviot members.
- Investment return growth in line with the targets set by the Trustee.<sup>41</sup>

**Cheviot Lifeplan**  
**Projected pension pot in today's terms**

Years to retirement	Before charges	After costs and charges <sup>42</sup>
1	£13,800	£13,700
3	£21,400	£21,000
5	£29,700	£29,000
10	£54,600	£52,300
15	£85,700	£80,500
20	£120,800	£111,400
25	£163,000	£147,300
30	£213,800	£189,400
35	£272,700	£236,200
40	£331,400	£280,300

For example, if you invest for 20 years prior to your Target Retirement Date (e.g., age 45 if your Target Retirement Date is your 65 birthday), the projections show you will have a pot of approximately £111,400 at Target Retirement Date after all charges have been deducted.<sup>43</sup> Before charges, the projected pot size is £120,800, meaning the projected impact of costs and charges over the twenty-year period is £9,400.

The estimated costs of switching funds as part of the Cheviot Lifeplan over a 40-year membership averages 0.01% per annum on a worse case basis, and assuming that the fund is cashed in at retirement. The Trustee considers this cost to be reasonable and necessary in the context of the Lifeplan's objectives.

<sup>38</sup> [Reporting of costs, charges and other information: guidance for trustees and managers of occupational schemes – effective 1 October 2021 \(publishing.service.gov.uk\)](#).

<sup>39</sup> Target Retirement Date is the date when a member plans to start to access their pension savings.

<sup>40</sup> In today's terms this means that the impact of estimated future inflation has been considered.

<sup>41</sup> The accumulation rates are calculated in line with Actuarial Standard Technical Memorandum (AS TM<sub>1</sub>). Growth +4.5% p.a., Moderate 3.5% p.a., Cautious, 2.5% p.a., Retirement Planning 2.5% p.a., Cash 0% p.a., Annuity Planning 0% p.a., Low Cost 2.5% p.a. (all returns net of inflation), HSBC Islamic Global Equity, L&G Ethical Global Equity, L&G UK Equity, L&G World Equity, BlackRock Aquila Connect Emerging Markets, all 4.5%.

<sup>42</sup> This shows the net projected fund after all costs and charges have been deducted.

<sup>43</sup> Based on the assumptions set out above.



## Appendix 3

### Self-select funds

#### Individual fund costs

Some members prefer to choose their own investment option to meet their plans for retirement. The chart below shows an illustrative example of the effect over time of the application of the costs and charges for each individual option and are based on the same assumptions as shown above for the Cheviot Lifeplan, but assuming that the member stays invested in the same option through the period. The 'After costs and charges' column shows the net projected fund after all costs and charges, including transaction costs, have been deducted.

#### FUNDS USED IN THE CHEVIOT LIFEPLAN

YRS	Growth		Moderate		Cautious		Retirement Planning		Cash	
	Before charges	After costs and charges	Before Charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,800	£13,700	£13,700	£13,600	£13,600	£13,500	£13,600	£13,500	£13,200	£13,200
3	£21,400	£21,100	£20,900	£20,600	£20,400	£20,100	£20,400	£20,100	£19,300	£19,200
5	£29,700	£29,100	£28,700	£28,100	£27,700	£27,100	£27,700	£27,100	£25,400	£25,200
10	£54,600	£52,400	£51,300	£49,300	£48,200	£46,400	£48,200	£46,300	£41,400	£40,800
15	£86,400	£81,400	£78,900	£74,500	£72,200	£68,200	£72,200	£68,100	£58,100	£57,000
20	£126,700	£117,200	£112,500	£104,300	£100,100	£93,000	£100,100	£92,800	£75,600	£73,800
25	£177,600	£161,200	£153,100	£139,400	£132,500	£121,100	£132,500	£120,700	£94,100	£91,300
30	£241,700	£215,000	£202,100	£180,700	£170,000	£152,700	£170,000	£152,100	£113,400	£109,400
35	£322,300	£280,400	£261,200	£228,700	£213,300	£188,000	£213,300	£187,100	£133,700	£128,200
40	£423,400	£359,500	£332,200	£284,500	£263,300	£227,400	£263,300	£226,200	£155,000	£147,500



## Appendix 3

### Self-select funds

YRS	ANNUITY PLANNING		LOW COST		HSBC ISLAMIC GLOBAL EQUITY		L&G ETHICAL GLOBAL EQUITY	
	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,200	£13,200	£13,600	£13,500	£13,800	£13,700	£13,800	£13,700
3	£19,300	£19,000	£20,400	£20,200	£21,400	£21,000	£21,400	£21,000
5	£25,400	£24,900	£27,700	£27,300	£29,700	£29,000	£29,700	£29,000
10	£41,400	£39,800	£48,200	£46,800	£54,600	£52,400	£54,600	£52,200
15	£58,100	£55,000	£72,200	£69,200	£86,400	£81,300	£86,400	£80,800
20	£75,600	£70,500	£100,100	£94,800	£126,700	£117,000	£126,700	£116,100
25	£94,100	£86,400	£132,500	£123,800	£177,600	£160,700	£177,600	£159,200
30	£113,400	£102,700	£170,000	£156,900	£241,700	£214,400	£241,700	£211,900
35	£133,700	£119,200	£213,300	£194,000	£322,300	£279,300	£322,300	£275,600
40	£155,000	£136,100	£263,300	£235,700	£423,400	£358,000	£423,400	£352,500



## Appendix 3

### Self-select funds

YRS	BLACKROCK AQUILA CONNECT EMERGING MARKETS FUND CASH		L&G WORLD EQUITY INDEX FUND (50% GBP HEDGED)		L&G UK EQUITY INDEX FUND	
	Before charges	After costs and charges	Before charges	After costs and charges	Before charges	After costs and charges
1	£13,800	£13,800	£13,800	£13,700	£13,800	£13,700
3	£21,400	£21,200	£21,400	£21,100	£21,400	£21,100
5	£29,700	£29,300	£29,700	£29,200	£29,700	£29,300
10	£54,600	£53,200	£54,600	£53,000	£54,600	£53,100
15	£86,400	£83,100	£86,400	£82,700	£86,400	£82,800
20	£126,700	£120,300	£126,700	£119,500	£126,700	£119,800
25	£177,600	£166,400	£177,600	£165,100	£177,600	£165,700
30	£241,700	£223,500	£241,700	£221,400	£241,700	£222,300
35	£322,300	£293,400	£322,300	£290,100	£322,300	£291,500
40	£423,400	£378,900	£423,400	£374,000	£423,400	£376,100

Appendix B



# Statement of Investment Principles

March 2023

## Money Purchase Section



## An authorised Master Trust

### 1. Introduction

- 1.1 This Statement describes the investment strategy and policies of the Trustee of the Money Purchase Section of the Cheviot Pension. It reflects the legislative requirements<sup>44</sup> and forms the basis for the decision-making process in relation to investment strategy.
- 1.2 The Trustee has obtained and considered written advice from the Investment Adviser and Scheme Actuary, both of which the Trustee believes are qualified by their ability in, and practical experience of financial matters and have the appropriate knowledge and experience of, the management of investments of pension schemes. The Trustee also consulted its lawyers and employers about this Statement.
- 1.3 The Trustee will also obtain and consider advice (as required by law) before making any future changes in investment strategy or investment options, and before revising this Statement.
- 1.4 Information about the Trustee, the directors' knowledge and understanding and the governance structure is available in the Chair's Governance Statement, available online.

### 2. Investment objectives

- 2.1 The primary objectives of the Trustee for the Money Purchase Section are:
  - (i) To provide a default plan, called the **Cheviot Lifeplan** to provide members with an "adequate" retirement income<sup>45</sup> in as smooth a manner as possible, taking risk where it is most rewarded and protection where it is most needed. The Cheviot Lifeplan is based on a range of investment options and strategies which are also available to members who wish to choose their own investment approach.
  - (ii) To provide a range of investment options that members can select.
  - (iii) To provide an element of stability in investment returns. The Trustee believes that stable returns are more valuable to members than volatile returns. This is reflected in how risk is measured, both by fluctuations in returns, and historic and prospective falls in value.
  - (iv) To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.
  - (v) To provide investment options for members who wish to invest in line with stock markets.
  - (vi) To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.
  - (vii) As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.
- 2.2 The implementation of the policies in this statement are intended to ensure assets are invested in the best interests of members by seeking to secure an appropriate level of risk for the member depending on their age and planned retirement date, including the Cheviot Lifeplan, whilst allowing members to make their own decisions if they choose to.

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<sup>44</sup> Including those of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

<sup>45</sup> Measured by reference to the UK Living Wage.





## The Cheviot Lifeplan

- 2.3 The **Cheviot Lifeplan** is available for those members who do not wish to make an investment choice. All members who are auto enrolled will be automatically invested in the Cheviot Lifeplan. By transitioning members automatically through the investment options, the Cheviot Lifeplan aims to maximise long term returns by taking more risk early on and reducing the level of risk as members get closer to retirement. The approach takes into consideration that most members take a 25% cash sum at retirement but balances it against the need for return. Very few members are currently choosing to purchase an annuity and so this is accommodated through providing an option for members to select rather than in the Cheviot Lifeplan.
- 2.4 After retirement, members can choose to take their benefits over a period of years, either as a series of lump sums or through drawing down a regular income. Members can change their investment option at any time.
- 2.5 Three growth funds, one retirement planning fund and a cash fund<sup>46</sup> are used in the **Cheviot Lifeplan** to provide suitable investment options for members throughout their membership, targeting expected returns of each option. The date of retirement is based on the member's target retirement date, or State Pension Age if no target retirement date has been set.

## Fund objectives

- 2.6 A list of available funds at the date of this Statement with the relevant risk rating and expected target returns is set out in Appendix A.<sup>47</sup> These objectives are reviewed annually by the Investment Committee against the likely investment outcomes of the options.
- 2.7 The primary investment objectives for the key funds in the Cheviot Lifeplan<sup>48</sup> are to achieve inflation-related returns over a full market cycle of about five years. The secondary investment objective is to provide these returns with less fluctuation in value than the market.<sup>49</sup>
- 2.8 The primary investment objective for other options is to achieve a return consistent with the stated objective related to that asset class.
- 2.9 The Trustee also provides alternative strategies based on a combination of other fund options. The expected returns for these strategies are based on the underlying funds.

## 3. Risk

- 3.1 The Trustee recognises that members face three key risks.
- i. Inflation risk – that the purchasing power or cash value of their fund is not maintained.
  - ii. Accumulation risk – that funds do not grow as anticipated.
  - iii. Pension conversion risk – that the value of their fund does not keep pace with the cost of providing a pension.
  - iv. Capital protection risk – that the value of their fund to provide a cash lump sum falls.

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<sup>46</sup> See Appendix A.

<sup>47</sup> A current list of fund options can be requested by emailing [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com) and is available on the website.

<sup>48</sup> See Appendix A.

<sup>49</sup> The Low Cost option does not have this secondary objective as it is focused on lower fees.



- v. Security of assets risk - funds on the investment platform are invested through a long-term insurance policy with Mobius Life Limited. The Trustees are satisfied that the assets are as safe as possible whilst still enabling them to use a range of underlying managers.
- 3.2 The Trustee has considered these risks (and other relevant risks such as market risk, counterparty risk, operational risk, environmental/social/governance risk, or the risk of failing to provide value for members) when designing the Cheviot Lifeplan and a range of investment options for members to select.
- 3.3 Risks are measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategy reviews. The Trustee identifies, evaluates, manages and monitors risks to the Money Purchase Section, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting, risks are measured against risk tolerance and market conditions to check whether the performance of each investment option remains in line with the agreed risk objectives.

#### 4. Investment strategy

- 4.1 When setting the investment strategy, the Trustee will consider, among other things, the suitability of the investments, the need for diversification, the suitability of the fund managers, patterns of member behaviour at retirement and compliance with legal requirements.
- 4.2 The range of options available for members varies from time to time and details of the current options and the underlying asset allocation are available online or on request from Cheviot.
- 4.3 All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets to reduce investment risk, which can include (but are not limited to) assets such as developed market equities, emerging market equities, UK or other sovereign bonds, corporate bonds, high yield bonds, real estate and money market instruments. The balance between different kinds of investments reflects the risk profiles of each option. Asset allocation is reviewed at least monthly and changes are actioned as soon as practical.

#### 5. Other issues

##### Environmental, social and governance factors

- 5.1 When selecting and monitoring an investment the Trustee will consider financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change.
- 5.2 The Trustee has been considering the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Trustee receives an annual report which sets out the approach to ESG consideration and enables an assessment of its effectiveness. ESG is integrated into the decision-making process and most Cheviot managers take ESG factors into account as part of their investment process. It continues to investigate new information and assessment tools to support its assessment of managers. The Trustee is also considering those elements of the investment strategy where the investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.
- 5.3 The Investment Committee has considered the implications of climate change on the portfolio's future investment returns in detail based on the data available. The Trustee has adopted a bespoke net zero commitment by 2050, reflecting the Paris Agreement's objectives. It reflects the Board's fiduciary



responsibilities to members and employers and the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris agreement.

- 5.4 Work continues on the implications of climate change with focus on improving the data available from managers to enable more accurate setting of targets. More information is available in the TCFD report available online.
- 5.5 Since the underlying investment funds used are pooled products (i.e., funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors, or give directions on stewardship such as how voting rights are used. As the Trustee does not have voting rights in respect of its investments in pooled products, it relies on the managers' engagement with the underlying funds in respect of matters including the approach to performance, strategy, capital structure, conflict management, risks, ESG impact and corporate governance. The Trustee does not currently engage in any formal way with other pooled fund investors to exert pressure on managers but is looking to do so in 2023.
- 5.6 5.5 The primary way the Trustee considers long term financial performance including ESG factors and stewardship is through advice from the Investment Adviser and its engagement with investment managers. This enables the Trustee to understand the managers' investment approach in relation to such matters (where appropriate).
- 5.7 5.6 Long term financial performance including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. Such factors may also be important criteria for considering the replacement of a manager. Once a manager is appointed, the Trustee can monitor ongoing compliance with ESG and other factors like stewardship as a part of overall performance and use its Investment Consultant's engagement with the managers on the Trustee's behalf in its decision making (where appropriate).

#### Non-financially material factors

- 5.8 The Trustee does not currently take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or quality of life considerations) when making investment decisions on behalf of members as there is not likely to be a common view on any ethical matters amongst members; but makes available three funds, one consistent with Sharia principles, one reflecting a particular ethical approach and an ESG equity fund, which aim to satisfy certain sets of beliefs. These are available to all members. Given this, the Trustee has no plans to seek the views of the membership on ethical considerations at the current time.

#### Responsible investing

- 5.8 The Trustee is supportive of the UN Principles for Responsible Investing and the UK Stewardship Code and considers whether managers are signatories and adhere to them.

#### Asset manager review

- 5.9 As part of the appointment of the investment managers, the Trustee has entered formal manager agreements and accepted the terms of pooled investment vehicles, setting out the scope of the activities of each investment manager and pooled investment vehicle, their charging basis, and other relevant matters. The Trustee has a limited ability to renegotiate commercial terms with such vehicles. The key mechanism by which the Trustee can influence managers in this context is its ability to decide whether to invest or disinvest in the manager's fund.



- 5.10 The Trustee and Investment Adviser undertake regular reviews of the investment managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as quarterly performance reviews (including understanding key drivers of performance). The Investment Advisor and Trustee review the governance structures of the investment managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested. The Trustee's arrangements with its investment managers are ongoing, with their duration subject to the Trustee's reviews of its managers. The Trustee's ability to terminate a manager's mandate is facilitated by the liquid nature of the Trustee's investments. The Trustee's regular reviews involve an assessment of whether the manager's performance and remuneration are in line with the Trustee's aims and objectives including the policies in this document.
- 5.11 Where it can be determined, the Trustee and Investment Advisor assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives on an annual basis. The Trustee periodically review the overall value-for-money of using the Investment Advisor and investment managers. Information in relation to costs associated with investing is included in annual fee review considered by the Trustee. The Trustee expect the investment managers:
- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement/pooled fund investment documentation, and
  - to assess and make decisions based on the medium- to long-term financial and non-financial performance (meaning relevant governance functions that can ultimately drive financial performance and enable trustee oversight) of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long -term performance. The success of such engagement will contribute to the Plan's performance, which are reflected and measured relative to the Trustee's long-term performance objectives, and managers are incentivised to do so, as if managers' funds do not deliver in line with the expected risk and return policy, managers are aware that the Trustee will consider disinvesting. In addition, managers are aware that by failing to respond to the Investment Adviser's engagement on the Trustee's behalf, the manager risks being removed from the Investment Adviser's buy list.
- 5.12 The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Advisor is required to prevent or manage conflicts of interest. The Investment Advisor's Conflict of Interest policy is available publicly.<sup>50</sup>
- 5.13 The Trustee oversees the turnover costs (where available) incurred by the investment managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Advisor's expectations. Information in relation to costs associated with investing is included in annual fee review considered by the Trustee. The Trustee does not have a defined targeted portfolio turnover or turnover range but monitors portfolio turnover on a quarterly basis to ensure that this is line in with each particular mandate. Where there are material deviations the Trustee engages with investment managers to understand the rationale for such deviations and take appropriate action.

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<sup>50</sup> [Conflicts Framework Summary for External Use Schroders.pdf](#)



### Liquidity

5.14 Where practicable the Trustee will invest in assets that can be quickly realised (i.e., bought and sold) to allow it to invest or disinvest in each on a daily basis, recognising that contributions need to be invested promptly and members expect to be able to access or transfer their funds quickly. In practice the Trustee facilitates investments and disinvestments at least twice a week.

### Review of Statement of Investment Principles

5.15 The Trustee's investment policy and the investment options offered to members and described in this Statement comply with the relevant legislation and are reviewed each year. During the year, the Trustee may add, change, or remove investment options in accordance with the policies in this statement. This Statement will be reviewed at least every year or when a significant change to investment strategy or policy is made. Any new investment options will be reflected in the next review of this Statement.

5.16 This statement is published on the Cheviot Trust website.

Signed on behalf of Cheviot Trustees Limited

*Elsbeth McKinnon*

Date:

29/03/2023

## Investment options

The investment funds which currently make up the Cheviot Lifeplan<sup>51</sup> and self-select fund options are set out in the tables below. The funds used in the Cheviot Lifeplan<sup>52</sup> have specific targets for stability of returns measured against the market which are reviewed by the Investment Committee each quarter. Any changes in options will be reflected when the Statement of Investment Principles is reviewed. An up to date list of fund options is always available from [ceo@cheviottrust.com](mailto:ceo@cheviottrust.com). The range of self-select funds and alternative retirement strategies are set out on the next page.

### Cheviot Lifeplan

Fund	Long Term Objective	Risk rating (out of 6)
<b>Pre-retirement<sup>53</sup></b>		
Cheviot Growth	CPI + 4% - 5%	5
Cheviot Moderate	CPI + 3% - 4%	4
Cheviot Cautious	CPI + 2% - 3%	3
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash (15% of total fund)	In line with cash benchmark	1
<b>Post-Retirement</b>		
Cheviot Retirement Planning	CPI + 2% - 3%	3
Cheviot Cash (10% of total fund)	In line with cash benchmark	1

The Cheviot Lifeplan transitions members' savings through different funds through their membership based on a date selected by the member (Target Retirement Date) or State Pension Age if no date has been set. The move between funds takes five years until the last transition before retirement when the switch is completed over two years. The change to post retirement takes place when members take their tax-free cash. The chart below shows where funds are invested at different times.<sup>54</sup>

More than 25 years from retirement	Cheviot Growth
20 years from retirement	Cheviot Moderate
5 years from retirement	Cheviot Cautious
1 year from retirement	85% Cheviot Retirement Planning 15% Cheviot Cash
Post retirement	95% Cheviot Retirement Planning 5% Cheviot Cash

<sup>51</sup> The default fund for the purposes of the legislation.

<sup>52</sup> Other than the Cheviot Cash option.

<sup>53</sup> Retirement is defined as when a member takes their tax-free cash.

<sup>54</sup> The post-retirement options are not currently available.



Self- Select options

<b>Fund</b>	<b>Long Term Objective<sub>1</sub></b>	<b>Risk rating (out of 6)</b>
<b>Cheviot Growth</b>	CPI + 4% - 5%	5
<b>Cheviot Moderate</b>	CPI + 3% - 4%	4
<b>Cheviot Cautious</b>	CPI + 2% - 3%	3
<b>Cheviot Retirement Planning</b>	CPI + 2% - 3%	3
<b>Cheviot Cash</b>	In line with cash benchmark	1
<b>Cheviot Low Cost</b>	CPI + 2% - 3%	4
<b>HSBC Shariah</b>	In line with Shariah benchmark	6
<b>LGIM Ethical</b>	In line with ethical benchmark	6
<b>LGIM UK Equity Index Fund</b>	In line with FTSE All-Share Index	6
<b>LGIM World Equity Fund (50% GBP hedged)</b>	50% in line with FTSE World Index 50% in line with FTSE World Index - GBP hedged	6
<b>Blackrock Aquila Connect Emerging Markets Fund</b>	In line with MSCI Emerging Markets Index	6
<b>Cheviot Global Equity ESG Fund (50% GBP Hedged)</b>	50% in line with MSCI World ESG Focus Low Carbon Screened Index 50% in line with MSCI World ESG Focus Low Carbon Screened Index - GBP Hedged	6



## APPENDIX B

### Additional Funds for specific Employers

The Trustee may agree with certain employers to provide access for their employees or former employees to specific additional funds to those set out in Appendix A. These funds will be governed under the same arrangements as the Cheviot arrangements but access to these funds is restricted to employees or ex-employees of named employers.