



With Profits Section of the Cheviot Pension

Pensions Registry Number 10169997

Annual Report and Accounts
For the Year Ended 31 December 2022

Any enquiries should be sent to the Chief Executive's office at:

ceo@cheviottrust.com

Kingswood House 58-64 Baxter Avenue Southend-on-Sea SS2 6BG
T. 01702 361310 E. ceo@cheviottrust.com W. www.cheviottrust.com



Contents

Contents.....	2
Trustee and Advisers.....	3
Chair’s review.....	4
Trustee’s Report	6
Independent Auditor’s Report to the Trustee of the Cheviot Pension.....	12
Fund Account	15
Statement of Net Assets (available for benefits).....	16
Notes to the Financial Statements.....	17
Independent auditor’s statement about contributions to the Trustee of the Cheviot Pension.....	28
Summary of Contributions	30
Report on Actuarial Liabilities of the With Profits Section of the Cheviot Pension... 	31
Schedule of Contributions and Actuarial Certificate	32
Appendix 1 – Investment Performance	35
Appendix 2 – Actuarial Assumptions	36
Appendix 3 – Implementation Statement.....	38



Trustee and Advisers

Trustee: Cheviot Trustees Limited

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

Scheme Actuary

Peter Black of XPS Pensions Group

Investment Advisers

Schroders IS Limited part of the Schroders Group⁴
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. The With Profits Section is also invested in blended funds held on the Mobius Life Limited investment platform. This platform invests in the underlying managers. Details can be found in the Statement of Investment Principles available on the website.

Marshall Wace Asset Management Limited⁵

Mobius Life Limited

Phoenix Investment Adviser LLC

PIMCO Europe Limited

Schroders IS Limited

Royal London Asset Management Limited

Custodian

Caceis Bank

Solicitors

Arc Pensions Law LLP

Pinsent Masons LLP

Covenant Adviser

PricewaterhouseCoopers LLP

¹ Reappointed 1 July 2022

² Reappointed 29 September 2022

³ Reappointed 29 September 2022

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

⁵ 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 Statement. available on our corporate website.⁶

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. The funding position of the With Profits Section has deteriorated sharply as a result. Members are protected from direct market falls through the support of employers.

The Investment Committee also closely monitored the market crisis in September and October in relation to liability hedge in place for the With Profits Section which was affected by the volatility and additional collateral demands.

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, is easy to navigate and has a series of factsheets focusing on investment and retirement.

⁶ www.cheviottrust.com



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 issued in late 2022 included information about investment issues, 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.

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, although only the Chair is appointed as a professional trustee to the With Profits Section.

Employer and Member representatives are currently appointed by the Trustee, following the relevant selection process, for a term of three years⁷ 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.⁸

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.

Audit Assurance reports

The Report for the year ended 31 December 2022 was signed on on 31 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.

⁷ 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.

⁸ Mr Poore is designated as non-affiliated as the appointment process was open and transparent.



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.⁹
- The Legal Committee held three meetings.
- The Risk and Compliance Committee held four meetings.
- The Human Resources Committee held two meetings 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 With Profits Section.

Costs incurred in respect of the With Profits Section are charged directly to the Section.

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 With Profits Section. They do not take account of future obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the With Profits Section is shown in the Report on Actuarial Liabilities on page 31.

⁹ 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.

	With Profits Section
Assets at 31 December 2022	£64.5m (£90.0m)

The With Profits Section is relatively mature and members transfer out at retirement which has contributed to the significant reduction in assets in 2022, together with the general fall in asset values across both on risk and off risk assets.

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. This has impacted the risk assets in the 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.

Investment Strategy

The investment strategy approach 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 which fell to 88% at the end of 2022. The Trustee is starting to consult with employers about the future funding of the With Profits Section.

The investment strategy is set out in the Statement of Investment Principles 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. The statement is publicly available or can be obtained on request from Cheviot.

Statement of
Investment Principles
is available on the
website.

The Statement includes the Trustee's environmental, social and ethical policy, including associated voting rights with regards to assets which is held directly on an annual basis. When selecting and monitoring an investment, the Trustee considers financially material factors. These are factors that could affect the long-term financial performance of investments and could (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant.

The Implementation Statement is available in Appendix 3 on page 38 sets out how the Trustee has followed the policies in the Statement of Investment Principles,



Management and custody of assets

A proportion of the With Profit Section's assets 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 also has 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 Performance on page 35.

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 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 Statement in Appendix 3 on page 38.



Non-financial material factors

The Trustee does not 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. The Trustee has no plans to seek the views of the membership or employers on ethical considerations at the current time.

Membership

Total membership of the With Profits Section is shown below.

With Profits Section				
31 December 2022				
	Active	Deferred	Pensioner	Total
	-	2,163	681	2,844

Summary of contributions

No contributions are currently due to the With Profits Section.

Pension increases

Pensions are paid from the With Profits Section in respect of members who retired before 1 July 2005. Pensioners selected the level of increase for their pension at retirement. The choices varied depending on the date of retirement but included increasing by discretionary bonuses, fixed increases and increases in line with Limited Price Indexation.

No bonuses have been awarded. Pensioners eligible for increases in line with Limited Price Indexation received an increase of 5.0% in July 2022. Fixed increases were paid in line with the Scheme Rules.

Transfer values

In accordance with the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996, members of the With Profits Section are able to make a transfer payment either to the Scheme of their new employer or to any other approved pension arrangement of their choice, including the Money Purchase Section of the Cheviot pension.

Cash equivalent transfer values paid during the year have been calculated and verified in accordance with the requirements of the Pensions Schemes Act 1993. No allowance has been made for discretionary increases in benefits.

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

.....

Sir Derek Morris
Chairman



Independent Auditor's Report to the Trustee of the Cheviot Pension

Opinion

We have audited the financial statements of the Cheviot Pension ("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 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 With Profits Section'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.
- Payment of large transfers out to invalid schemes or members. This is addressed through testing that for a sample there is evidence the receiving scheme is valid, the member identity is verified and of the authorisation of the amount and approval of the payment of the transactions.

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. 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

<i>for the year ended 31 December 2022</i>		2022	2021
	Note	£'000	£'000
Contributions and benefits			
Employer contributions		-	-
Total contributions	5	-	-
Benefits payable	6	3,620	3,735
Payments to and on account of leavers	7	2,320	2,870
Administrative expenses	8	1,816	1,455
		7,756	8,060
Net withdrawals from dealings with members		(7,756)	(8,060)
Returns on investments			
Investment income	9	1,455	1,538
Change in market value of investments	11	(19,120)	950
Investment management expenses	13	(158)	(237)
Net returns on investments		(17,823)	2,251
Net movement in the fund during the year		(25,579)	(5,809)
Net assets of the scheme:			
At 1 January		90,044	95,853
At 31 December		64,465	90,044

The notes on pages 17 to 27 form part of these financial statements.



Statement of Net Assets (available for benefits)

at 31 December 2022

	<i>Note</i>	2022 £'000	2,021 £'000
Investments			
Investment assets	11		
Pooled investment vehicles		42,444	60,760
Bonds		24,681	23,480
Derivatives		3,060	6,790
Accrued fixed interest on securities		83	66
Cash deposits		36	26
		70,304	91,122
Investment liabilities			
Derivatives		(6,299)	(1,734)
		64,005	89,388
Current assets	14	817	811
Current liabilities	15	(357)	(155)
Net assets as at 31 December		64,465	90,044

The notes on pages 17 to 27 form part of these financial statements.

These financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of liabilities to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the With Profits Section of the Scheme, which does take account of such liabilities, is dealt with in the Report on Actuarial Liabilities on page 31 and these financial statements should be read in conjunction with that report.

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

Elsbeth McKinnon

.....

Elsbeth 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).

The net assets of the Cheviot Pension Scheme are held in three sections, With Profits, Money Purchase and Life Cover. These financial statements break down the assets of the With Profits Section.

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 Scheme:

(a) Scheme financial statements

The financial statements comprise the financial statements of the Scheme together with its subsidiary company using the single-line equity method of accounting, considered to be the fair value of the subsidiary. Separate financial statements excluding its subsidiary have not been prepared for the Scheme.

(b) Contributions

Contribution income reflects contributions receivable up to 31 December.

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

(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.

(f) 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.

(g) 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

During the year, no contributions were received into the With Profits Section (2021: £0).

6. Benefits payable

	2022	2021
	£'000	£'000
Pensions	2,668	2,797
Commutation of pensions	715	641
Payments on death	237	297
	3,620	3,735

7. Payments to and on account of leavers

	2022	2021
	£'000	£'000
Individual transfers to other schemes	2,241	2,870
Purchase of annuities	79	-
	2,320	2,870

8. Administrative expenses

	2022	2021
	£'000	£'000
Legal fees	54	1
Audit fees	27	28
Administration fees	1,499	1,247
Professional fees	201	149
Other expenses	8	7
TPR Levy	27	23
	1,816	1,455



9. Investment income

	2022	2021
	£'000	£'000
Income from fixed interest securities	1,455	1,538
	1,455	1,538

10a. 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).

10b. Fair Value Hierarchy Analysis

The With Profits Section's investments have been analysed using the above hierarchy categories as follows:

	At 31 December 2022			
	Level	Level	Level	Total
	1 £'000	2 £'000	3 £'000	
Pooled investment vehicles	-	42,444	-	42,444
Bonds	-	-	24,681	24,681
Derivatives	-	-	(3,239)	(3,239)
Cash deposits	36	-	-	36
Accrued interest on fixed interest securities	83	-	-	83
	119	42,444	21,442	64,005

	At 31 December 2021			
	Level	Level	Level	Total
	1 £'000	2 £'000	3 £'000	
Pooled investment vehicles	-	60,760	-	60,760
Bonds	-	-	23,480	23,480
Derivatives	-	-	5,056	5,056
Cash deposits	26	-	-	26
Accrued interest on fixed interest securities	66	-	-	66
	92	60,760	28,536	89,338



11. Investments

(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	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)
	89,296	23,535	(29,825)	(19,120)	63,886
Cash deposits	26				36
Accrued interest on fixed interest securities	66				83
Total	89,388				64,005

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. 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.

Other than those disclosed in Investment Management Expenses, direct transaction costs of investment incurred during the year to 31 December 2022 were £0 (2021: £0). Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles and are reflected within the change in market value of the investment.

(b) Holdings – pooled investment vehicles

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



Concentration of Investments

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

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

(c) Derivatives

At the year end the With Profits Section of the Cheviot Pension 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	-
	3,060	(6,299)	6,790	(1,734)

Objectives and policies

The Trustees have authorised the use of derivatives by their investment managers as part of their investment strategy for the With Profits Section 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 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 manages the risk of inflation rate increases. These swaps provide protection against 100% 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	Asset Value	Liability Value
		£'000	£'000	£'000
Interest rate swaps				
Floating for fixed (LIBOR)	06 February 2024	2,500	-	(104)
Floating for fixed (LIBOR)	02 April 2024	5,500	-	(292)
Floating for fixed (LIBOR)	13 June 2024	17,700	-	(786)
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)
Total Interest rate swaps 2022		59,410	1,717	(6,299)
Total Interest rate swaps 2021		64,410	3,816	(1,734)
	Expiration	Notional Principal	Asset Value	Liability Value
		£'000	£'000	£'000
Inflation rate swaps				
Floating for fixed (RPI)	06 February 2025	1,032	192	-
Total Inflation rate swaps 2022		1,032	192	-
Total Inflation rate swaps 2021		7,485	419	-
Total Swaps 2022		60,442	1,909	(6,299)
Total Swaps 2021		71,895	4,235	(1,734)



(c) (ii) Equity Derivative Overlay Strategy

Details of the contracts in place at 31 December 2022 are set out below:

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

12. Investment risk disclosures

Investment strategy

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 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.

Credit Risk

The With Profits Section 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 underlying assets exposed to credit risk at the year-end was £39.6m (2021: £42.2m). The holdings are unrated as they are held in pooled investment vehicles. The majority of underlying assets are investment grade bonds (45%), cash (17%), alternatives (10%), high yield non-investment grade bonds (16%) and gilts (8%). The Trustee regularly monitors the underlying split.



The direct credit risk for all sections of the Scheme 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.

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 £9.4m (2021: £25.9m).

The With Profits Section 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.

Currency Risk

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).

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%).

Interest rate and inflation rate risk

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

	2022 £m	2021 £m
With Profits Section	39.5	45.8

Other Price Risk

The With Profits Section 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
With Profits Section	2.9	49.9

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.



13. Investment management expenses

	2022	2021
	£'000	£'000
Investment management fees	158	237
Total	158	237

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

14. Current assets

	2022	2021
	£'000	£'000
Cash balances	790	693
Prepayments and accrued income	19	7
Amounts due from related parties (Note 16)	8	111
Total	817	811

15. Current liabilities

	2022	2021
	£'000	£'000
Benefits payable		
Retirement	(55)	(14)
Other accruals	(206)	(85)
Other creditors including taxation and social security	(96)	(56)
Total	(357)	(155)



16. 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 the With Profits Section are charged directly to the With Profits Section.

At the year end the With Profits Section of the Cheviot Pension was owed:

- Cheviot Trustees Limited £8k (2021: £111k)

These amounts have been paid subsequent to the year end. There were no other related party transactions other than those disclosed in the financial statements.

17. Employer related investment

There were no employer related investments at the end of the year (2021: £0).



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

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the Cheviot Pension ("the Scheme"), for the year ended 31 December 2022 which is set out on page 30.

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 have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary in July 2018 and February 2022 in respect of the With Profits Section.

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. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Responsibilities of the Trustee

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

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 to report our opinion to you.



Use of our statement

This statement is made solely to the Scheme's 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 Scheme's 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 Scheme's 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

Summary of contributions payable in the year

During the year, no contributions were payable to the With Profits Section by the Employers.

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 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 Appendix 2 – Actuarial Assumptions on page 36.



Schedule of Contributions and Actuarial Certificate



Schedule of contributions

The With Profits Section of the Cheviot Pension

This schedule of contributions has been prepared by the Board of Cheviot Trustees Limited (the "Trustee") after obtaining the advice of Peter Black the actuary to the Cheviot Pension (the "Scheme").

This schedule covers the period from 18th February 2022 to 18th February 2027.

Contributions by With Profits Employers

Shortfall in funding

The scheme funding valuation as at 31 December 2020 revealed a funding surplus. No contributions are required from the With Profits Employers¹ in respect of the scheme.

Expenses

The expenses of the Section, including the Pension Protection Fund levy, are met from the Section's assets.

The above contribution rates are subject to review at the next scheme funding valuation of the Section.

Signed on behalf of the Trustee

Date

18th February 2022



Actuary's certification of schedule of contributions

The With Profits Section of the Cheviot Pension

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2020 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 18 February 2022.

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

Signature

Date

18 February 2022

Name

Peter Black

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

Tempus Court
Onslow Street
Guildford
GU1 4SS

Employer

XPS Pensions Limited



Schedule of Contributions – the Cheviot Pension

This schedule of contributions has been prepared by the Board of Cheviot Trustees Limited (“the Trustee”) after obtaining the advice of Jonathan Punter the actuary to the Cheviot Pension (“the Scheme”). It sets out the contributions the With Profits Employers¹ must pay in respect of the With Profits Section of the Scheme (“the Section”) and the dates these contributions must be paid to the Trustee.

This schedule covers contributions payable in the period from 1 July 2018 to 30 June 2023.

Contributions by With Profits Employers

Shortfall in funding

The scheme funding valuation as at 31 December 2017 revealed a funding surplus, and so no such contributions are payable.

Expenses

The expenses of the Section, including the Pension Protection Fund levy, are met from the Section’s assets.

Notes

Nothing in this Schedule shall prevent any With Profits Employer paying contributions in addition to those payable in accordance with this Schedule.

The above contribution rates are subject to review at the next scheme funding valuation of the Section.

Signed on behalf of the Trustee.

Date 25/6/2018



Appendix 1 – Investment Performance

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.

	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.



Appendix 2 – Actuarial Assumptions

Scheme Funding Valuation Assumptions

Financial Assumptions

Sample rates for each assumption can be found in Appendix B.

Item	Derivation
Discount interest rate:	Bank of England gilt yield curve plus allowance for prudent level of outperformance expected from the Section's assets as recommended by the Section's investment adviser at each funding assessment, based on current strategic asset allocation to 31 December 2029 and de-risked allocation thereafter. At 31 December 2020 this was: <ul style="list-style-type: none"> - Until 31 December 2029: gilt curve + 2.8% per year - Thereafter: gilt curve + 0.1% per year for pensioners; gilt curve + 0.0% per year for deferred members.
RPI price inflation	Swap inflation curve
CPI price inflation	
- Before 2030	RPI inflation less 0.8% each year
- From 2030	RPI inflation without adjustment
Pension increases pre-retirement:	Guaranteed fixed increases as set out in the rules
Pension increases post-retirement:	Set using the relevant inflation curve and caps and collars appropriate to each type of increase



Demographic Assumptions

Sample rates for each assumption can be found in Appendix B.

Item	Assumption
Mortality pre-retirement	No allowance
Mortality post-retirement	106% of the S2PA table for males and 99% of the S2PA table for females projected in line with the latest available standard CMI model (CMI 2019 at 31 December 2020) with the default smoothing parameter, an initial addition of 0.2% per year and long-term improvement rate of 1.5% per year
New entrants to With Profits Section	No allowance
Withdrawals	No allowance
Ill health retirements	No allowance
Early retirement	No allowance
Late retirement	No allowance
Age difference of dependants	Males 3 years older than females
Commutation	No allowance
Proportion married	100% at retirement
Future bonuses	No allowance
Expenses:	Non-investment expenses are assumed to be £1.3m per year until 31 December 2022, reducing thereafter by £0.1m per year to be £0.6m in 2029.

The cost of windup and securing annuities with an insurer is assumed to be 2.5% of the outstanding liabilities on windup on 31 December 2029.



Appendix 3 – Implementation Statement



the Cheviot **trust**

Implementation Statement With Profits Section

July 2023



Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles (the Statement) has been followed during the Scheme year ending 31 December 2022, focusing on how the ESG (environmental, social and governance) and engagement policies have been implemented and voting behaviour carried out on behalf of the Scheme.

Review of the Statement of Investment Principles

2. No investments made in the year were inconsistent with the Statement. The Investment Committee (the Committee) has delegated powers to consider investment issues and reviews the Statement annually. It agrees any changes in the context of the annual strategic review of the With Profits Section, with advice from the investment and legal advisers. The Statement was updated in October 2022 to reflect the triennial valuation undertaken as at December 2020. A consultation exercise with employers was completed before the Statement was signed.
3. The current Statement is available on both the corporate and member focused Cheviot websites.¹

Ongoing investment governance

4. Investment governance is delegated to the Investment Committee including the provision of key documents such as this implementation statement.
5. The Investment Committee held 12 meetings during 2022. The Investment Committee received detailed information on the performance of the investment strategy quarterly against its long term targets and risk measures and discussed it with the investment advisers.² This information was formally reported to each quarterly Trustee meeting.
6. The Cheviot pension accounts include details of the underlying investments and how they were assessed and valued for the accounts. No illiquid assets were held in the With Profits Section at the year end. The Investment Committee is satisfied, on advice from the investment advisers, that the nature, disposition, marketability, security, and valuation of the Scheme's assets are in line with the investment objectives and strategy, risk controls and return expectations.
7. Advisers are held to account and their performance assessed and reviewed regularly. Quarterly reports are provided to the full Board on each adviser. The investment adviser was reviewed in detail in late 2022 against detailed objectives. An external advisor provided a review of performance in April and October 2022.³
8. The investment advisor reviewed the underlying managers during the Scheme year and made a brief performance assessment against the key managers each quarter. The investment adviser provided an annual more detailed review which included benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. Operational due diligence reviews, along with many areas, included a review of the governance structure, portfolio turnover, conflicts of interest, ESG and stewardship policies.

¹ www.cheviottrust.com/www.mycheviotpension.com

² Formerly River and Mercantile Solutions, now Schroders Solution following its acquisition of the R&M Solutions team.

³ A further external review of the 2022 performance was undertaken in April 2023.



9. ESG training was provided by the investment advisers as part of the annual ESG review of managers. The legal advisers provide quarterly updates explaining new requirements and how they may impact Cheviot members in the future. Several Committee meetings during 2022 focused specifically on the requirements set by the Task Force on Climate-related Financial Disclosures (TCFD).⁴
10. The Committee updated its investment beliefs to reflect the impact of climate change on assets, including physical, transition and social risks and opportunities, the Paris Agreement and issues around engagement and influence. A Climate Change Policy was developed. It included the governance structures, including training and assessment of the capabilities of its advisers and service providers on climate related risks and opportunities, a strategic for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. The investment beliefs were discussed in February 2022 and the Policy was discussed and agreed by the Trustee in September 2022.

Risks

11. During the Scheme year, risks were measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategic reviews. The Investment Committee reviewed the relevant risks each quarter and identified, evaluated, managed, and monitored risks, 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 from the investment adviser, risks are measured against risk tolerance and market conditions to check whether the performance of each fund remained in line with the agreed risk objectives.
12. The Committee continued to discuss the issues of Climate Change and TCFD in detail quarterly in 2022. As part of these session, it received further training on the risk and opportunities associated with climate change.

Investment Platform provider

13. The Trustee invests assets through an investment platform of pooled funds with Mobius Life. As a result, the Trustee is constrained in its ability to directly influence the underlying investment managers who make the day to day investment decisions.
14. The Scheme's investment adviser is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The next review will be completed in the second half of 2023. The last review did not reveal any issues which impacted Cheviot directly.

Environmental, social and governance factors

15. When selecting and monitoring an investment the Investment Committee considers 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 Investment Committee reviews their ESG policy and any relevant information regularly.
16. The Investment Committee has considered 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

⁴ The TCFD report was produced in relation to the Money Purchase Section only but the policy will be extended to other sections of the Trust in due course.



ESG factors. The Investment Committee is also considering those 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.

17. 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. This includes alignment with the Trustee's investment strategy.
18. A long-term approach is taken to setting risk and return targets and when assessing manager performance against those targets. The fee structure for each manager is based on a percentage of assets managed. The manager is therefore incentivised to grow assets in line with the set objectives. Such factors may also be important criteria for considering the replacement of a manager.
19. Once a manager is appointed, the Investment Committee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and uses its investment adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate). Most of the appointed managers take ESG factors into account as part of their investment process. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy. During the ongoing monitoring of managers during the Scheme year ending 31 December 2022, no decisions were taken to disinvest.
20. The Investment Committee did not take account of non-financially material factors when making investment decisions during the Scheme year.

Engagement and stewardship

21. The Trustee is supportive of the UN Principles for Responsible Investment (PRI) the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders has been a PRI signatory since 2015, was the first large global asset manager to have had its Net Zero targets verified by SBTi (the Science Based Target Initiative) and has 50+ dedicated ESG specialists. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.
22. Since the underlying investment funds used in the With Profits Section 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. This means the Trustee is not able to make clear to managers what the Trustee considers a significant vote in advance of those votes being taken.
23. The Trustee decided to adopt Climate and Governance as their stewardship priorities in the 2023 scheme year. Although these stewardship priorities had not been adopted in the 2022 Scheme year, the Trustee has decided to use the selected stewardship priorities to determine what it defines as a "significant vote" for the purposes of reporting voting activity for the Scheme year and to monitor the managers voting and engagement is in line with these priorities.
24. It considers the most significant votes to be those that meet the following three criteria:
 - The vote relates to one of the Trustee's chosen stewardship priorities;
 - The vote is deemed significant by the underlying managers (of most material holdings) based on their specific knowledge of the circumstances around each vote; and



- Where the With Profits section has a holding in a single stock of greater than 0.05% of total invested assets.
25. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1.⁵ Both equity managers show meaningful engagement practices.
 26. The performance of each manager is included in the governance report from the investment advisers as well as commentary on any issues which have arisen.
 27. Despite the lack of contractual relationship, working with our investment advisers, the Trustee has reviewed those funds with more than 2.5% of the With Profits Section's assets and asked the investment platform provider for information about their voting activity.
 28. The platform provider (Mobius Life) did not vote on behalf of the Trustee. This is due to their policy not to vote at the fund level as they cannot represent all their underlying investors that way. This is common practice in the industry. Mobius actively engages with asset managers and is in support of the UK Stewardship code. Mobius contacts each of the asset managers they invest with on an annual basis to ensure they are complying with Mobius' governance requirements at a company level and in their investment approach. The Trustee is satisfied that the level of engagement demonstrated by Mobius is appropriate.
 29. Cheviot engaged with Mobius during the Scheme year on climate-reporting issues and discussed the level of information it needed from the managers to enable it to measure the portfolio's progress in relation to climate related targets.

Conclusion

30. The Investment Committee, on behalf of the Trustee under its delegated powers, considers that it has followed the policies set out in the Statement of Investment Principles without any significant deviations.

Sir Derek Morris
Chair, Cheviot Trustees Limited
28 July 2023

⁵ Information based on data available from Mobius.



Appendix 1

Voting and Engagement Summary

This Statement includes information on the underlying investment managers investing in securities with voting rights attached in which the holding is significant (greater than 2.5% of the total assets). Where proxy voting agents have been used, this has been included in the voting information. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have voting data to be considered. Allocations shown below are given as a % of total assets, as at 31 December 2022.

The funds reviewed are set out below.

Asset class	Fund name	Allocation
Equity	LGIM Asia Pac (ex-Japan) Dev Equity Index Hedged	0.2%
	LGIM Europe (ex UK) Equity Index Hedged	0.1%
	LGIM Japan Equity Index Hedged	0.3%
	LGIM North America Equity Index Hedged	2.6%
	LGIM UK Equity	0.2%
	Blackrock Emerging Market Index Fund	1.2%
Alternatives	Marshall Wace Liquid Alpha Fund	3.3%
	Marshall Wace ESG TOPS	3.1%

Over the year to 31 December 2022, the platform provider, Mobius Life, did not undertake any voting activity in respect of the pooled funds held on its investment platform as a matter of policy. This is common practice in the industry.

Voting and engagement activity undertaken by the underlying investment managers is set out in the following sections.

The Trustee (through its advisors) has included all of the information available in relation to the below voting activity. This has relied on the level of detail available from the underlying managers on the expanded requirements for this Implementation Statement. The Trustee understands that in future reporting years the information available on the votes is expected to be more detailed, to allow it to meet the vote reporting requirements in full.

Equity managers

Summary for LGIM

LGIM's Investment Stewardship team uses Institutional Shareholder Service's "ProxyExchange" electronic voting platform to electronically vote client's shares. All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

During 2022, LGIM engaged with 665 companies globally, voted on over 66,000 resolutions and opposed 4,700 director elections due to governance concerns. It continued and increased their progressive stance on income inequality, diversity, and board independence.

The voting behaviour is shown in the chart below and demonstrates LGIM's policy of active engagement and willingness to vote against management if it is considered necessary. LGIM provided meaningful examples of their engagement policy. The Trustee, on the advice of its advisors, determined that the voting behaviour of LGIM was aligned with the Scheme's stewardship priorities.

LGIM Passive Funds 31/12/2021 – 31/12/2022	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Asia Pacific (ex-Japan) Developed Equity Index	503	3,592	100%	72%	28%	0%



Europe (ex-UK) Equity Index - GBP Currency Hedged	605	10,296	100%	81%	18%	0%
Japan Equity Index - GBP Currency Hedged	503	6,255	100%	88%	12%	0%
North America Equity Index	668	8,416	99%	65%	35%	0%
UK Equity Index	598	8169	100%	92%	8%	0%

Most Significant Votes

Governance: Amazon

In May 2022, LGIM voted against the resolution to elect direct Daniel P. Huttenlocher, because Mr Huttenlocher was a long standing member of the Leadership Development and Compensation Committee, which in LGIM's view was accountable for human capital management failings. LGIM pre-declared its vote intention for this resolution which in their view demonstrates its significance.

LGIM will continue to engage with their investee companies and, publicly advocate their position on this issue and monitor company and market-level progress.

Climate: Alphabet Inc.:

LGIM voted in favour of a resolution requiring the company to report on the physical risks of climate change.

The rationale of the voting decision was:

- LGIM expects companies to be taking sufficient action on the key issue of climate change.

About 18% of shareholders supported the resolution.

LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

Summary for Blackrock

BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply their proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

The statistics for Blackrock demonstrate its level of engagement and voting policies, including voting against management where considered appropriate. Blackrock provided meaningful and helpful examples of key votes and examples of engagement, focused on climate related risks and opportunities. The Trustee, on the advice of its advisors, determined that the voting behaviour of BlackRock was aligned with the Scheme's stewardship priorities.

31/12/2021 – 31/12/20 22	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	2,767	24,892	98%	88%	11%	3%



Most Significant Votes

Climate and Governance: Samsung

BlackRock voted for the board recommendation of the proposed director elections based on the company's indication that it is in its final review stage of a revised climate strategy.

The rationale for this voting decision was:

- BlackRock believes that climate risk is an increasingly important factor in companies' long-term profitability. Samsung is South Korea's largest company in market capitalisation and one of the largest manufacturers of electronics across the globe. BlackRock has conducted multi-year engagements with the company across a range of topics. As one of the 1,000+ companies included in BlackRock's climate focus universe, their engagements tend to involve climate and energy transition risk.
- Based on Samsung's sustainability reporting and disclosures, the company has yet to state any carbon neutrality goals. Furthermore, its greenhouse gas (GHG) emissions target of 70% reduction from 5.17 tonnes of CO₂e/KRW 100 million in 2008 expired in 2020 and has not been refreshed. BlackRock deems nomination of Dr. Wha-Jin Han – the former Secretary for the Environment to the President of South Korea and founding member of the Korea Environment Institute – brings to the Samsung board deep expertise to better assess and provide oversight to ensure adequate management of climate-related risks and opportunities. Understanding is that the company is in the final review stage of its renewed strategy, which would replace the strategy and commitments that expired in 2020.
- BlackRock emphasises that long-term investors, and the company itself, will benefit from greater transparency and clear disclosure of the company's environmental strategy and targets. Since BlackRock is a long-term investor on behalf of their clients, it is important that Samsung – South Korea's largest company and a global leader in its industry – takes the initiative to lead on this critical, multi-decade business transition.

Based on BlackRock's anticipation that this revised strategy will be announced in the coming months, expected by mid-year, they decided to support all director elections at this shareholder meeting.

Alternative managers

Summary for Marshall Wace

31/12/2021 – 31/12/2022	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Lumyna Marshall Wace Systematic Alpha	1194	10268	97%	85%	9%	1%
Marshall Wace ESG TOPS	371	4023	91%	82%	8%	1%

Although Marshall Wace have not provided any specific examples, the Manager has a Stewardship policy that has been in place since 2010 (revised in 2012). The aim of the code is to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. It sets out a number of areas of good practice to which it believes institutional investors should aspire. It also describes steps asset owners can take to protect and enhance the value that accrues to the ultimate beneficiary. The full code can be found here: <https://www.mwam.com/stewardship-code-disclosure>

In particular it is worth noting principle 5: "[The Manager] will consider acting with other investors (including overseas investors), particularly on those occasions where we feel that bilateral discussions with a company are not achieving adequate progress, or the matters are of such gravity that a collective approach seems the best means to focus the attention of a company's directors on those concerns."

Appendix 2



Links to the voting and engagement policies for the Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
BlackRock	Investment Stewardship BlackRock
LGIM	Investment stewardship & governance LGIM Institutional
Marshall Wace	MW Sustainable Investing and Stewardship.pdf (mwam.com)