



Retirement Solutions

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2017
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The Pensions Trust

Annual Report
and Financial
Statements **2017**

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Trustee and Advisers

Trustee	Verity Trustees Limited
Chair of Trustees	Sarah Smart
Co-opted Directors	Sarah Smart – Independent Chair Michael Ramsey (Appointed 01/10/2016) David Robertson (Appointed 01/10/2016)
Employer-Nominated Directors	Elizabeth Garner Colin Small (p) (Resigned 30/09/2017) Jonathan Wheeler (p) Paul Oldroyd (d) (Appointed 01/10/2017)
Member-Nominated Directors	Maggie Rodger (d) (Resigned 30/09/2017) Frank Shore (p) Richard Stroud (p) (Resigned 30/09/2017) Thomas Hague (a) (Appointed 01/10/2017) Andrew Newberry (p) (Appointed 01/10/2017) (a) Active member of the Trust (p) Pensioner member of the Trust (d) Deferred member of the Trust
Scheme Administrator and Chief Executive	Michael Ramsey, TPT Retirement Solutions
Defined Contributions Administrator	JLT Benefit Solutions Limited
Fund Actuary	Steven Robinson FIA JLT Benefit Solutions Limited
Independent Auditors	PricewaterhouseCoopers LLP
Solicitors	Linklaters LLP Birkett Long LLP CMS Cameron McKenna Nabarro LLP (Appointed 19/10/2017)
Bankers	The Royal Bank of Scotland plc Barclays Bank plc

Investment Managers

Ashmore Investment Management Limited
Phoenix Life Limited
BlackRock Investment Management (UK) Limited
Cardano Risk Management Limited
CBRE Global Investors
CBRE Global Investment Partners
First State Investments (UK) Limited
Hayfin Capital Management LLP
Invesco Asset Management Limited
King Street Capital Management L.P.
Legal & General Investment Management Limited
Marathon Asset Management
Meridiam Infrastructure Managers
Mesirow Advanced Strategies
Nephila Capital, Ltd
Ownership Capital B.V
Rothesay Life
Royal London Asset Management Limited
Ruffer LLP
Russell Investments
Standard Life Investments
Sands Capital Management, LLC

Property Valuer

Cluttons LLP

Investment Consultants

Mercer Investment Consulting
Cardano Risk Management Limited
Redington Investments Limited (Appointed 01/10/2017)

Custodian

The Northern Trust Company

Custody Consultants

Thomas Murray Data Services

Address for enquiries

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West Yorkshire
LS11 5BQ
Email: enquiries@tpt.org.uk
Website: www.tpt.org.uk

Trustee's Report

For the year ended 30 September 2017

The Trustee presents its Annual Report on The Pensions Trust ("the Trust"), together with the Financial Statements of the Trust for the year ended 30 September 2017.

Scheme Constitution and Management

The Trust is governed by Verity Trustees Limited, the sole corporate Trustee. Since 1 October 2016 The Pensions Trust has operated under the name TPT Retirement Solutions ("TPT"). As at 30 September 2017 the Trustee Board consisted of nine Directors, three of whom are nominated by the members, three by the employers and three Directors co-opted onto the Trustee Board by the member and employer nominated Directors. Verity Trustees Limited is also the corporate Trustee of the scheme known as The Pensions Trust 2016. Directors of Verity Trustees Limited can be nominated by members and employers of either scheme.

The Articles of Association of the corporate Trustee and the Rules of the Trust contain provisions for the appointment and removal of trustees.

For the Scheme year commencing 1 October 2016, Sarah Smart was re-elected Chair of the Trustee Board.

From 1 October 2016, The Trust has operated a two tier governance structure. The supervisory Trustee Board appoints and holds to account a Management Board which holds delegated authority to make most decisions about the day to day running of the Trust. There are five members of the Management Board comprising of four independent non-executives and the Chief Executive. For the Scheme year commencing 1 October 2016, David Robertson was appointed as Chair of the Management Board. David is also a co-opted Director of Verity Trustees Limited. The other non-executive members of the Management Board are: Mike Balfour, Richard Coates and Wendy Mayall who are also the respective Chairs of the Investment, Audit, Risk and Compliance and Funding Committees.

The Trustee has appointed professional advisors and other organisations to support them in delivering the Trust's objectives. These individuals and organisations are listed on pages 1 and 2. The Trustee has written agreements in place with each of them.

The Trust is a centralised occupational pension fund for non-associated employers ("employers"). There are 39 (2016: 39) segregated schemes ("schemes") within the Trust.

Financial Developments and Financial Statements

The Financial Statements included in this annual report are the accounts required by the Pensions Act 1995. The Financial Statements set out on pages 23 to 60 have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

The summary financial performance of the Trust is as follows:

	2017	2016
	£m	£m
Contributions Receivable	518.3	495.4
Transfers In and Other Income	17.6	54.8
Benefits Payable (incl. Payments to Leavers)	(369.3)	(329.1)
Administrative Expenses (incl. PPF levy)	(19.1)	(19.1)
Net Additions from dealing with Members	147.5	202.0
Net Investment Income	48.9	50.8
Change in Market Value of Investments	268.9	1,699.8
Net Returns on Investments	317.8	1,750.6
Net Increase in the Fund during year	465.3	1,952.6
Net Assets at beginning of year	9,129.6	7,177.0
Net Assets at end of year	9,594.9	9,129.6

Significant developments affecting the financial position of the Trust during the year include:

- Contributions receivable have increased by 4.6% when compared to last year, from £495.4m to £518.3m; Defined Contribution (DC) contributions have increased by £25.0m consistent with a 24% increase in members. Defined Benefit (DB) contributions were down when compared to 2016 with normal contributions falling by 17.0% and deficit funding contributions increasing by 13.7%.
- Transfers In and Other Income include internal bulk transfer values relating to Manchester Grammar School Pension Scheme for £10.1m and Genesis Pension Scheme for £0.7m. Individual transfers in have increased 2.8% from £7.2m to £7.4m.
- Within benefits payable, the pensions payable have increased by 6.4% from £157.4m to £167.5m, which reflects the increased number of pensioners in the year and annual pension increases.
- The overall net return on investments was 4.2% in 2017 (2016: 26.6%).

Contributions

During the year a number of employers remitted contributions later than the date set out in the Schedules of Contributions or Payment Schedules. In respect of the year ended 30 September 2017 there were 634 late payments (2016: 1,299 late payments) representing total contributions of approximately £10.3m (2016: £14.6m) relating to 372 employers (2016: 784 employers). The Trust has taken actions to reduce the number of occasions upon which employers remit contributions late.

Membership and Benefits

As at the year-end, there were 2,660 (2016: 2,492) active employers.

The change in membership during the year is as follows:

	Active Members	Deferred Members	Pensioners	Beneficiaries	Total
At the start of the year	132,279	86,637	38,347	3,560	260,823
Opening Adjustments	-	97	38	-	135
New members	41,772	31	5	-	41,808
Members retiring	(452)	(1,590)	2,042	-	-
Members leaving prior to pension age	(24,606)	24,606	-	-	-
Members leaving with refunds	(2,634)	(48)	-	-	(2,682)
Transfers out	(3,190)	(2,934)	-	-	(6,124)
Full commutations	-	-	(275)	(1)	(276)
Deaths	(118)	(171)	(732)	(151)	(1,172)
New beneficiaries	-	-	-	305	305
Change in member status	346	(52)	(13)	-	281
At the end of the year	143,397	106,576	39,412	3,713	293,098

At the start of the year:					
DB	16,928	61,446	38,347	3,560	120,281
DC	115,351	25,191	-	-	140,542
Total	132,279	86,637	38,347	3,560	260,823

At the end of the year:					
DB	14,592	60,761	39,412	3,713	118,478
DC	128,805	45,815	-	-	174,620
Total	143,397	106,576	39,412	3,713	293,098

The above membership reflects the number of records held rather than individual members.

Included in the above are 10,640 (2016: 11,075) pensioners and beneficiaries whose benefits are secured by annuities. Hybrid members are included as Active DC members with a Deferred DB record. New members joining are stated net of auto-enrolment opt-outs where contributions were never remitted to the Trust.

Pension Increases

The Trust Deed and Rules make provision for increases in pensions in payment and deferred pensions. The increases applied depend on when the benefits were accrued and under which pension scheme. Decisions on increases are made in accordance with the provisions of each scheme, taking into account the financial position of the scheme, other relevant factors and the interests of all the categories of beneficiaries. Where pensions in payment are increased annually this is normally by at least Limited Price Indexation (LPI), which means that the increase is capped at a maximum of either 2.5% or 5.0% depending upon when the benefits are accrued. Following the change in the statutory basis for increasing pensions in payment, from April 2011 pensions in payment have for the most part been calculated with reference to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI), unless scheme rules provide otherwise.

The pensions in payment have been increased by an average of 2.5% per annum on the effective date of 6 April for the last three years, with the most recent increases applied on 6 April 2017. The maximum applicable increase for the last three years has been 5.0% and the minimum was 0%.

Transfer Values

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pensions Act 1993 and do not include discretionary benefits. Following receipt of insufficiency reports from the Scheme Actuary, transfer values payable from the Scottish Voluntary Sector Pension Scheme (SVSPS), Northern Ireland Charities Pension Scheme (NICPS) and the Royal National College for the Blind Defined Benefit Scheme are currently reduced due to the level of underfunding in the schemes.

Security of Deficit Funding

As at 30 September 2017 the Trust held 31 (2016: 37) contingent assets in relation to 29 employers (2016: 38 employers) that participate in, or used to participate in, the various schemes administered by the Trust. These contingent assets comprise charges on property, company guarantees, bank guarantees and escrow accounts. The contingent assets relate either to the admission and continued participation of certain employers in the Trust's schemes, the apportionment of withdrawing employers' share of the deficit to other participating employers within the same scheme or to provide security to support an extended recovery plan. The circumstances in which these assets will become the property of the Trust are set out in agreements with the relevant employers.

Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102), the Financial Statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme within the Trust is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, a copy of which is available to scheme members on request from the contact for enquiries on page 2.

All the Trust's schemes' sections were valued over the last 3 year period. Details of the individual schemes' actuarial valuation certifications are contained in the Summary of Actuarial Certificates section of the annual report on pages 62 to 64. In the years in between full actuarial valuations an actuarial update is prepared by the Scheme Actuary. The actuarial update is a roll forward of the full actuarial valuation.

The aggregate valuation of all the Trust's schemes at 30 September 2016 is the sum total of either the full actuarial valuations at that date or the latest actuarial update. The aggregate valuation of all the Trust's schemes as at 30 September 2017 is a roll forward of the 2016 valuation using assumptions agreed with the Scheme Actuary.

Valuation date 30 September	2017	2016
Value of Technical Provisions	£11,033.6m	£11,340.0m
Value of Assets Available to meet Technical Provisions	£8,556.7m	£8,325.7m
as a percentage of Technical Provisions	78%	73%

The value of technical provisions is based on the Pensionable Service accrued to the valuation date and assumptions about various factors that will influence each scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the 2017 calculations are as follows:

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method, with a control period of one year for open schemes and of duration to Normal Pension Age for schemes closed to new entrants.

Significant Actuarial Assumptions

Discount Interest Rate: Scheme specific set by reference to a fixed interest gilt curve at the valuation date, with an adjustment for expected outperformance from scheme assets.

Future Retail Price Inflation: Set by reference to a market implied inflation curve as derived from gilt prices at the valuation date.

Future Consumer Price Inflation: Retail Price Inflation less 0.9% pa.

Pension Increases: Derived from the term dependent rates for future retail or consumer price inflation, allowing for the caps and floors on pension increases according to the provisions of the schemes' rules.

Pay Increases: General pay increases of 1% per annum above the rates for the future retail price inflation, with some scheme specific variations.

Mortality: Mortality and morbidity tables produced by the CMI (Continuous Mortality Investigation) with the support of the Institute and Faculty of Actuaries are used. No allowance is made for the period pre-retirement. For the period post retirement, a scheme specific loading to the S2Px tables is used, with future improvements based on CMI 2016 tables with a long term scaling factor of 1.5% for males and 1.25% for females.

Recovery Plan

The arrangements for each scheme section are formalised in Schedules of Contributions that are certified by the scheme actuary. Details of the date of certification of each schedule can be found on pages 62 to 64. A copy of the example certificate can be found on page 61.

Investment Management

Investment Strategy and Principles

The Trustee is responsible for determining the schemes' investment strategies.

In accordance with section 35 of the Pensions Act 1995, the Trustee has agreed a Statement of Investment Principles (SIP). This was last revised in September 2017. A full copy of the SIP may be obtained from the contact for enquiries on page 2 or can be found on the TPT website.

Management and Custody of Investments

The Trustee has delegated management of its investments to professional investment managers which are listed on pages 1 and 2. These managers, which are regulated by the appropriate regulatory body in their country of operation, such as the Financial Conduct Authority in the United Kingdom, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objectives and policies set out in the SIP are followed.

The mandates put in place by the Trustee specify how rights attaching to the schemes' segregated investments are acted upon. This includes active voting participation and a requirement to consider social, ethical and environmental factors when making investment decisions. The Trustee has less influence over the underlying investments within pooled investment vehicles held by the schemes but review the managers' policies and statement of compliance in respect of these matters.

TPT is committed to being a Responsible Investor, an approach which seeks to integrate environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices. Of the environmental risks that we consider, climate change potentially presents the most material long term risk and in line with the recommendations set out in the Financial Stability Board (FSB) Taskforce's Recommendations on Climate related Financial Disclosure (TCFD) we have disclosed TPT's approach to climate risk management on our website.

The Trustee has appointed The Northern Trust Company to keep custody of the Trust's DB investments, other than:

- Pooled investment vehicles, where the manager makes its own arrangements for custody of underlying investments;
- Direct property, where title deeds are held by the Trust's legal advisers; and
- Additional Voluntary Contributions and other investments which are in the form of insurance policies, where the master policy documents are held by the Trustee.

Investment Performance

The performance of the Trust's investments is summarised below. The Trust manages and monitors its DB investments in three separate portfolios which have differing strategies and objectives; the main portfolio, Growth Plan and Growth Plan Series 3. It does not therefore produce performance statistics at the total investment level.

In order to give an overall view of DC performance the Trust has disclosed a representative selection of its DC funds for members of different target retirement dates.

The table below summarises investment performance compared to benchmark:

Annualised return over...	1 Year	3 Years	5 Years
DB			
Growth Assets			
Quoted Equities	19.0%	13.4%	13.8%
Benchmark	14.9%	14.4%	14.4%
Credit	9.1%	0.9%	(0.9%)
Benchmark	6.4%	(0.2%)	(1.2%)
Market Neutral	2.5%	2.4%	4.1%
Benchmark	0.4%	0.5%	0.5%
Illiquidity	7.6%	8.9%	8.2%
Benchmark	3.9%	9.0%	10.3%
Insurance (inception date 1/6/2013)	(11.5%)	7.7%	-
Benchmark	0.4%	0.5%	-
Total Growth Assets	12.1%	9.5%	10.1%
Composite benchmark	9.4%	8.1%	9.1%
Liability Focussed Assets*	(9.7%)	19.6%	17.4%
Composite benchmark	(9.8%)	19.7%	17.1%
Main Portfolio	4.2%	12.6%	12.4%
Composite benchmark	2.4%	11.6%	11.5%
Growth Plan	(8.1%)	10.3%	9.9%
Benchmark	(9.9%)	10.2%	8.3%
Growth Plan Series 3 (inception date 1/3/2013)	(0.4%)	(0.2%)	-
Benchmark	0.1%	0.3%	-

*These assets are managed relative to liabilities and move broadly in line with the liabilities they cover.

Annualised return over...	1 Year	3 Year	5 Year
DC			
Target Date Funds (TDF)			
Pre-Retirement: TDF 2023-2025	5.4%	10.2%	-
Benchmark CPI + 2%	5.1%	3.3%	-
Mid-Life: TDF 2029-2031	9.0%	11.3%	-
Benchmark CPI + 3%	6.1%	4.3%	-
Young: TDF 2044-2046	14.1%	11.8%	-
Benchmark CPI + 4%	7.1%	5.3%	-
Ethical Target Date Funds (ETDF)			
Pre-Retirement: ETDF 2023-2025	4.4%	9.1%	-
Benchmark CPI + 2%	5.1%	3.3%	-
Mid-Life: ETDF 2029-2031	7.3%	10.0%	-
Benchmark CPI + 3%	6.1%	4.3%	-
Young: ETDF 2044-2046	13.4%	9.7%	-
Benchmark CPI + 4%	7.1%	5.3%	-

Inception date for the above DC funds is 28 February 2013; therefore no 5 year return is available.

The Trustee has considered the nature, disposition, marketability, security and valuation of the investments and considers them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the Financial Statements.

Employer Related Investments

Details of Employer Related Investments are included in note 31.

Statement of Trustee's Responsibilities

Trustee's Responsibilities in respect of the Financial Statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("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 Trust during the Trust year and of the amount and disposition at the end of the Trust year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Trust year; 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, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these 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, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Trust will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Trust in the form of an annual report.

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

Further Information

Requests for additional information about the Trust generally, or queries relating to members' own benefits, should be made to the contact listed on page 2.

Approval

The Trustee's Report on pages 3 to 11 was approved and signed for and on behalf of the Trustee on 28 March 2018.

Sarah Smart

Chair

Verity Trustees Limited

Statement regarding DC Governance

For the year ended 30 September 2017

Introduction

Welcome to my third and final DC Governance Statement as Chair of Verity Trustees Limited. At the end of this 2017/18 scheme year, I will be stepping down. However, I am pleased to report that the defined contribution (DC) offering is more durable, financially sustainable and more likely to provide members with better retirement outcomes than ever before. Over this period the Trustee has worked very hard to make improvements to the DC pension and service that TPT provides its members and employers. Back in 2013 we made significant improvements to our investment options and reduced member charges, and in more recent years we have focused on improving our administration services and governance structure. My focus for 2018 will be on engaging with DC members and striving to improve member outcomes as a result, as well as ensuring a smooth handover to my successor in September.

Background to Statement

The Trustee is committed to maintaining high governance standards across all areas. The information below is focused on specific areas of scheme governance which we must, by law, disclose. We, as a Board, recognise the importance of good scheme governance and adopt good practice governance standards across all areas of scheme management, to meet the expectations as set out in the Pensions Regulator's (TPR) DC Code.

This Governance Statement demonstrates our compliance with the statutory governance regulations, which are central to the running of TPT's DC sections and schemes. The governance standards exist to help members achieve a good outcome from their pension savings.

The Trustee is Verity Trustees Limited, and all references to TPT refer to The Pensions Trust (the Scheme) - an occupational pension scheme established in 1946, which was rebranded to TPT Retirement Solutions in 2016. TPT is a hybrid Master Trust providing defined benefit (DB) and DC benefits to 39 schemes, of which 31 are DB schemes, two are standalone DC schemes and six are hybrid arrangements.

TPT Governance achievements

TPT achieved a 'PQM ready' status in 2013 and has retained the Pensions Quality Mark in subsequent years. 'PQM ready' means that TPT has been independently assessed as a top quality pension scheme run by properly qualified persons, and provides its members with regular, easily understandable communications.

In October 2015, TPT was independently assessed against the Master Trust Assurance Framework, and in March 2016, was added to TPR's list of approved Master Trust providers as having obtained Master Trust Assurance. Since then, TPT has completed two further Type 2 reports (an annual Report required by TPR to remain on its list of independently assured Master Trusts) with the latest report (for the year ended 30 September 2017) being signed on 19 December 2017. Completion of the work required to achieve this accreditation has led to a stronger governance structure for our DC products and services.

TPT is currently preparing for compliance with the Pension Schemes Act 2017, and the process that will lead to Master Trust authorisation. We believe that the work that we have completed to improve our schemes over the last few years puts us in a strong position that will lead to TPT becoming an Authorised Master Trust in 2019.

Default investment arrangement

Members who do not choose an investment option for their contributions are provided with a default investment arrangement from a range of Target Date Funds (TDFs). The specific TDF is based on their assumed normal retirement date (age 65), although members can set their own target retirement date. Similarly, a series of Ethical Target Date Funds (ETDFs) are available as the default option for members of The Ethical Fund (TEF). Approximately 96% (2016: 97%) of TPT's DC members are invested in a default investment arrangement.

We believe that the Target Date Funds offer our members an excellent investment default that will be suitable for the majority of the membership. However, where some members prefer to make their own investment choices to suit their individual beliefs and circumstances, we also offer a wide range of 'self-select' investment options, which are listed on the TPT website.

Aims and objectives of the default strategies

The aim and objectives of the default strategies and policies are agreed by the Trustee Board and reviewed annually. Details of the default arrangement are contained in the Statement of Investment Principles (SIP). The SIP was reviewed and updated in September 2017, and can be found on the TPT website, at www.tpt.org.uk/investments/our-investment-beliefs.

TPT's default investment strategy is designed to help ensure that the funds deliver the best possible outcome for the majority of members at retirement. Our aim is for each TDF to grow more in the earlier years and move towards less risky asset allocations as the target retirement date (default or as selected by the member) approaches. Over the life of the TDF, the manager has the objective of out-performing the inflation rate so the investment grows in real terms.

The Trustee designs the strategy of each TDF so that it is suitable for a member's own target retirement date. The Trustee believes that it is in the best interests of the members to provide a default strategy made up of funds which reflect the amount of time left before the member's target retirement date. The Trustee further considers that the default strategy should not require the member to make investment choices or switch funds as they approach retirement.

Following the 'Freedom and Choice' reforms in 2015 which increased the retirement options available to members of DC Pension schemes, TPT undertook a series of surveys to try and better understand what members intend to actually do with their retirement pots at retirement. This information was gathered so as to inform how we invest members' money, particularly during the approach to retirement. This led to a decision to increase the cash allocation in the TDFs in the lead up to a member's target retirement date, because many members told us that they intended to withdraw higher proportions of their fund as cash than previously expected. TPT monitors retirement trends on an ongoing basis and may run the formal member surveys again in the future as the DC retirement market matures.

Investments held

The investments held in the default arrangement are varied over the life of each TDF so that they meet the specific performance and risk objectives of the TDF. The funds have a range of underlying securities under a long term insurance contract and include a balance of;

- growth seeking investments including a range of equity funds;
- balanced investments and diversifiers including global properties; and
- cautious investments including cash, corporate bonds and UK government bonds.

The Trustee Board is committed to responsible investment, and believes that environmental, social and governance factors can impact financial performance. We make ethical options (ETDFs) available in all of our DC arrangements. ETDFs invest in equity funds, which track the FTSE4Good Indices, and UK government bonds. The Investment Committee (IC) keeps the investment strategy of the ETDFs under regular review and seeks to provide further diversification within these funds as alternative strategies become available at appropriate costs.

Reviewing the default arrangement and strategies

The Trustee has delegated the task of reviewing the default strategies on an ongoing basis to the IC and receives a report on these activities on an annual basis. This was done in September 2017 when the IC confirmed that returns were in line with the SIP. The IC delivers a report to the Management Board after each quarterly IC meeting and also reports any important issues up to the Management Board and the Trustee Board as soon as possible.

The IC receives an annual stewardship review from the investment manager of the default funds, and spends a full day discussing and considering this with the investment manager and the IC's advisers. This review was undertaken on 18 May 2017 and will be undertaken again on 1 May 2018. The stewardship report outlines the suitability of the default strategies, performance objectives and actual performance the investment manager's strategy, the charging structure and its impact on performance and also considers the nature of the schemes' membership and considers whether the performance of the funds is appropriate for their situations. Following this review, and based on the recommendation from the IC, the Trustee formally decides whether the default strategy remains suitable for the needs of members, and this was agreed in July 2017.

The investment management team monitors performance on an ongoing basis and reports to the IC which formally monitors the performance of the default investment arrangements (and the self-select funds) every quarter, and reviews them annually in conjunction with the managers of the funds. The formal annual review was undertaken on 18 May 2017 and the next annual review is scheduled for 1 May 2018. Target Date Funds have performed consistently against the aims and objectives of the default strategy which is considered and set annually by the Trustee. The IC considered the likelihood of members reaching their retirement objectives in May 2017 following an assessment undertaken by the investment manager and work is ongoing to assess the potential impact of investment performance on the different groups of members within the funds.

After consideration by the IC on 18 May 2017, it was decided that no changes to the performance objectives of the funds were required. At a meeting of the Trustee in September 2017 it was agreed that TPT should remain on the existing investment manager's platform for the default investment choice (TDFs).

Costs and charges

Member charges are monitored by the IC on an ongoing basis and formally reviewed every year. The last such review was undertaken on 18 May 2017. TPT is required to explain the charges and transaction costs paid by members and this is included in our VFM report which is included on our website.

TPT is committed to transparency in this area, and TPT reviewed the way that costs and charges are communicated to members in July 2017. Following this review, and with agreement of the Trustee, TPT made an amendment to its policy on the Annual Management Charges (AMCs) so as to include any fixed costs as the Trustee believes that this makes it easier for members to understand the total charges made. This means that TPT now includes platform charges in its published AMC, where applicable. All Member literature was updated following the review and an announcement made on each of the DC websites in August 2017.

Annual Management Charges (AMC)

Target Date Funds - The AMC is 0.5% a year of the annual fund value and all funds are priced daily.

Ethical Target Date Funds - The AMC is 0.7% a year of the annual fund value and all funds are priced daily. The higher charge for ETDFs reflects the additional screening required to ensure they meet the ethical standards required. Members who joined the Ethical Fund before 1999 pay a lower AMC of 0.5% a year because they paid a fixed price on joining the fund (as required by the scheme rules at this time).

Self-select Funds - The IC undertakes checks to help ensure that the charges of self-select funds are accurate and appropriate. The following AMCs apply:

Self-select Fund	AMC (pa)
Bond Fund	0.45%
Cash Fund	0.45%
Global Equity Fund	0.45%
Index-Linked Gilts Fund	0.45%
Socially Responsible Investment Fund	0.45%
Diversified Growth Fund	0.97%
Property Fund	1.00%

The higher charges associated with the Diversified Growth Fund and the Property Fund reflect the higher costs associated with actively managed funds. Other funds have a lower AMC than the default fund because platform charges do not apply for these investments.

Additional fund expenses

On some funds, varying additional fund expenses are also payable over and above the AMC. The additional charges are payable on the TDFs, the ETDFs and the cash self-select fund. The expenses vary between each fund and from month to month. All of our member communications state when and where additional fund expenses may be payable, and state the maximum level of expenses that TPT would expect to incur over the course of a year. Fund fact sheets detail the actual fund expenses charged over the previous quarter.

Transaction costs

Transaction costs are payable by members in addition to the AMC and the additional fund expenses described above. TPT's Investment Team is working with its investment managers to obtain more information on transaction costs which can be presented to members in a straightforward way. The Financial Conduct Authority has produced a policy statement on the disclosure of transaction costs, and the Department for Work and Pensions (DWP) has recently published its response to the consultation on the disclosure of costs and charges in DC occupational pension schemes. TPT does not currently disclose portfolio transaction costs, typical or otherwise, to members, as we believe that there is not enough consistency in industry practice currently to make this information useful to members. TPT does state that transaction costs apply within all member literature. Further details will be provided to members in accordance with the regulations, once published.

The Trustee is strongly supportive of industry initiatives to improve the clarity of this information for members and will be ensuring that new requirements for member information on costs and charges are incorporated into member communications in a clear way and a timely fashion.

Life Cover

Some employers choose to provide life cover to employees via one of the TPT schemes. The costs associated with the provision of life cover vary from scheme to scheme. Members who require details of the costs associated with the provision of life cover should contact TPT for full details. Depending on the Rules of the Scheme and the arrangements agreed with the individual employer, the cost of providing this life cover may either be met by a deduction from employer contributions before investment, or by a separate charge on the employer.

The Trustee has recently initiated a project to review life cover to ensure that charges are consistent across each of the TPT schemes and offer good value to scheme members and employers.

Value for members

The Trustee Board is highly aware of the importance of keeping costs and charges low without reducing the quality of the DC arrangements, to maximise chances of delivering good outcomes for members. We carried out a value for money assessment in 2017, and a formal report was approved by the Trustee Board in December 2017. The report can be accessed via the TPT website. The Trustee Board considered the extent to which the cost of membership compares against the services and benefits provided by the Scheme. The majority of members within TPT invest in the default target date fund which offers competitively priced* investment options which the Trustee has judged to be 'best in class'. The TDFs have overall performed at or above their respective benchmark since inception, delivering good returns for members. The administration service offered to members is good and in line with the service level agreements between the administrator and the Trustee and offers members online access and a dedicated telephone helpline in addition to traditional administration services. Issues are, on the whole, resolved quickly and where a member suffers financial detriment it is the Trustee policy to put the member back into the position that he/she would have been in had the issue not arisen. The annual Master Trust Assurance audit demonstrates the good practice that is attributable to the scheme.

*The Trustee compared its own member charges to those of 6 other large DC Master trusts to confirm that pricing remains competitive.

The review concluded that our DC arrangements offer members good value for money as a result of robust governance and oversight by the Trustee Board, as well as the provision of comprehensive member communications, a good administration service and the opportunity to access a suite of carefully managed investment options. In addition, member costs and charges are carefully managed, are in line with our competitors and are below the government 'charge cap' in respect of default funds.

How member charges are deducted

With the exception of life cover, all costs and charges are taken directly from the members' funds, which means that the unit price provided to members is calculated after all costs and charges have been made. The Trustee understands that this can make it difficult for members to understand the 'pounds and pence' cost of their DC arrangement and will be working to include this information in future years in a way that is meaningful to members.

Core financial transactions

Our DC administration services are outsourced to JLT Benefits Solutions Limited (JLT). TPT regularly monitors the processes and controls in place in relation to the core financial transactions, to ensure that they are processed promptly and accurately. TPT has a Service Level Agreement (SLA) in place with JLT which covers accuracy and timeliness of all core transactions. The Trustee receives regular reports through its Management Board to help them monitor performance in line with the SLA. Core financial transactions are specified in law as:

- investing contributions paid into the Trust;
- transferring assets related to members into or out of the Trust;
- transferring assets between different investments within the Trust; and
- making payments from the Trust to or on behalf of members.

Core financial transactions are considered as part of the audit for Master Trust Assurance purposes, and in order to comply with control objective 13 which states that core financial transactions must be processed promptly and fairly, TPT carries out its own audit of JLT's processes, in addition to reviewing JLT's own annual assurance report (AAF 01/06), in order to ensure that standards are met. TPT's audit took place in September 2017.

TPT operates an in-house Internal Audit function which provides assurance to the Board, the Audit, Risk & Compliance Committee and the Senior Management Team over the management of outsourced services. The strength of the processes and controls which govern the outsourcing of DC administration to JLT were independently assessed during 2016 and 2017 Master Trust assurance reviews (undertaken at 30th September each year). Further assurance activity is also planned for 2018.

The outsourcing of services and the inherent risks which relate to such activity, have been recognised within TPT's risk management framework and therefore receive oversight, challenge and support from TPT's governance framework. This includes on-going review and consideration by the Audit, Risk and Compliance committee at each quarterly ARCC meeting.

TPT undertakes the following activities in order to assure the Trustee Board that core financial transactions are processed promptly and accurately, and that standards of administration undertaken by JLT are maintained:

- Monitoring JLT administration services against SLAs and the extent to which member transactions have been processed on time. The report produced by JLT is discussed at monthly meetings with JLT and outlines any anomalies and the actions taken. Where standards are not being met, issues are escalated to the Head of Administration and the Senior Management Team for rectification and then reported to the Management Board via the Administration report.
- Review of capacity at JLT and the level of resources available.
- Annual reporting by JLT to the Senior Management Team and to the Management Board on the completeness and accuracy of common and conditional data.
- Monthly review of reconciliations of investment transactions and member units.
- Annual audits by TPT's DC Contract Manager of the core financial transactions undertaken by JLT, including member investment allocations and other aspects of the DC investment cycle. Any issues raised by the annual audit will be discussed as part of the monthly meetings between TPT and JLT and escalated to the Management Board as necessary.
- Annual review of the AAF 01/06 Pensions Administration assurance report prepared by JLT, which is scrutinised as part of TPT's own DC governance process.

- All monthly contributions and member data are collected by a dedicated employer support team within TPT. The process includes verification by the employer that the contribution schedules submitted are correct, and verification by TPT that the contributions received meet the contribution schedules. Where standards are not being met, issues are escalated to the Head of Administration and the Senior Management Team for rectification and then reported to the Management Board via the Administration report. If necessary the Audit Risk and Compliance Committee may also be notified of an issue.

The Trustee believe that the decision to invest contributions into TDFs (for the majority of DC) members presents a significantly lower risk of switching investments incorrectly than would be apparent in a traditional life styling arrangement, as investment switches are completed automatically by the Investment Manager rather than through manual intervention by the administration team.

As noted earlier, TPT chose to comply with the requirements of the Master Trust Assurance Framework. The scope of this framework focuses on key areas of administration and provides additional assurances to the Trustee Board that relevant key administrative control procedures are suitably designed and operating effectively. The review in respect of the 2016-17 scheme year was signed off on 21 December 2017 and submitted to the Pensions Regulator for inspection. TPR have since confirmed that TPT continues to meet the requirements of the MTAF and have confirmed that TPT will remain on their list of accredited Master Trusts.

The Trustee Board is confident that:

- the processes and controls in place are sufficiently robust to ensure that all financial transactions, are dealt with properly; and
- the requirements for processing core financial transactions specified in the Administration Regulations have been met.

Trustee knowledge and understanding (TKU)

Sections 247 and 248 of the Pensions Act 2004 requires the Trustee to possess, or have access to, sufficient knowledge and understanding to run the Trust effectively. The Trustee recognises the importance of having the right mix of skills, competencies and personalities on the Trustee Board to ensure that the Scheme is well governed and properly managed.

For the reporting period of this Statement, the Trustee consisted of nine directors - three nominated by the members, three nominated by the employers and three who, including the Independent Chair, were co-opted onto the Trustee Board by the member and employer-nominated directors. The Trustee role of the directors nominated by the members and employers within TPT means that they do not 'represent' members and employers, but they are instrumental in ensuring that consideration of the members and employers is factored into all Trustee decision making. Two of the three co-opted directors are independent professional directors who bring additional skills and expertise in the areas of pensions, investment and overall business management to supplement the skills of the member and employer nominated directors. For the purposes of succession planning, a rolling plan of all Trustee Board and sub-committee appointments is maintained.

A competency based selection process was introduced in 2017 for the purpose of appointing Member and Employer Nominated Directors. This selection process involves the submission of an application and a panel interview with existing members of the Trustee Board and volunteer member or employer representatives who have experience in the recruitment activities to ensure the selection process is transparent to the TPT members and employers. Prior to 2017, Member and Employer Nominated Directors were elected by the members and employers respectively. However, candidates in the election were required to meet minimum criteria before being eligible for election.

Two positions of co-opted directors are filled by virtue of other positions held within TPT. One co-opted trustee is the CEO of TPT Retirement Solutions and the other is the Chair of the Management Board. Both of these positions were filled following a fair and transparent recruitment process that involved a detailed competency based selection criteria. The other co-opted Trustee is the Chair of the Board. The Chair is selected via a transparent recruitment process using professional recruitment consultants. All applicants are required to fulfil competency based selection criteria and the appointment is made following multiple panel interviews.

All Directors are required to meet the Trustee, Knowledge and Understanding standards required of a Trustee of a large Master Trust plus any requirements specific to their individual role on the Board, as described in the Trustee terms of reference (which are included in the Governance Document) within 6 months of appointment. The Trustee has received confirmation from the Board members that this is the case and such confirmation is subject to annual audit through the MAF process.

None of the directors is affiliated to companies providing administration or investment services to The Pensions Trust.

All Directors are required to read and understand the Trust Governance Document which includes details of all of the Trust's governance arrangements, including conflicts of interest policy and the Trust Deed and Rules and the SIP, and confirm that they meet the requirements of their role (as described in the Governance Document). Directors are required to devote sufficient time to training in accordance with the requirements of the Trust. In addition to training provided at Trustee Board and Committee meetings, directors are responsible for their own training programme and for completing the Trustee Toolkit. TPT maintains a log of all training undertaken by the Trustees (collectively and individually) and organises training sessions as and when necessary.

At the end of the 2016/2017 Scheme Year, each director's performance was reviewed as part of a formal appraisal process which identifies training gaps and influences the individual and group training programme for the forthcoming year. In 2017 all Trustees undertook training specific to both DB and DC pension schemes as their individual roles demanded. Examples of training undertaken in the 2016/17 Scheme Year include; participation in industry wide pension conferences, investment training, DC seminars and risk management training. In 2017, all directors met or exceeded their specified training requirement to complete the Trustee Toolkit (new directors) and undertake a minimum of 25 hours Trustee training within the Scheme Year.

The Trustee Board has access to the services of a range of professional advisers. All Trustee decisions are supported by professional advice where required, and this includes attendance of professional advisers at Trustee Board meetings. The Trustee's legal adviser attends each Trustee Board meeting and the investment adviser attends all Investment Committee meetings. In 2017, the Trustee Board and its delegates engaged with professional advisers on a number of occasions to help with a range of DC decisions, including review of investment funds and managers and DC Governance. The Trustee reviews all professional adviser appointments on a regular basis and, following formal reviews in 2017, replaced the incumbent investment consultant and boosted the resources it has available to draw on for legal advice.

Considering actions taken individually and as a Trustee Board, and the professional advice available to the Board, I am confident that the combined knowledge and understanding of the Trustee Board enables it to properly exercise our functions as Trustee.

Engaging with Members - Member feedback

Members who have concerns or queries about the operational processes of the Scheme can find contact details on TPT's website, where there is also an "Ask the Trustees" function. Using this function, members are able to submit a question of any sort to the Trustee and will receive an individual response. Members are provided with an annual newsletter from the Trustee as well as an annual benefit statement, both of which give contact details for TPT. Members' feedback is actively gathered on a monthly basis through surveys undertaken by an independent provider, the results of which are fed back to the management team to enable TPT to identify problems and make service improvements. At the beginning of each year, TPT defines the outcomes that it wants for its members and uses the member feedback gathered each month to continually measure, modify and improve services.

In conclusion, the Trustee Board is satisfied that it has continued to function properly as Trustee throughout the period, and has met the relevant legislative requirements.

Member and employer accountability – plans for the future

The Trustee recognises the importance of engaging with members and employers in a meaningful way and has taken on board the feedback that suggests that this is an area that we could improve upon. In 2018, TPT will be undertaking a review of all of its communication with all DC customers, considering feedback and industry research and implementing changes for the future. The Trustee will also be running a series of member forums across the country in 2018 to hear the views of members and encourage member feedback.

Further information is available via the TPT website or from your usual TPT contact.

The DC Governance Statement was approved and signed for and on behalf of the Trustee on 28 March 2018.

Sarah Smart

Chair

Verity Trustees Limited

Independent Auditors' report to the Trustee of The Pensions Trust

Report on the audit of the Financial Statements

Opinion

In our opinion, The Pensions Trust's financial statements:

- show a true and fair view of the financial transactions of the Trust during the year ended 30 September 2017, 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 (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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.

We have audited the financial statements, included in the annual report, which comprise: the Statement of Net Assets (available for benefits) as at 30 September 2017; the Fund Account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Trust's ability to continue as a going concern.

Reporting on other information

The other information comprises all the information in the annual report other than the financial statements and our auditors' report thereon. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Trustee for the financial statements

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it 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 Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Leeds

28 March 2018

Financial Statements

Fund Account

For the year ended 30 September 2017

	Note	Defined Benefit Schemes £m	Defined Contribution Schemes £m	Expenses Reserve Account £m	Total 2017 £m	Total 2016 (Restated) £m
Employer Contributions		310.9	115.0	-	425.9	400.9
Employee Contributions		27.3	65.1	-	92.4	94.5
Total Contributions	5	338.2	180.1	-	518.3	495.4
Transfers In	6	(2.2)	9.6	-	7.4	47.3
Other Income	7	0.3	2.1	7.8	10.2	7.5
		336.3	191.8	7.8	535.9	550.2
Benefits Paid or Payable	8	(220.6)	(13.0)	-	(233.6)	(228.3)
Payments to and on account of Leavers	9	(6.9)	(6.7)	5.1	(8.5)	(7.3)
Transfers to other Schemes	10	(101.2)	(21.2)	-	(122.4)	(88.3)
Other Payments	11	0.1	-	(4.9)	(4.8)	(5.2)
Administrative Expenses	12	(15.5)	(2.4)	(1.2)	(19.1)	(19.1)
		(344.1)	(43.3)	(1.0)	(388.4)	(348.2)
(Withdrawals)/additions from dealing with Members		(7.8)	148.5	6.8	147.5	202.0
Net Returns on Investments						
Investment Income	13	94.7	4.7	-	99.4	93.3
Change in Market Value of Investments	14	191.8	77.1	-	268.9	1,699.8
Investment Management Expenses	15	(47.7)	(2.3)	(0.5)	(50.5)	(42.5)
		238.8	79.5	(0.5)	317.8	1,750.6
Net Increase in the Fund		231.0	228.0	6.3	465.3	1,952.6
Opening Net Assets		8,325.7	790.5	13.4	9,129.6	7,177.0
Closing Net Assets		8,556.7	1,018.5	19.7	9,594.9	9,129.6

The Investment Income and Investment Management Expenses for 2016 have been restated to reflect the gross costs (£13.9m) associated with the Investment Property Portfolio.

The notes on pages 25 to 60 form part of these Financial Statements.

Statement of Net Assets (available for benefits)

As at 30 September 2017

	Note	Defined Benefit Schemes £m	Defined Contribution Schemes £m	Expenses Reserve Account £m	Total 2017 £m	Total 2016 (Restated) £m
Investment Assets						
Equities		1,055.5	-	-	1,055.5	916.5
Bonds		560.6	-	-	560.6	543.5
Property	16	226.9	-	-	226.9	207.1
Pooled Investment Vehicles	17	5,369.0	988.9	-	6,357.9	4,022.3
Qualified Investment Funds (Client Specific)	18	503.0	-	-	503.0	2,767.1
Derivatives	19	209.5	-	-	209.5	174.9
Insurance Policies	20	244.2	-	-	244.2	288.8
Cash and Cash Equivalents	22	377.5	-	-	377.5	302.9
Other Investment Assets	22	42.8	-	-	42.8	24.7
		8,589.0	988.9	-	9,577.9	9,247.8
Investment Liabilities						
Derivatives	19	(112.6)	-	-	(112.6)	(102.2)
Cash and Cash Equivalents	22	(16.0)	-	-	(16.0)	(79.2)
Other Investment Liabilities	22	(68.4)	-	-	(68.4)	(44.4)
		(197.0)	-	-	(197.0)	(225.8)
Total Net Investments	14	8,392.0	988.9	-	9,380.9	9,022.0
Fixed Assets	28	7.7	-	-	7.7	7.4
Current Assets	29	188.0	31.1	19.7	238.8	122.2
Current Liabilities	30	(31.0)	(1.5)	-	(32.5)	(22.0)
Total Net Assets		8,556.7	1,018.5	19.7	9,594.9	9,129.6

The Net Asset statement for 2016 has been restated to reflect an asset reclassification (£6m) between derivatives and bonds.

The Financial Statements summarise the transactions of the Trust and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Trust's year. The defined benefit actuarial position of the Trust, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities in the Trustee's Report on pages 6 to 7 of the Annual Report and these Financial Statements should be read in conjunction with that Report. The notes on pages 25 to 60 form part of these Financial Statements.

Approved and signed for and on behalf of the Trustee on 28 March 2018.

Sarah Smart

Chair

Verity Trustees Limited

Notes to the Financial Statements

For the year ended 30 September 2017

1. General Information

The Pensions Trust (the 'Trust') is an occupational pension scheme under trust.

The Trust was initially established to provide retirement benefits to organisations involved in social, educational, charitable, voluntary and other similar work, although any organisation is now eligible to join the Trust.

The address of the Trust's principal office is 6 Canal Wharf, Leeds, West Yorkshire, LS11 5BQ.

The Trust has a defined benefit ('DB') section the majority of which is closed to new members but existing members continue to accrue benefits, and a defined contribution ('DC') section which is open to new members and is used as an auto-enrolment scheme by certain employers. For details of schemes included as defined benefit (DB) or defined contribution (DC) see note 35.

The Trust is a registered pension scheme under Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief and income and capital gains earned by the Trust receive preferential tax treatment.

2. Basis of Preparation

The financial statements of the Trust have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ('FRS 102') and the guidance set out in the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (revised November 2014) ('the SORP').

In adopting FRS 102, the Trustee has adopted the provisions of 'Amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland – Fair value hierarchy disclosures (March 2016)' early.

3. Accounting Policies

The principal accounting policies of the Trust, which have been applied consistently, are as follows:

a. Currency

The Trust's functional currency and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

b. Contributions and Other Income

- i. Employees' normal contributions and Additional Voluntary Contributions (AVCs) remitted by the employer are accounted for on an accruals basis when deducted from pay. Employer normal contributions remitted by the employer that are expressed as a rate of pensionable salary are accounted for on the same basis as employees' contributions, otherwise they are accounted for in the period they are due under the Schedules of Contributions or Payment Schedules. Contributions by employers towards administrative expenses of the Trust are included within normal contributions.

Contributions in respect of employees in the first 30 days following auto enrolment are accounted for when their right to opt-out has expired, unless remitted to the Trust earlier.

All contributions payable under salary sacrifice arrangements are classified as employer contributions.

- ii. Employer augmentation contributions are accounted for on the due dates on which they are payable in accordance with the agreement under which they are being paid.
- iii. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and recovery plan under which they are being paid.
- iv. Special contributions include employer debt on withdrawal contributions (Section 75 debts) which are accounted for on the due dates on which they are payable with provision made where there is uncertainty of receipt.
- v. Other income is recognised on an accruals basis.

c. Transfers from and to other Plans

- i. Group and individual transfers in are accounted for on an accruals basis, which is normally when the transfer value is paid and member liability is accepted by the relevant Scheme.
- ii. Group transfers out are accounted for in accordance with the terms of the transfer agreement.
- iii. Individual transfers out are accounted for on an accruals basis, which is normally when the transfer value is paid and member liability is discharged.

d. Benefits and Payments to and on account of Leavers

- i. Pensions in payment, including pensions funded by annuity contracts are accounted for in the period to which they relate.
- ii. Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement or the date the option is exercised.
- iii. Other benefits are accounted for on an accruals basis on the date of leaving or death as appropriate. Refunds and opt-outs are accounted for when the Trustee is notified of the member's decision to leave the Trust.
- iv. Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefit received from the Trust, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.
- v. Following the payment of a refund of contributions to a member of any DC arrangement the units purchased by employer contributions in respect of that member are disinvested and the proceeds transferred to the Expenses Reserve Account.

e. Administrative and Other Expenses

- i. The Trust operates an Expenses Reserve Account to ensure that administrative expenses are allocated to individual schemes on a smoothed basis. All administrative and investment management expenses incurred by the Trust are accounted for on an accruals basis and are charged against the Expenses Reserve Account prior to allocation against individual schemes.
- ii. Expenses which relate specifically to individual schemes are allocated to the appropriate scheme, on an accruals basis.
- iii. The Trustee of the Trust, Verity Trustees Limited is also the Trustee of The Pensions Trust 2016. The Pensions Trust incurs most of the administrative and investment management expenses relating to The Pensions Trust 2016 and recharges all of these on a smoothed basis.
- iv. Investment management expenses and administrative expenses, other than those relating specifically to a particular scheme, are allocated on the basis of asset values and member numbers, as appropriate.

f. Depreciation

Tangible fixed assets are depreciated from when the asset is operational. Assets are depreciated over their expected useful economic lives, less residual value on a straight line basis. The rates used are:

Computers and Software	25%
Equipment and Fittings	10% - 25%

The Trust's freehold office has been valued independently on an annual basis at the year-end date on an estimated open market existing use basis. The change in valuation from the preceding year is included in the Financial Statements, within Change in Market Value of Investments (note 14).

g. Investment Income and Expenditure

- i. Dividends from equities, and any pooled investment vehicles which distribute income, are accounted for on an accruals basis on the date stocks are quoted ex-dividend; or, in the case of unquoted instruments, when the dividend is declared.
- ii. Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchase and sales of bonds. Interest on cash and short term deposits and income from other investments are accounted for on an accruals basis.
- iii. Rents from properties are accounted for on an accruals basis from when earned in accordance with the terms of the lease, and are reported net of expenses.
- iv. Interest is accrued on a daily basis.
- v. Receipts or payments under derivative swap contracts, representing the difference between the swapped cash flows, are included in investment income.
- vi. Investment income is reported net of attributable tax credits but gross of withholding taxes, which are accrued in line with the associated investment income.
- vii. Income arising from annuity policies is included in investment income. Income from annuities is accounted for on an accruals basis.
- viii. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time of the year, i.e. profits and losses realised on sales of investments during the year and unrealised changes in market value on amounts held at the end of the year. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested with the fund without issue of further units, change in market value also includes such income.

- ix. Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Trust such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within net returns on investments.

h. Investments

Investments are included at fair value at the date of the Statement of Net Assets. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price or most recent transaction price is used.

- i. The readily traded investments (equities, bonds and certain pooled investments and qualified investment vehicles) are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted.
- ii. Where quoted or unquoted unit prices are not available, the Trustee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the Financial Statements where used.

Where the value of a pooled investment vehicle (PIV) or qualified investment fund (QIF) is primarily driven by the fair value of its underlying investments, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.

- iii. Properties are included at fair value as at the year end determined by independent chartered surveyors, who have recent experience of the locations and types of properties held by the Trust, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein.
- iv. Derivatives are stated at fair value.
- Exchange traded derivatives are stated at market values determined using market quoted prices. For exchange traded derivative contracts which are assets, fair value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, fair value is based on quoted offer prices.
 - Over-the-counter (OTC) derivatives are stated at fair value estimated using pricing models and relevant market data as at the year-end date.
 - Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
 - Swaps are valued using an independent pricing vendor's Overnight Indexed Swap (OIS) curve. During the term of the swap agreement, periodic cash flows are recorded as either income or an expense associated with the swap.

- Open futures contracts are included in the Statement of Net Assets at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract.
 - Options are stated at fair market value determined using specific pricing models and relevant market data at the year end.
 - Security pledged is stated at fair market value based on bid prices at the year end.
 - All gains and losses arising on derivative contracts are reported within 'change in market value'.
- v. Annuities purchased for retired members in their own names fully discharge the Trust's liability to those members and are therefore not included in these Financial Statements. The cost of purchasing these annuities is reported within payments to and on account of leavers as the former members do not have their pension paid by the Trust. They are also removed from membership.
- vi. Annuity assets which provide benefits for members, but which are in the name of the Trustee, principally the bulk annuity contracts with Rothesay Life and Legal & General, are valued by the Trust's Actuary based on the expected future pensioner benefit payments covered by the contract, discounted back to the financial year end using assumptions agreed by the Trustee on advice from the Trust Actuary. The assets are assumed to be equal to the actuarial liability at the valuation date.
- vii. Additional Voluntary Contributions (AVCs) are invested in accordance with the members' instructions into schemes within the Trust.

i. Other Investments Arrangements

- i. The Trust continues to recognise assets supplied under repurchase contracts and stock lending arrangements to reflect its on-going interest in those securities. Cash received from repurchase contracts is recognised as an investment asset, and an investment liability is recognised for the value of the repurchase obligation. Collateral received in respect of stock lending arrangements is disclosed but not recognised as a Trust asset.
- ii. Cash delivered under reverse repurchase contracts (held within QIFs) is recognised as an investment receivable in the Financial Statements. Securities received in exchange are disclosed as collateral supporting this receivable but not included as Trust assets.

4. Analysis of Fund Account by category of scheme:

	2017				2016			
	DB £m	DC £m	Expenses Reserve £m	Total £m	DB £m	DC £m	Expenses Reserve £m	Total £m
Total Income	336.3	191.8	7.8	535.9	383.8	166.4	-	550.2
Total Payments	(344.1)	(43.3)	(1.0)	(388.4)	(317.3)	(34.3)	3.4	(348.2)
Net Additions / (withdrawals) from dealing with Members	(7.8)	148.5	6.8	147.5	66.5	132.1	3.4	202.0
Net Returns on Investments	238.8	79.5	(0.5)	317.8	1,625.9	125.0	(0.3)	1,750.6
Net Increase in the Fund	231.0	228.0	6.3	465.3	1,692.4	257.1	3.1	1,952.6
Opening Net Assets	8,325.7	790.5	13.4	9,129.6	6,633.3	533.4	10.3	7,177.0
Closing Net Assets	8,556.7	1,018.5	19.7	9,594.9	8,325.7	790.5	13.4	9,129.6

5. Contributions

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Employer Contributions						
Normal	66.1	115.0	181.1	75.8	97.3	173.1
Deficit Funding	230.6	-	230.6	202.8	-	202.8
Special	14.0	-	14.0	24.5	-	24.5
Augmentation	0.2	-	0.2	0.5	-	0.5
	310.9	115.0	425.9	303.6	97.3	400.9
Employee Contributions						
Normal	27.2	60.9	88.1	36.6	53.2	89.8
Additional Voluntary Contributions (AVCs)	0.1	4.2	4.3	0.1	4.6	4.7
	27.3	65.1	92.4	36.7	57.8	94.5
	338.2	180.1	518.3	340.3	155.1	495.4

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the Employer.

Contributions by employers towards administrative expenses of the Trust are included within normal contributions.

Deficit funding: An actuarial valuation of each DB scheme is carried out every three years. Deficit funding represents payments by schemes to eliminate past service deficits in accordance with the Schedules of Contributions prepared by the Actuary.

Total future commitments as at 30 September 2017 to pay deficit contributions are shown below:

	£m
Due in 1 year	222.6
Due in 1 - 2 years	222.1
Due in 2 - 5 years	655.6
Due in > 5 years	890.0
TOTAL	1,990.3

Deficit recovery periods differ between schemes. The shortest deficit recovery period is four years, with the longest being 22 years.

6. Transfers In

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Group Transfers in	-	-	-	40.1	-	40.1
Individual Transfers in	(2.2)	9.6	7.4	(4.0)	11.2	7.2
	(2.2)	9.6	7.4	36.1	11.2	47.3

Individual transfers in include amounts relating to transfers within the Trust.

7. Other Income

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Claims on Term Insurance Policy	0.3	2.1	2.4	-	-	-
Life Assurance Income	7.8	-	7.8	7.4	0.1	7.5
	8.1	2.1	10.2	7.4	0.1	7.5
Transfer to Expenses Reserve Account	(7.8)	-	(7.8)	-	-	-
	0.3	2.1	2.4	7.4	0.1	7.5

Life assurance income relates to premiums paid by employers for the purchase of life assurance for members.

8. Benefits Paid or Payable

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Pensions	167.5	-	167.5	157.4	-	157.4
Commutations and Lump Sum Retirement Benefits	48.5	10.3	58.8	59.6	4.9	64.5
Lump Sum Death Benefits	4.2	2.7	6.9	4.8	1.5	6.3
Taxation	0.4	-	0.4	0.1	-	0.1
	220.6	13.0	233.6	221.9	6.4	228.3

Taxation arising on benefits paid or payable is in respect of members whose benefits have exceeded the lifetime or annual allowance and who elected to take lower benefits from the Trust in exchange for the Trust settling their tax liability.

9. Payments to and on account of Leavers

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Refund of Contributions	0.1	6.2	6.3	0.3	7.6	7.9
Payments for Members joining State Scheme	-	-	-	0.2	-	0.2
Purchase of Annuities	6.8	0.5	7.3	1.5	2.4	3.9
	6.9	6.7	13.6	2.0	10.0	12.0
Transfer to Expenses Reserve Account	-	(5.1)	(5.1)	-	(4.7)	(4.7)
	6.9	1.6	8.5	2.0	5.3	7.3

10. Transfers to other Schemes

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Group Transfers Out to Other Schemes*	11.0	-	11.0	12.5	-	12.5
Individual Transfers Out	90.2	21.2	111.4	59.8	16.0	75.8
	101.2	21.2	122.4	72.3	16.0	88.3

*The amount for 2017 is the withdrawal sum relating to Southern Housing Group, an employer which transferred out from the Trust during the year (2016: Charities Aid Foundation).

11. Other Payments

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Premiums on Term Insurance Policies	4.8	-	4.8	5.2	-	5.2
Transfer to Expenses Reserve Account	(4.9)	-	(4.9)	-	-	-
	(0.1)	-	(0.1)	5.2	-	5.2

12. Administrative Expenses

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Gross Salaries	6.7	0.2	6.9	6.3	0.2	6.5
Other Employment Costs	2.5	0.1	2.6	2.6	0.1	2.7
Computer Systems and Development	0.7	-	0.7	0.6	-	0.6
Publicity and Design	0.6	-	0.6	0.5	-	0.5
Office Miscellaneous and Depreciation	2.3	0.1	2.4	1.8	0.1	1.9
Professional Fees	1.1	1.6	2.7	1.1	1.5	2.6
Scheme Specific Expenses	1.0	-	1.0	2.1	-	2.1
Pension Protection Fund Levy	2.2	-	2.2	2.2	-	2.2
	17.1	2.0	19.1	17.2	1.9	19.1
Transfer to Expenses Reserve Account	(1.6)	0.4	(1.2)	(1.3)	-	(1.3)
	15.5	2.4	17.9	15.9	1.9	17.8

The Trust bears all the costs of administration. Specific costs are allocated to the scheme to which they relate. General costs are allocated between schemes. Included in professional fees are the audit fee of £136k (2016: £110k) and actuarial fees of £841k (2016: £756k). The overall audit fee is inclusive of the audit fee for The Pensions Trust 2016 of £18,000 (2016: £nil).

Administration costs incurred during the year exceeded the costs allocated to the schemes resulting in a £1.2m (2016: £1.3m) transfer from the Expenses Reserve Account.

In the year £0.2m was charged to the Fund Account in respect of Operating Lease Expenses (2016: £0.2m)

Remuneration of Trustees and Key Management Personnel

Trustee Remuneration

The number of directors on the Trustee Board, who received either a salary or fees in the year, fall into the following bands:

	2017 Number	2016 Number
£0-£20,000	5	9
£20,001-£40,000	2	1
£40,001-£60,000	-	-
£60,001-£80,000	-	1

Whilst the CEO and Chair of the Management Board both sit on the Trustee Board, details of their remuneration have been excluded from the above but have been included within the analysis relating to the Employee Remuneration and Management Board & Co-Optee Remuneration respectively.

Trustees may incur costs in fulfilling their duties, for example in travelling to meetings. The reimbursement of properly incurred expenses is not considered to be remuneration of a Trustee.

Management Board and Committee Co-Optee Remuneration

The members of the Management Board and Committee Co-Optees, who received a salary in the year, fall into the following bands:

	2017	2016
	Number	Number
£0-£20,000	3	1
£20,001-£40,000	3	1
£40,001-£60,000	1	-

The Management Board was formed on 1 October 2016 therefore no comparative figures for these directors have been included. Comparative figures reflect Committee Co-Optees only.

Employee Remuneration

The number of employees, who received more than £60,000 (excluding pension contributions) in the year, fall into the following bands:

	2017	2016
	Number	Number
£60,001-£80,000	14	17
£80,001-£100,000	5	4
£100,001-£120,000	2	3
£120,001-£140,000	2	1
£140,001-£160,000	1	1
£160,001-£180,000	2	-
£240,001-£260,000	-	1
£300,001-£320,000	1	-

The ratio of highest paid to median paid employee salary is 8:1.

The total amount paid to those included within the above tables totalled:

	2017	2016
	£'000	£'000
Trustee Remuneration	137	164
Management Board & Co-Optee Remuneration	240	44
Employee Remuneration	2,691	2,352
	3,068	2,560

Employees in Trust Pension Schemes

DB

The Trust has no employees that are active members of any of its DB pension schemes. The Trust does have employees that are deferred members of its DB pension schemes CARE and Growth Plan 1 & 2.

DC

The Trust has employees that are members of its Flexible Retirement Plan (FRP) defined contribution scheme. The contributions paid relating to those employees is listed below.

	2017	2016
	£m	£m
Employer Contributions		
Normal	0.7	0.7
Employee Contributions		
Normal	0.2	0.2
AVC	0.1	0.1
	1.0	1.0

Multi-Employer Scheme pension deficits

Under FRS 102 a technical provision to reflect the discounted cash flow of future contributions payable to rectify a participating employer's share of the Trust's deficit must be recognised on its Statement of Net Assets. Current and former employees of the Trust have benefits within the Growth Plan and CARE sections of the Trust. The administrative expenses above include an amount of £0.6m paid during the year in respect of deficit contributions to those sections. The table below provides an analysis of this sum and also sets out the net present value (PV) of future deficit contributions payable and the Section 75 debt that would be payable in the event of withdrawal:

	2017 Deficit	PV of future	S75 debt payable in the
	contributions	contributions	event of withdrawal
	£m	£m	£m
Growth Plan	0.3	3.0	6.5
CARE	0.3	2.8	33.1
Total	0.6	5.8	39.6

13. Investment Income

	2017			2016		
	DB £m	DC £m	Total £m	DB (Restated) £m	DC (Restated) £m	Total (Restated) £m
Dividends from Equities	15.9	-	15.9	15.1	-	15.1
Income from Bonds	14.9	-	14.9	15.8	-	15.8
Rents from Properties	8.6	-	8.6	10.7	-	10.7
Income from PIVs/QIFs	26.2	4.7	30.9	20.8	3.2	24.0
Income from Derivatives	7.2	-	7.2	4.6	-	4.6
Annuity Income	19.6	-	19.6	20.9	-	20.9
Interest on Cash Deposits	0.9	-	0.9	0.8	-	0.8
Other	1.4	-	1.4	1.4	-	1.4
	94.7	4.7	99.4	90.1	3.2	93.3

The Investment Income for 2016 has been restated to reflect the gross costs associated with the Investment Property Portfolio.

14. Reconciliation of Net Investments

	Value at 01-10-16 (Restated) £m	Purchases at cost and derivative payments £m	Sale Proceeds and derivative receipts £m	Change in market value £m	Value at 30-09-17 £m
Defined Benefit Section					
Equities	916.5	309.2	(308.4)	138.2	1,055.5
Bonds	543.5	186.1	(154.1)	(14.9)	560.6
Properties	207.1	-	(8.1)	27.9	226.9
Pooled Investment Vehicles	3,256.4	5,385.5	(3,295.6)	22.7	5,369.0
Qualified Investment Funds	2,767.1	800.2	(3,108.9)	44.6	503.0
Derivatives	72.7	324.8	(311.8)	11.2	96.9
Insurance Policies	288.8	-	(6.5)	(38.1)	244.2
	8,052.1	7005.8	(7,193.4)	191.6	8,056.1
Other Investment Balances	(19.7)				(25.6)
Cash	223.7				361.5
Fixed Asset Revaluation (note 27)	-			0.2	-
	8,256.1			191.8	8,392.0
Defined Contribution Section	765.9	201.1	(55.2)	77.1	988.9
Total Investments	9,022.0			268.9	9,380.9

The opening Net Investment position has been restated to reflect an asset reclassification.

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Trust such as fees, commissions and stamp duty.

Direct transaction costs analysed by main asset class and type of cost are as follows:

	2017			Total £m
	Fees £m	Commission £m	Taxes £m	
Equities	0.5	0.2	-	0.7
2016				
	Fees £m	Commission £m	Taxes £m	Total £m
Equities	0.7	0.4	-	1.1

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

15. Investment Management Expenses

	2017			2016		Total (Restated) £m
	DB £m	DC £m	Total £m	DB (Restated) £m	DC (Restated) £m	
Management, Administration and Custody	28.5	2.3	30.8	24.5	1.7	26.2
Outperformance Fees	0.6	-	0.6	1.7	-	1.7
Performance Measurement Services	0.3	-	0.3	0.2	-	0.2
Investment Consultancy	0.5	-	0.5	0.5	-	0.5
Property Expenses	18.3	-	18.3	13.9	-	13.9
	48.2	2.3	50.5	40.8	1.7	42.5
Transfer to Expenses Reserve Account	(0.5)	-	(0.5)	(0.3)	-	(0.3)
	47.7	2.3	50.0	40.5	1.7	42.2

The Investment Management Expenses for 2016 have been restated to reflect the gross costs associated with the Investment Property Portfolio.

Costs incurred in respect of the Trust's investment team during the year exceeded the cost allocation to the schemes resulting in a £0.5m (2016: £0.3m) transfer from the Expenses Reserve Account.

16. Property

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Freehold Property	224.6	-	224.6	204.6	-	204.6
Leasehold Property	2.3	-	2.3	2.5	-	2.5
	226.9	-	226.9	207.1	-	207.1

Property was valued at 30 September 2017 by an independent valuation expert, Cluttons LLP, which is a member of the Royal Institution of Chartered Surveyors, on the basis of fair value. The principal assumptions on which the fair value was based were rental income from current tenants, the remaining term of current leases, discount rates and market rents by area for the locations in which the properties were based. Capital values were also checked against relevant evidence from comparable sales of similar properties.

17. Pooled Investment Vehicles

By type:	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Equities	1,114.6	720.3	1,834.9	1,690.5	551.9	2,242.4
Bonds	1,014.5	237.1	1,251.6	810.1	185.7	995.8
Property	137.8	5.5	143.3	117.5	4.6	122.1
Hedge Funds	453.4	-	453.4	239.4	-	239.4
Diversified Growth	-	21.6	21.6	-	20.2	20.2
Venture Capital and Partnerships	230.0	-	230.0	161.5	-	161.5
Cash	268.1	4.4	272.5	224.4	3.5	227.9
Commodities	11.2	-	11.2	13.0	-	13.0
Other	2,139.4	-	2,139.4	-	-	-
	5,369.0	988.9	6,357.9	3,256.4	765.9	4,022.3

18. Qualified Investment Funds

	2017	2016
By type:	£m	£m
Equities	432.1	769.3
Bonds	-	3,269.8
Pooled Investment Vehicles	71.8	164.7
Derivative Assets	-	1.4
Cash & Cash Equivalents	0.5	1.3
Total QIF Assets	504.4	4,206.5
Derivative Liabilities	-	(2.0)
Cash & Cash Equivalents	-	(39.0)
Repurchase agreement	-	(1,398.3)
Total QIF Liabilities	-	(1,439.3)
TOTAL	504.4	2,767.2
Notional Costs	(1.4)	(0.1)
Net QIF Investments	503.0	2,767.1

The maturity period of all the 2016 repurchase agreements is less than 12 months.

19. Derivatives

	2017			2016		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	(Restated)	(Restated)	(Restated)
	£m	£m	£m	£m	£m	£m
Exchange Traded						
Futures	10.0	(16.9)	(6.9)	1.7	(1.8)	(0.1)
Over-The-Counter Contracts						
Forward Foreign Currency	81.0	(0.5)	80.5	2.1	(26.8)	(24.7)
Swaps	109.3	(73.4)	35.9	168.9	(71.0)	97.9
Options	9.2	(21.8)	(12.6)	2.2	(2.6)	(0.4)
	209.5	(112.6)	96.9	174.9	(102.2)	72.7

The 2016 figures have been restated to reflect an asset reclassification.

Objectives and Policies for holding Derivatives

The Trustee has authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

- **Futures:** Futures were used to increase or reduce exposure to various equity indices and government bonds in a capital efficient manner.
- **Forward Foreign Currency:** The Trustee uses forward contracts primarily for the purposes of currency risk management.
- **Swaps or Repos:** The Trustee aims to manage the liability risk as it relates to individual schemes, particularly their sensitivity to interest rate and inflation movements.
- **Options:** TPT uses options to adjust the market exposure of its equity holdings. Over the year the Trustee purchased contracts that enabled it to gain some level of protection against losses arising from a fall in equity markets, with the premium paid for receiving this protection offset by selling contracts limiting the upside arising from an equity market rise, also known as an 'equity collar' strategy.

Outstanding derivative financial instruments at the year end are summarised as follows:

Futures Type:	Expires within	Economic exposure £m	2017 Fair Value	
			Asset £m	Liability £m
USD Equity	1 Year	3.7	-	(0.1)
USD Gilt	1 Year	99.6	6.5	(10.6)
Euro Equity	1 Year	(0.1)	-	-
Euro Gilt	1 Year	(67.3)	3.3	-
GBP Equity	1 Year	2.3	-	-
GBP Gilt	1 Year	(8.7)	0.2	-
Other Equity	1 Year	1.3	-	-
Other Gilts	1 Year	134.2	-	(6.2)
		165.0	10.0	(16.9)

Included within cash balances is an asset of £127.4m (2016: of £2.7m) in respect of initial and variation margins arising on open future contracts at the year-end.

Forward Foreign Currency

Type:	Expires within	Notional Value £m	2017 Fair Value	
			Asset £m	Liability £m
Buy CAD for USD (1 Contract)	1 Year	5.0	0.4	-
Buy GBP for EUR (7 Contracts)	1 Year	454.9	19.6	-
Buy GBP for JPY (7 Contracts)	1 Year	234.9	14.4	-
Buy GBP for USD (15 Contracts)	1 Year	1,201.2	46.4	-
Buy TRY for USD (1 Contract)	1 Year	4.2	-	(0.1)
Buy USD for CAD (2 Contracts)	1 Year	11.7	-	(0.3)
Buy USD for CNH (1 Contract)	1 Year	6.4	0.1	-
Sell EUR for GBP (1 Contract)	1 Year	2.7	0.1	-
Sell USD for GBP (2 Contracts)	1 Year	13.0	-	(0.1)
		1,934.0	81.0	(0.5)

The notional value represents the sterling value of the foreign currency amount of the contract translated at the year-end spot rate.

Swaps Type:	Expires within	Notional Value £m	2017 Fair Value	
			Asset £m	Liability £m
Equity Index Swaps				
Pay Variable for Variable USD	1 Year	-	1.4	-
Bond Total Return Swaps				
Pay Variable for Variable GBP	1 Year	(4.0)	0.7	(0.7)
Inflation Swaps				
Pay Fixed for Variable	1-10 years	(141.3)	-	(3.3)
Pay Fixed for Variable	10-20 years	(61.4)	-	(4.2)
Pay Fixed for Variable	20-50 years	(31.8)	-	(8.1)
Pay Variable for Fixed	1-10 years	67.4	0.7	-
Pay Variable for Fixed	10-20 years	105.8	4.6	-
Pay Variable for Fixed	20-50 years	4.3	0.2	-
Interest Rate Swaps				
Pay Fixed for RPI	1-10 years	(106.1)	-	(2.9)
Pay Fixed for RPI	10-20 years	(159.5)	-	(34.3)
Pay Fixed for RPI	20-50 years	(167.5)	-	(19.9)
Pay RPI for Fixed	1-10 years	93.3	2.6	-
Pay RPI for Fixed	10-20 years	158.8	39.3	-
Pay RPI for Fixed	20-50 years	246.9	59.8	-
		4.9	109.3	(73.4)

The notional value of the swap is the amount used to determine the swapped receipts and payments. Collateral of £33.1m (2016: £94.8m) is held for the unrealised gain on swaps, comprising gilts and cash. This is held in an allocated account with the counterparties' custodians and is not included within Trust assets.

Options Type:	Expires within	Notional Value £m	2017 Fair Value	
			Asset £m	Liability £m
Put – UK Equity	1 Year	64.0	4.8	-
Call – UK Equity	1 Year	(75.0)	-	(1.7)
Put – European Equity	1 Year	112.0	1.5	-
Call – European Equity	1 Year	(132.0)	-	(3.1)
Put – Japanese Equity	1 Year	77.0	1.1	-
Call – Japanese Equity	1 Year	(90.0)	-	(2.8)
Put – US Equity	1 Year	517.0	1.8	-
Call – US Equity	1 Year	(603.0)	-	(14.2)
		(130.0)	9.2	(21.8)

The notional value represents the value of the underlying stock protected by the option contracts. Collateral of £3.2m (2016: £0.2m) is held for unrealised gain on swaps, comprising gilts and cash. This is held in an allocated account with the counterparties' custodians and is not included within Trust assets.

Collateral

At the year end, the Trust held cash collateral of £16.0m (2016: £79.2m) in respect of derivative contracts and has pledged £Nil (2016: £Nil) cash as security.

20. Insurance Policies

The Trustee holds insurance policies with Rothesay Life, Canada Life, Legal & General Assurance Society Limited and a number of sundry insurers, which provide annuity income to cover pensions for certain members and their beneficiaries.

	2017	2016
	£m	£m
Annuities with Rothesay Life	196.1	225.8
Annuities with Canada Life	18.2	21.3
Annuities with Legal & General Assurance Society	14.9	17.7
Annuities with Aviva	0.8	7.1
Annuities with Prudential	4.2	5.4
Annuities with Engage Mutual	4.4	4.7
Annuities with Standard Life	3.0	4.2
Annuities with Norwich Union	0.8	1.0
Annuities with Royal National Pension Fund for Nurses	0.9	0.5
Annuities with Just Retirement	0.7	0.8
Annuities with Aegon Scottish Equitable	0.1	0.1
Annuities with Partnership	0.0	0.1
Annuities with Scottish Widows	0.1	0.1
	244.2	288.8

The table below summarises the main financial and demographic assumptions used for the 30 September 2016 and 30 September 2017 valuations of the 2 largest policies:

Scheme funding assumptions	2017	2016
	Nominal (%pa)	Nominal (%pa)
Valuation discount rate	2.25	1.7
Price inflation (RPI)	3.4	3.0
Pension increases (where not fixed):		
LPI 5%	3.2	3.0
LPI 2.5%	2.2	2.1
Post retirement mortality:		
Base Table	93% of S2PMA (males) and 93% of S2PFA (females) year of birth tables.	
Improvements to mortality	CMI_2016 projections with a long term improvement rate of 1.50% p.a. for males and 1.25% p.a. for females.	

21. Additional Voluntary Contributions (AVC) Investments

Members of the DC section are allowed to pay contributions at a higher rate than required by the scheme rules. These contributions are co-invested with other DC assets and are not separately distinguishable.

The Trust does not have any DB AVC investments; these are co-invested into the DC funds.

22. Cash and Other Net Investment Balances

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Cash – Sterling	349.7	-	349.7	279.9	-	279.9
Cash – Foreign Currency	27.8	-	27.8	23.0	-	23.0
	377.5	-	377.5	302.9	-	302.9
Cash – Collateral	(16.0)	-	(16.0)	(79.2)	-	(79.2)
Amounts due from Brokers	1.2	-	1.2	15.4	-	15.4
Accrued Investment Income	10.1	-	10.1	9.3	-	9.3
Pending transactions	31.5	-	31.5	-	-	-
	42.8	-	42.8	24.7	-	24.7
Amounts due to Brokers	(68.4)	-	(68.4)	(44.4)	-	(44.4)
	335.9	-	335.9	204.0	-	204.0

23. Stock Lending

Securities which were on loan at the year end are included in the Statement of Net Assets and refer to the Trust's on-going economic interest in such securities. At 30 September 2017 £109.2m equities and £45.4m bonds (2016: £115.2m and £5.5m respectively) were on loan through the stock lending programme managed by the Custodian. In exchange the Custodian held collateral of £155.9m (2016: £125.7m) in the form of obligations issued or guaranteed by the governments of OECD (Organisation for Economic Co-Operation and Development) member states, as well as supranational debt, which is not included in the Statement of Net Assets. All assets that are included in a stock lending arrangement have been classified within the relevant investment category within investment assets.

24. Defined Contribution Assets

Defined Contribution section investments purchased by the scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment managers hold the investment units on a pooled basis for the Trustee. The Defined Contribution Administrator allocates investment units to members.

All the Defined Contributions Assets are allocated to members.

25. Fair Value of Investments

The fair value of investments has been determined using the following hierarchy.

Investment Category	Description
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 in Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Trust's investment assets and liabilities have been included at fair value within these categories as follows:

Category:	Level 1 £m	Level 2 £m	Level 3 £m	2017 Total £m
Defined Benefit Section				
Investment Assets				
Equities	1,041.5	14.0	-	1,055.5
Bonds	172.0	387.3	1.3	560.6
Property	-	-	226.9	226.9
Pooled Investment Vehicles	270.0	2,719.9	2,379.1	5,369.0
Qualified Investment Funds	-	431.9	71.1	503.0
Derivatives	-	-	209.5	209.5
Insurance Policies	-	-	244.2	244.2
Cash and Cash Equivalents	377.5	-	-	377.5
Other Investment Balances	42.8	-	-	42.8
	1,903.8	3,553.1	3,132.1	8,589.0
Investment Liabilities				
Derivatives	-	-	(112.6)	(112.6)
Cash and Cash Equivalents	-	-	(16.0)	(16.0)
Other Investment Balances	(68.4)	-	-	(68.4)
	(68.4)	-	(128.6)	(197.0)
Total Defined Benefit	1,835.4	3,553.1	3,003.5	8,392.0
Defined Contribution Section				
Pooled Investment Vehicles	-	983.4	5.5	988.9
Total Defined Contribution	-	983.4	5.5	988.9
Total Investments	1,835.4	4,536.5	3,009.0	9,380.9

Pooled investment vehicles which are traded regularly are generally included in level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair values applies, valuation techniques are adopted and the vehicles are included in level 3 as appropriate.

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations at 30 September 2017.

The Pensions SORP also requires analysis of direct property by category as per paragraph 11.27 of FRS 102. Direct property included above is included at a fair value determined by a valuation technique, i.e. level 3 (2016: level 3). A level c investment is defined in the SORP as an investment where quoted prices are not available and recent transactions of an identical asset on their own are either unavailable or not a good estimate of fair value and therefore valuation techniques are employed using either observable or non-observable data. Direct property is classified as level 3 under this definition.

Analysis for the prior year end is as follows:

Category:	Level 1 (Restated) £m	Level 2 (Restated) £m	Level 3 (Restated) £m	2016 Total (Restated) £m
Defined Benefit Section				
Investment Assets				
Equities	905.1	11.4	-	916.5
Bonds	146.7	392.2	4.6	543.5
Property	-	-	207.1	207.1
Pooled Investment Vehicles	233.3	2,835.9	187.2	3,256.4
Qualified Investment Funds	-	769.3	1,997.8	2,767.1
Derivatives	-	-	174.9	174.9
Insurance Policies	-	-	288.8	288.8
Cash and Cash Equivalents	302.9	-	-	302.9
Other Investment Balances	24.7	-	-	24.7
	1,612.7	4,008.8	2,860.4	8,481.9
Investment Liabilities				
Derivatives	-	-	(102.2)	(102.2)
Cash and Cash Equivalents	-	-	(79.2)	(79.2)
Other Investment Balances	(44.4)	-	-	(44.4)
	(44.4)	-	(181.4)	(225.8)
Total Defined Benefit	1,568.3	4,008.8	2,679.0	8,256.1
Defined Contribution Section				
Pooled Investment Vehicles	-	761.3	4.6	765.9
Total Defined Contribution	-	761.3	4.6	765.9
Total Investments	1,568.3	4,770.1	2,683.6	9,022.0

The 2016 figures have been restated to reflect the reclassification of a single asset.

26. Concentration of Investments

The following investments exceeded 5% of the Trust's net assets at the financial year end.

	2017		2016	
	Value £m	%	Value £m	%
DB Investments				
BlackRock – Liability Solutions III Tailored Fund	1,597.3	16.6	1,662.9	18.2
QIF - Legal & General – TSCA Client Specific Unitised Fund	374.2	3.9	712.7	7.8

27. Investment Risks

Types of Risk Relating to Investments

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Liquidity Risk: The risk that an entity will encounter difficulty meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Credit Risk: The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

- **Currency Risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest Rate Risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other Price Risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

In the table, the risk noted affects the asset class ● significantly, ◐ partially or ○ hardly/not at all.

DB Section	Credit Risk	Market Risk			2017 £m	2016 (Restated) £m
		Currency Risk	Interest Rate	Other Price		
Equities	○	◐	○	●	1,055.5	916.5
Bonds	●	◐	●	◐	560.6	543.5
Property	◐	○	○	●	226.9	207.1
Pooled Investment Vehicles					5,369.0	3,256.4
Direct exposure	●	○	○	○		
Indirect exposure	◐	◐	◐	◐		
Qualified Investment Fund					503.0	2,767.1
Direct exposure	●	○	○	○		
Indirect exposure	◐	◐	◐	◐		
Derivatives	◐	◐	●	◐	96.9	72.7
Insurance Policies	◐	○	○	○	244.2	288.8
Cash Deposits and Other Net Investment Assets	●	○	●	○	335.9	204.0
					8,392.0	8,256.1

DC Section	Credit Risk	Market Risk			2017 £m	2016 £m
		Currency Risk	Interest Rate	Other Price		
Pooled Investment Vehicles	●	◐	◐	◐	988.9	765.9

Defined Benefit Section

Investment Strategy

The Trustee's objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns sufficient to meet, together with future contributions, the benefits payable under the trust deed and rules as they fall due.

The Trust is a multi-employer pension scheme that provides tailored investment solutions for a number of underlying DB sections. In order to achieve its objective the Trustee constructs pools of assets that are then used to determine scheme specific investment strategies tailored to meet their individual set of liabilities.

The Trustee has delegated the power to set investment strategy to its Investment Committee and Funding Committee. In summary, the Investment Committee sets the fund selection and performance strategy, after taking advice from the Trust's independent investment consultants, for the various pools of assets from which the scheme-specific strategies are drawn. The Funding Committee sets scheme specific asset allocation strategies at the same time as assessing scheme-specific funding needs.

When constructing the pools of assets from which scheme specific investment strategies are drawn the Investment Committee considers a number of factors including the expected risk and return of each asset class, diversification benefits, liquidity requirements and fees. In order to support their decision making the Investment Committee takes independent advice from the Trust's investment consultants, as well as receiving input from the Trust's Chief Investment Officer.

In June 2017, the Trustee reviewed a set of 10 Investment Beliefs that the Investment Committee must use as a framework when making decisions and agreeing the investment strategy. These Investment Beliefs can be found in full on the Trust's website.

The Trustee employs third party fund managers to implement the investment strategy, meaning that the Trust does not manage any money in-house. The Trust uses a combination of both passive and active investments depending on the perceived ability to add value in the relevant area. Fund managers are monitored on an on-going basis by both the Investment Committee and the in-house Investment Team, and are met with at least annually.

When considering the investment strategy on a scheme specific basis for each section of the pension scheme, the Funding Committee takes into account a number of considerations such as the strength of the employer covenant, the long term liabilities of the scheme, the appetite for investment risk and the funding strategy agreed with the employer(s).

Credit Risk

The Trust is subject to direct credit risk because it invests in bonds, commercial property, over-the-counter (OTC) derivatives, has cash equivalents and undertakes stock lending activities. The Trust also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the provider of the pooled investment vehicle and also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table. The notes below explain how this risk is managed and mitigated for the different asset classes.

	2017	2016
	£m	(Restated)
DB Investments exposed to Credit Risk		£m
Bonds	560.6	543.5
Property Let to Tenants	181.4	167.9
Pooled Investment Vehicles		
Bond Funds (Direct and Indirect)	3,153.9	810.1
Other Funds (Direct Risk only)	2,215.1	2,446.1
Qualified Investment Funds		
Bond funds (Direct and Indirect)	-	1,927.1
Other funds (Direct Risk only)	503.0	840.0
Derivatives Assets	209.5	174.9
Liabilities	(112.6)	(102.2)
Insurance Policies	244.2	288.8
Cash Deposits and Other Net Investment Assets	335.9	204.0
	7,291.0	7,300.2

Credit risk arising on bonds held directly is mitigated by ensuring that the investment manager has a suitable framework in place for assessing the credit worthiness of the counterparty and that the credit rating of the bonds matches the desired risk profile of the mandate. Similarly, the credit risk arising from the letting of commercial property is mitigated by ensuring that the tenant has an appropriate covenant to ensure that rents are paid as they fall due.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Indirect credit risk arises in relation to underlying investments held in a number of the pooled investment vehicles and qualifying investment funds. This risk is mitigated by ensuring that appropriate due diligence is carried out on the pooled manager's investment process at appointment.

OTC derivative contracts are not guaranteed by any regulatory exchange and therefore schemes are subject to the risk of failure of the counterparty. The credit risk for OTC contracts is reduced by collateral arrangements (see note 19). Credit risk also arises on forward currency contracts where there are no collateral arrangements; however, all counterparties are required to be at least investment grade. Cash on deposit is held within financial institutions that have an investment grade credit rating.

The Trust manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated two notches above investment grade and putting in place collateral arrangements (see note 23).

Currency Risk

The Trust is subject to currency risk because some of the investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The exposure to USD, EUR and JPY is hedged as follows:

- Developed market equities: 70%
- Emerging market debt: 70%
- Other asset classes: 100%

Assets within the growth asset portfolio with reliable income streams are hedged 100%, but where currency volatility may be diversified by asset volatility, e.g. equities, a lower hedge ratio provides an improved risk profile. It is recognised that for some assets, e.g. emerging markets equity, currency exposure is part of the investment thesis in the equity market and so no hedging is appropriate.

The net currency exposure at the current and previous year-ends was as follows.

	Direct Exposure £m	Indirect Exposure £m	Hedging £m	2017 Net Exposure after Hedging £m	2016 Net Exposure after Hedging £m
Pounds Sterling (GBP)	8,764.9	(1,014.5)	320.8	8,071.2	7,178.2
Euros (EUR)	(190.4)	273.7	(41.7)	41.6	119.4
US Dollars (USD)	(383.8)	392.3	(4.3)	4.2	673.3
Japanese Yen (JPY)	18.5	20.6	(19.5)	19.6	62.9
Other Currencies	182.8	327.9	(255.3)	255.4	222.3
	8,392.0	-	-	8,392.0	8,256.1
Unhedged Foreign Currency Exposure				3.8%	13.1%

Interest Rate Risk

The Trust is subject to interest rate risk because some of the investments are held in bonds, interest rate swaps or repos (either segregated investments or through pooled investment vehicles), and cash.

A summary of exposures to interest rate risk is given in the following table.

	2017	2016
	£m	(Restated)
DB Investments exposed to Interest Rate Risk		£m
Bonds	560.6	543.5
Pooled Investment Vehicles		
Bond Funds (Indirect)	3,153.9	810.1
Qualified Investment Funds		
Bond funds (Indirect)	-	1,927.1
Derivatives Assets	209.5	174.9
Liabilities	(112.6)	(102.2)
Cash Deposits and Other Net Investment Assets	335.9	204.0
	4,147.3	3,557.4

Other Price Risk

The Trust is subject to other price risk, arising principally in relation to the growth portfolio (growth assets within the main portfolio) which includes directly held equities, equities held through pooled vehicles or QIFs, commercial property, unlisted infrastructure and a range of strategies that aim to produce absolute returns in all market environments.

A summary of exposures to other price risk is given in the following table.

	2017	2016
	£m	(Restated)
DB Investments exposed to Other Price Risk		£m
Equities	1,055.5	916.5
Bonds	560.6	543.5
Property Let to Tenants	181.4	167.9
Derivatives Assets	209.5	174.9
Liabilities	(112.6)	(102.2)
Pooled Investment Vehicles		
Other Funds (Indirect)	2,215.1	2,446.1
Qualified Investment Funds		
Other Funds (Indirect)	503.0	840.0
	4,612.5	4,986.7

Defined Contribution Section

Investment Strategy

The Trustee's objective is to make available to members an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employers, will provide a retirement amount with which the member can purchase an annuity or other types of retirement solution.

In order to achieve this objective the Trust offers a range of Target Date Funds and Ethical Target Date Funds managed by Alliance Bernstein, alongside a number of self-select funds. These funds sit on an investment platform provided by Phoenix Life Limited.

The Trust monitors the underlying risks through annual investment reviews with Alliance Bernstein.

Credit Risk

The DC Section is subject to direct credit risk in unit linked insurance funds provided by Phoenix Life Limited.

The DC Section is also subject to indirect credit and market risk arising from the underlying investments held in the Target Date Fund, Ethical Target Date Funds and self-select options. Member level risk exposures will be dependent on the funds in which members are invested.

Fund	Exposed to:	Credit Risk
Target Date Funds		✓
Ethical Target Date Funds		✓
Diversified Growth Fund		✓
Global Equity Fund		-
SRI Fund		-
Property Fund		✓
Index-Linked Gilts Fund		✓
Bond Fund		✓
Cash Fund		✓

Market Risk

The DC Section is subject to indirect foreign exchange, interest rate and other price risk arising from underlying financial instruments held in the funds on the Phoenix Life Limited platform.

Fund	Exposed to:	Currency Risk	Interest Rate Risk	Other Price Risk
Target Date Funds		✓	✓	✓
Ethical Target Date Funds		✓	✓	✓
Diversified Growth Fund		✓	✓	✓
Global Equity Fund		✓	-	✓
SRI Fund		✓	-	✓
Property Fund		-	-	✓
Index-Linked Gilts Fund		-	✓	-
Bond Fund		-	✓	-
Cash Fund		-	✓	-

28. Fixed Assets

	Freehold Office £m	Computers and Software £m	Equipment and Fittings £m	Total £m
Cost or Valuation				
At beginning of year	7.3	1.3	1.4	10.0
Revaluation	0.2	-	-	0.2
Additions	-	0.1	-	0.1
At end of year	7.5	1.4	1.4	10.3
Accumulated Depreciation				
At beginning of year	-	(1.3)	(1.3)	(2.6)
Charge for year	-	-	-	-
At end of year	-	(1.3)	(1.3)	(2.6)
Net Book Value				
At end of year	7.5	0.1	0.1	7.7
At beginning of year	7.3	-	0.1	7.4

Freehold Office

The freehold office in Leeds is substantially occupied by the Trust. It has been revalued as at 30 September 2017 by an independent valuer, Cluttons LLP, which is a member of the Royal Institution of Chartered Surveyors, on the basis of its estimated open market value for existing use.

If the freehold office had not been revalued, it would have been carried in the Statement of Net Assets at the year-end as:

	2017 £m	2016 £m
Cost	8.1	8.1
Accumulated Depreciation	(3.7)	(3.5)
Net Book Value	4.4	4.6

29. Current Assets

	2017				2016			
	DB £m	Expenses			DB £m	Expenses		
		DC £m	Reserve £m	Total £m		DC £m	Reserve £m	Total £m
Contributions due in respect of:								
Employers	35.8	9.6	-	45.4	35.9	9.2	-	45.1
Employees	1.9	5.0	-	6.9	2.7	5.0	-	7.7
Other Debtors	2.0	-	-	2.0	0.1	-	-	0.1
Prepayments	5.4	-	-	5.4	0.2	-	-	0.2
Cash Balances	142.9	16.5	19.7	179.1	43.6	12.1	13.4	69.1
	188.0	31.1	19.7	238.8	82.5	26.3	13.4	122.2

30. Current Liabilities

	2017			2016		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Unpaid Benefits	13.9	1.3	15.2	4.3	1.4	5.7
Tax Deducted from Pensions	0.2	0.1	0.3	0.5	0.1	0.6
Accrued Expenses	15.0	0.1	15.1	13.5	-	13.5
Other Creditors	1.9	-	1.9	2.0	0.2	2.2
	31.0	1.5	32.5	20.3	1.7	22.0

Included within Other Creditors is an amount owing to The Pensions Trust 2016 £12.7k (2016: nil). This represents cash balances held within the joint bank account. This is the first year this agreement has been in place.

31. Related Party Transactions

Trustee-Related

Contributions received in respect of Trustees who are members of a Trust pension scheme have been made in accordance with the Trust Deed and Rules.

Fees and expenses of £258k (2016: £214k) were paid to the Trustee and Directors.

Employer-Related

The Trust invests in various housing bonds, whose underlying borrowers are drawn from a pool of registered social landlords. The names of the actual borrowers are not disclosed and can vary over time. Given the number of registered social landlords that participate in the Trust's pension schemes, it is possible that these are technically Employer-Related investments. The value of the Trust's holdings in these bonds at 30 September 2017 was £22.8m (2016: £19.1m), which represents less than 1% of the Trust's net assets.

The Trust has a holding in a pooled investment vehicle that invests in UK properties. One of the properties within this pooled investment vehicle is leased to the sponsoring employer of one of the Trust's DB schemes. The value of the Trust's holding in this pooled investment vehicle at 30 September 2017 was £116.5m (2016: £104.7m), which represents less than 2% of the Trust's net assets.

Employer-Related Investments include contributions that were received later than the due date set out on the Schedule of Contributions or Payment Schedule. As at 30 September 2017 there was £2.1m of outstanding contributions that were received late, this included defined benefit employer normal, employee normal and deficit funding contributions. The value of late contributions outstanding at the year-end date represents less than 0.1% of the Trust's net assets.

The Trust occupies part of Verity House, Leeds. The Trust owns the freehold of this office building. The full value of this building is included in fixed assets at a revalued amount of £7.5m being 0.1% of the net assets of the Trust. Not more than 5% of the current market value of the Trust may at any time be Employer-Related investments as defined in Section 40 of the Pensions Act 1995. Pension contributions in respect of the Trust's employees are included in notes 5 and 12.

The Pensions Trust 2016

The Trustee, Verity Trustees Limited, is also the Trustee of The Pensions Trust 2016. All of the Trustee directors serve as Trustee for each scheme.

As at 30 September 2017, the Trust had a creditor of £12.7k (2016: nil) owing to The Pensions Trust 2016. This represents cash balances held within the joint bank account. As at 30 September 2017 the Trust had a debtor of £1.6m owing from The Pensions Trust 2016 in respect of a cash balance held with the custodian.

The Trust received £65.6k (2016: nil) in the period from The Pensions Trust 2016 in respect of the administration and management of the Scheme.

The Trust received £62.4k (2016: nil) in the period from The Pensions Trust 2016 in respect of the administration, management and custody of its investments.

The Pensions Trust and The Pensions Trust 2016 are the only investors in two (2016: Nil) PIVs managed by BlackRock.

32. Contingencies and Commitments

As at 30 September 2017 the Trust held 31 (2016: 37) contingent assets in relation to 29 employers (2016: 38 employers) that participate in, or used to participate in, the various schemes administered by the Trust. These contingent assets comprise charges on property, company guarantees, bank guarantees and escrow accounts. The contingent assets relate to the admission and continued participation of certain employers in the Trust's schemes, to the apportionment of withdrawing employers' share of the deficit to other participating employers within the same scheme or to provide security to support an extended recovery plan. The circumstances in which these assets will become the property of the Trust are set out in agreements with the relevant employers.

As at the 30 September 2017 the Trust had no contingent liabilities (2016: £nil).

The Trust has decided to invest €84.8m (£73.4m) in an infrastructure fund, managed by Meridiam Infrastructure Managers. As at 30 September 2017 €74.2m (£65.4m) had been drawn down (2016: £43.1m). The balance of the commitment can be drawn down by the manager when required to fund purchases and costs.

33. Operating Lease Commitments

Below is the total of future minimum lease payments under non-cancellable operating leases analysed by period.

	2017	2016
	£m	£m
Under one year	0.1	0.1
Between one year and five years	0.1	0.3
Over five years	-	-

34. Subsequent Events

There were no subsequent events requiring disclosure in the Financial Statements.

35. Scheme Balances

	2017	2016
	£m	£m
Defined Benefit (DB) Multi-Employer Schemes – Non-associated Employers		
Northern Ireland Charities Pension Scheme ²	28.1	29.4
Scottish Housing Associations' Pension Scheme ⁴	851.4	810.6
Scottish Voluntary Sector Pension Scheme ²	120.0	121.9
Social Housing Pension Scheme ⁴	4,553.3	4,352.7
CARE Scheme ^{2,4}	59.6	60.4
Growth Plan Series 1, 2 and 3 ²	796.7	900.0
Independent Schools' Pension Scheme ⁴	149.4	151.6
	6,558.5	6,426.6
Defined Benefit (DB) Multi-Employer Schemes – Associated Employers		
Methodist Homes for the Aged Final Salary Pension Scheme ²	49.9	49.4
Oxfam Pension Scheme ¹	183.5	169.3
Royal College of Nursing of the United Kingdom Pension Scheme ¹	291.1	273.7
Sanctuary Housing Association Final Salary Pension Scheme ¹	215.6	208.3
United Reformed Church Final Salary Scheme	24.8	23.0
Radian Group Limited Pension Scheme ¹	70.0	63.5
Clarion Housing Group Pension Scheme ²	99.2	90.7
Workers' Educational Association Pension Scheme	33.2	32.7
	967.3	910.6

	2017	2016
	£m	£m
Defined Benefit (DB) – Single Employer Schemes		
Action for Blind People Final Salary Pension Scheme ¹	14.6	14.7
Anchor Trust Final Salary Scheme ²	195.8	186.8
Arthritis Care Pension Scheme ²	12.1	11.7
Christian Aid Final Salary Scheme (1988) ²	78.0	71.5
Council for World Mission Final Salary Scheme ⁵	-	6.4
Edward James Foundation Pension Scheme ⁵	-	0.3
The Genesis Pension Scheme ⁴	41.5	39.9
Independent Age Final Salary Scheme ¹	19.9	18.8
Leonard Cheshire Disability Group Pension Scheme ¹	65.5	63.5
Manchester Grammar School Pension Scheme ^{2,6}	10.0	-
MIND (The National Association for Mental Health) Final Salary Scheme ²	11.1	10.8
National Council for Voluntary Organisations Final Salary Pension Scheme ²	24.0	23.5
Paddington Churches Housing Association 2001 Pension Scheme ²	47.8	46.9
Royal National College for the Blind Defined Benefit Scheme ²	14.5	14.7
SeeABILITY Pension Scheme ²	15.8	15.8
Stonham Final Salary Pension Scheme ¹	61.0	57.8
The Harpur Trust Pension Scheme for Non-Teaching Staff ¹	29.7	28.7
The Children’s Society Pension Scheme ¹	138.3	138.3
The Livability Final Salary Pension Scheme ²	30.3	29.3
The Oxford Diocesan Board of Finance Staff Retirement Benefit Scheme ¹	17.2	16.8
The Save the Children Defined Benefit Scheme ²	154.5	143.2
The Together Trust Final Salary Scheme ²	8.4	8.2
The Winchester College Support Staff Pension Scheme ²	20.8	20.7
YHA (England & Wales) Pension Scheme ²	20.1	20.2
	1,030.9	988.5
Total Defined Benefit Schemes	8,556.7	8,325.7

	2017	2016
	£m	£m
Defined Contribution (DC) Schemes		
Flexible Retirement Plan ³	225.7	182.7
Growth Plan Series 4 ³	253.6	209.8
Scottish Housing Associations' Pension Scheme ⁴	41.7	26.8
Social Housing Pension Scheme ⁴	340.2	227.8
Independent Schools' Pension Scheme ⁴	8.5	5.0
CARE Scheme ⁴	5.8	5.6
The Genesis Pension Scheme ⁴	11.1	8.1
Ethical Fund ³	131.9	124.7
Total Defined Contribution Schemes	1,018.5	790.5
DB Schemes	8,556.7	8,325.7
DC Schemes	1,018.5	790.5
Expenses Reserve Account	19.7	13.4
	9,594.9	9,129.6

¹ Closed to new entrants

² Closed to future benefit accrual

³ Investments are allocated to individual members

⁴ Schemes within the Trust that include both DB and DC liabilities

⁵ Scheme completed wind-up

⁶ Bulk transfer

Expenses Reserve Account

The Trust operates an Expenses Reserve Account to ensure that administrative and investment management expenses are allocated to individual schemes on a smoothed basis. All administrative and investment management expenses incurred by the Trust are charged to this account prior to allocation to individual schemes.

	2017	2016
	£m	£m
Administrative expenses incurred during the year (note 12)	(19.1)	(19.1)
Administrative expenses allocated during the year	17.9	17.8
Investment management expenses incurred during the year (note 15)	(50.5)	(28.6)
Investment management expenses allocated during the year	50.0	28.3
Life Assurance Income (note 7)	7.8	-
Life Assurance Premiums (note 11)	(4.9)	-
Other income (note 9)	5.1	4.7
Net transfer to the Expenses Reserve Account during the year	6.3	3.1
Balance brought forward	13.4	10.3
Balance carried forward	19.7	13.4

Summary of Actuarial Certificates

The Pensions Trust is a multi-employer pension provider. The Trust's actuary has signed actuarial certificates for all the Trust's pension schemes.

Each pension scheme actuarial certificate contains the following two statements from the actuary together with the signature and details of the actuary.

Statement 1 I certify that, in my opinion, the calculation of the scheme's technical provisions as at 30 September 201X is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the scheme and set out in the statement of funding principles dated (i.e. signed on behalf of the Trustee on [Date]).

Statement 2 **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 30 September 201X to be met by the end of the period specified in the recovery plan dated (i.e. signed on behalf of the Trustee on [Date]).

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 (i.e. signed on behalf of the Trustee on [Date]).
The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

The dates of the last triennial actuarial valuation and the dates of the actuary's certification of that valuation for each pension scheme are listed below.

Scheme	Year of Triennial Valuation as at 30 September	Date of Certificate	Date of actuarial update
Action for Blind People Final Salary Pension Scheme	2014	6 November 2015	30 September 2016
Anchor Trust Final Salary Scheme	2015	12 December 2016	30 September 2016
Arthritis Care Pension Scheme	2015	11 October 2016	30 September 2016
CARE Scheme	2016	12 December 2017	N/A
Christian Aid Final Salary Scheme (1988)	2014	23 December 2015	30 September 2016
Council for World Mission Final Salary Scheme*	2012	29 November 2013	30 September 2014
Growth Plan Series 1, 2 and 3	2014	21 December 2015	30 September 2016
Independent Schools' Pension Scheme	2014	18 December 2015	30 September 2016
Independent Age Final Salary Scheme	2016	19 December 2017	N/A
Leonard Cheshire Disability Group Pension Scheme	2015	14 November 2016	30 September 2016
Manchester Grammar Pension Scheme	2017	N/A**	N/A
Methodist Homes for the Aged Final Salary Pension Scheme	2016	23 May 2017	N/A
MIND (The National Association for Mental Health) Final Salary Scheme	2016	15 December 2017	N/A
National Council for Voluntary Organisations Final Salary Pension Scheme	2016	1 August 2017	N/A
Northern Ireland Charities Pension Scheme	2016	6 November 2017	N/A
Oxfam Pension Scheme	2016	29 December 2017	N/A
Paddington Churches Housing Association 2001 Pension Scheme	2016	15 December 2017	N/A
Radian Group Limited Pension Scheme	2016	12 December 2017	N/A

Scheme	Year of Triennial Valuation as at 30 September	Date of Certificate	Date of actuarial update
Royal College of Nursing of the United Kingdom Pension Scheme	2016	15 December 2017	N/A
Royal National College for the Blind Defined Benefit Scheme	2016	21 December 2017	N/A
Sanctuary Housing Association Final Salary Pension Scheme	2016	20 December 2017	N/A
Scottish Housing Associations' Pension Scheme	2015	28 September 2016	30 September 2016
Scottish Voluntary Sector Pension Scheme	2014	18 December 2015	30 September 2016
SeeABILITY Pension Scheme	2014	15 December 2015	30 September 2016
Social Housing Pension Scheme	2014	23 November 2015	30 September 2016
Stonham Final Salary Pension Scheme	2015	6 December 2016	30 September 2016
The Children's Society Pension Scheme	2015	30 September 2016	30 September 2016
The Genesis Pension Scheme	2016	12 December 2017	N/A
The Harpur Trust Pension Scheme for Non-Teaching Staff	2015	17 November 2016	30 September 2016
The Livability Final Salary Pension Scheme	2015	24 October 2016	30 September 2016
The Oxford Diocesan Board of Finance Staff Retirement Benefit Scheme	2014	8 September 2015	30 September 2016
The Save the Children Defined Benefit Scheme	2014	23 December 2015	30 September 2016
The Together Trust Final Salary Scheme	2015	28 December 2016	30 September 2016

Scheme	Year of Triennial Valuation as at 30 September	Date of Certificate	Date of actuarial update
The Winchester College Support Staff Pension Scheme	2014	28 August 2015	30 September 2016
United Reformed Church Final Salary Scheme	2016	21 December 2017	N/A
Clarion Housing Group Pension Scheme	2015	4 November 2016	30 September 2016
Workers' Educational Association Pension Scheme	2014	23 December 2015	30 September 2016
YHA (England & Wales) Pension Scheme	2016	2 August 2017	N/A

*The 30 September 2015 triennial valuation for the Council for World Mission Final Salary Scheme has not been carried out in view of the Trustee's intention to trigger a winding up immediately following the finalisation of a pension annuity buy out with Aviva Life and Pensions UK Limited.

**Valuation to be performed as at 30 September 2017.

Copies of the above certificates are available on request from the contact details on page 2. Individual actuarial certificates will be included in the 2017 annual scheme accounts.



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