

# **Zurich Financial Services UK Pension Scheme**

**Annual report and financial statements for the  
year ended 30 June 2015**

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

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### Welcome from the trustee chairman



Welcome to this year's annual report. The 2014/15 scheme year is arguably the busiest on record for the trustee board. Last summer we were finalising the 30 June 2013 triennial valuation. Then, from October onwards, we had the pension changes proposed by Zurich and Openwork to consider.

### Valuation and scheme funding

We undertake a full scheme valuation every three years, with an annual update in the intervening years. The last full valuation was as at 30 June 2013 and [pages 17 to 20](#) provide more information about the valuation process and results. An important outcome of this valuation is the new financial partnership between the company and the trustees which was put in place on 31 July 2014. We believe this partnership has benefits for both parties and that it achieves the right balance between financing the pension scheme and the capital needs of the business.

### Pension changes

In November 2014, Zurich and Openwork entered into consultation with employees on closing ZPensionBuilder to future accrual and providing all members with ZCashBuilder benefits going forward. While the trustees were not involved in the consultation process, we are required to agree to any rule amendments that are necessary to give effect to the changes. In doing so, the trustees must have regard to the interests of all members and pensioners. The affordability of the pension scheme to the company is also a relevant consideration. Prior to agreeing in principle to the changes we worked extensively with our advisers to test rigorously the financial imperative for change. Having concluded that Zurich and Openwork were able to make an appropriate business case, the most important aspect was balancing the impact on the adversely affected members with the needs of the business. We believe that the final changes and transitional arrangement announced by Zurich and Openwork achieve an acceptable balance.

### Pension flexibilities

You are probably aware that from April 2015 the law changed the way in which people can access their pension savings from defined contribution arrangements like ZCashBuilder. We spent two days participating in a training workshop about these new flexibilities and considered how we can offer them to our members. More information will be available later in the year.

### Investment: ZPensionBuilder and ESExec

The trustees' investment strategy aims to find a balance between risk, control and maintaining growth. Over recent years we have developed a program to reduce the scheme's exposure to changes in interest rates by entering into interest rate swap contracts. Following the valuation and finalisation of the pension changes, the next step for the trustee is a full review of our ZPensionBuilder and ESExec investment strategy and the work on this is currently underway. Please see [pages 21 to 39](#) for more information on the scheme's investments.

### ZCashBuilder

The pension changes will see all active members move to ZCashBuilder on 1 January 2016. Our Regional Support team has been working hard to increase awareness and understanding of ZCashBuilder in recent years, but they will now have a new population of members to educate. During the pension changes consultation the team took the opportunity to research how members prefer to receive communications about their pension. Overwhelmingly, members want the opportunity for face to face communications, so we are currently developing a new communications strategy starting with seminars for all current ZPensionBuilder members who will be moving to ZCashBuilder on 1 January 2016.

### Changes to the board

The three year term of office for the member and pensioner nominated trustees ended in August 2014. Three of the existing member/pensioner nominated trustees, Roy Brimblecombe, Graham Mearns and Alan Wood, put their names forward to continue on the board. All were reappointed along with a new member nominated trustee, Tom McKenna, from 15 August 2014.

In August 2015 Tim Holliday resigned from the board. We thank him for his contribution over the last two years. As Tim was a company nominated director, the sponsoring employer has chosen Simon Clifford (Global Life Head of Proposition Management) as his replacement from 1 November 2015.

In September 2015 Roy Brimblecombe decided to retire from the board. We thank him for his commitment and dedication to the trustee board over many years. To fill the vacancy left by Roy we asked current members and pensioners who wanted to be considered for the trustee board to put themselves forward. Shortlisted candidates attended an assessment day in July 2015 designed to measure aptitude for the trustee role. Successful candidates attended a final interview and Anna Fleming, Programme Director, Claims has been appointed to the board from 1 October 2015.

### Recognition

In recent years our scheme has won many industry awards and this year has been no exception.

2015 started with the ZPen team winning the **Best Pensions Administration** category at the Pensions Age Awards, later in the year the team also won the **Team Excellence in Administration** category at the Engaged Investor awards.



In addition, at the 2015 Pension Scheme of the Year Awards the ZPen team were highly commended in the **Best Administration** category and the scheme was also a finalist in the **Best DC Communication Strategy** category.



Congratulations to them!

Finally, I hope you enjoy reading this year's report and find it useful and informative. If you have any comments or queries please contact David Lidbury (Customer Services Manager) or Claire Calo (Scheme Secretary) at the address on [page 6](#). And don't forget to keep up to date by visiting our website [www.zpen.info](http://www.zpen.info) on a regular basis.

**Paul Trickett**  
**(Chair)**

### Trustees' report

#### How the scheme is managed

##### Trustee board

This pension scheme is set up under trust, which ensures legal separation of the pension scheme's assets from Zurich Insurance Group's assets. In this document, when we refer to Zurich we mean the group of companies that make up the Zurich Insurance Group, and when we refer to the company we mean the sponsoring company (see [page 10](#)) and the employers.

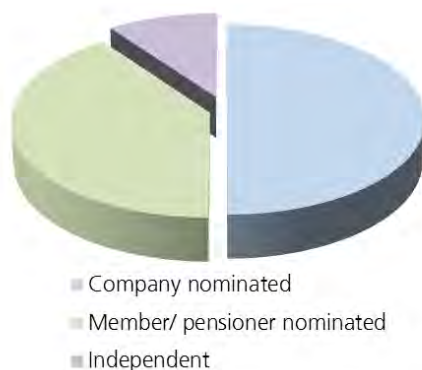
The trustee company, Zurich Financial Services UK Pension Trustee Ltd, is responsible for managing the trust. Each trustee company director (usually referred to as a "trustee") has a legal duty to run the scheme in accordance with the governing trust deed and rules for the benefit of members and their dependants.

Under the trustee company's constitution there must always be between eight and ten trustees, including:

- four member trustees, and
- one independent trustee.

The remaining trustees are nominated by the company. The trustee board can operate with vacancies, which does happen from time to time when people leave. The trustee board follows Zurich group and industry best practice, but operates quite independently.

**ZPen trustee board at 30 June 2015**



##### Terms of office

The member and independent trustees are all appointed for three year terms (unless they choose to resign before this) provided that they continue to be eligible. At the end of the three years they can choose to stand for selection again.

Trustees nominated by the company do not have fixed terms of office and continue as trustees until they resign or the company removes them.

Any trustee will stop being a trustee immediately if they are prohibited by law from acting as a trustee or a company director.

##### Selecting member trustees

The trustees have agreed a process for the nomination and selection of member trustees. The current process is that, every three years, employee and pensioner members are asked to put themselves forward if they would like to be a member trustee. These applications are reviewed by the UK Head of Pensions and Benefits and various employee representative bodies within the Zurich group of companies in the UK, including recognised unions. Following the initial review a shortlist of candidates is created.

The trustee board puts the shortlisted candidates through a selection procedure to ensure they have the necessary skills and aptitude to be trustees. This includes a specifically designed assessment centre and competency based interviews: the focus is on critical thinking, analytical and decision making skills and team working. The selection process was run in 2014 and again in 2015 due to the resignation of Roy Brimblecombe.

##### Changes to the trustee board

<i>Roy Brimblecombe</i> <i>Pensioner nominated</i>	Re-appointed 15 August 2014 Resigned 30 September 2015
Graham Mearns <i>Pensioner nominated</i>	Re-appointed 15 August 2014
Tom McKenna <i>Member nominated</i>	Appointed 15 August 2014
Alan Wood <i>Member nominated</i>	Re-appointed 15 August 2014
<i>Tim Holliday</i> <i>Company nominated</i>	Resigned 31 August 2015
<i>Simon Clifford</i> <i>Company nominated</i>	Appointed 1 November 2015
Anna Fleming <i>Member nominated</i>	Appointed 1 October 2015

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Trustees



**Paul Trickett**  
(Chair)



**Roy Brimblecombe CBE**  
former Chief Actuary for  
Eagle Star  
*Re-appointed 15 August 2014*  
*Resigned 30 September 2015*



**Tom McKenna**  
Engineer Surveyor  
*Appointed 15 August 2014*



**Graham Mearns**  
former Risk manager for  
Openwork  
*Re-appointed 15 August 2014*



**BESTrustees**  
Represented by  
Clive Gilchrist  
Deputy Chair, BESTrustees



**Anna Fleming**  
Programme Director, Claims  
*Appointed 1 October 2015*



**Gillian Mitchell**  
Group Head of Pensions &  
Benefits



**Alan Wood**  
General Secretary  
UFS  
*Re-appointed 15 August 2014*



**Simon Clifford**  
Global Life Head of  
Proposition Management  
*Appointed 1 November 2015*





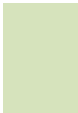
**Dave Hodges**  
Client Relations Director  
Zurich Corporate Savings



**Tim Holliday**  
Managing Director  
Personal Lines & Endsleigh  
*Resigned 31 August 2015*



**Christian Jochum**  
Head of Regional  
Investment Management  
Europe

-  Company nominated
-  Independent trustee
-  Member/pensioner nominated



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Contacts



Emma Skuse  
Head of UK Pensions & Benefits



UK Pensions & Benefits

### **For general information and individual benefit enquiries:**

David Lidbury, Customer Services Manager  
UK Pensions & Benefits  
Zurich  
The Grange  
Bishop's Cleeve  
Cheltenham  
Glos, GL52 8XX

### **To contact the trustees:**

Claire Calo, Scheme Secretary  
UK Pensions & Benefits  
Zurich  
The Grange  
Bishop's Cleeve  
Cheltenham  
Glos, GL52 8XX

Further details on how to contact us are on on page 15.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Trustees' advisers

#### Investment managers

ZCashBuilder

Zurich Assurance Ltd



ZPensionBuilder

M & G Investments



ZPensionBuilder & EExec

Columbia Threadneedle (Previously Threadneedle Pensions Ltd)



#### Custodian & investment performance

ZPensionBuilder & EExec

The Northern Trust Company



#### Investment advisers

Hymans Robertson



#### Investment analysts

Zurich Insurance Company, Investment Management



#### Pricing agent

Goldman Sachs



#### Scheme actuary

Mark Howard FIA, Barnett Waddingham LLP



#### Independent auditors

PricewaterhouseCoopers LLP



#### Solicitors

Simmons & Simmons LLP



#### Insurance company

Zurich Assurance Ltd



#### Customer services

ZPensionBuilder

UK Pensions & Benefits, Zurich



ZCashBuilder & pensioner payroll

RPMI



#### Bankers

Lloyds TSB Bank plc

The Royal Bank of Scotland plc

#### Trustee company secretary

Ian Ritchie, Zurich (until 21/9/2014)

Ann Blundell, Zurich (from 16/12/2013 until 21/9/2014)

Zurich Corporate Secretary (UK) Limited  
(from 22/9/2014)

#### Scheme secretaries

Gwyneth Lloyd, Zurich (until 31/5/2015)

Claire Calo, Zurich



### Trustees' responsibilities

The trustees have a responsibility for managing the scheme through appropriate internal controls to:

- safeguard the scheme's assets;
- ensure that adequate accounting records are kept; and
- prevent and detect fraud and other irregularities.

The trustees must make information about the scheme available to members in an annual report.

The trustees are responsible for the maintenance and integrity of the scheme's website, [www.zpen.info](http://www.zpen.info).

### Trustees' report and financial statements

The trustees have to prepare audited financial statements for each scheme year and make these available to scheme members and their dependants. These financial statements must:

- show a "true and fair view" in law<sup>1</sup> of the scheme's financial transactions during the scheme year, and
- show the amount of scheme assets at the end of the scheme year, and how these are invested, and
- show details of the scheme's liabilities at the end of the scheme year - other than the money needed to pay pensions and benefits in the future, and
- contain the information specified in law<sup>2</sup> relating to the preparation of financial statements for occupational pension schemes, and
- include a statement on whether the financial statements have been prepared in accordance with the relevant accounting practice<sup>3</sup>.

The trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

### Pension scheme contributions

The trustees have a legal duty to ensure that a schedule of contributions is prepared, maintained and, from time to time, revised. This schedule must show:

- the rates of contributions (other than voluntary contributions) payable to the

scheme by or on behalf of the employers and the active members, and

- the payment dates for these contributions.

The trustees must also:

- keep records of contributions received from active members, and
- monitor whether employers are making contributions to the scheme in accordance with the schedule of contributions.

If contributions are not made correctly, the trustees are required by law<sup>4</sup> to consider making reports to the Pensions Regulator and to members.

### Conflicts of interest and duty

The trustees have a formal policy and procedure on managing conflicts of interest and duty which complies with Companies Act 2006 requirements.

All trustees must declare any "interests" – that is directorships or other situations where they have (or could potentially have) an interest that conflicts with the interests of the trustee company. For example, a trustee might also be a director of a Zurich company and/or be a member of the scheme. These interests must then be formally authorised by the trustee board to enable the trustees to continue to participate in discussions and decision making. All authorised interests are maintained in a formal register which is reviewed at the start of every trustee meeting.

### Managing conflicts

The trustees must still manage conflicts even where the particular situation has been authorised. The trustees' policy states that:

- if a trustee is conflicted on a particular matter they will usually not take part in any decision on that matter;
- where there is acute conflict, the trustee or adviser may withdraw from any discussions relating to the matter.

The policy also describes trustees' obligations on how to handle confidential information acquired in their trustee role and in other roles.

Trustees are not permitted to accept any improper gift, entertainment or similar benefit in relation to actual or prospective business matters.

### Conflicts between ZPen and ESExec sections

If the trustee board has a conflict between the interests of the ZPen section and the interests of the ESExec section, a committee can be formed to consider the matter from the ESExec point of view.

<sup>1</sup> United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

<sup>2</sup> Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996

<sup>3</sup> Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007)

<sup>4</sup> Pensions Acts 1995 and 2004

### Trustee knowledge and understanding

By law<sup>5</sup>, trustees must have enough knowledge and understanding to be able to carry out their function effectively. This requirement is reinforced by the Pensions Regulator (the Regulator), who has set out his expectations for trustee knowledge and understanding (TKU) in a Code of Practice.

The scheme trustee board has a formal policy on TKU, and this is regularly reviewed to ensure continued compliance with the Regulator's requirements. New trustees attend introductory training and must complete the Regulator's training course, the "trustee toolkit", within six months of appointment. The "trustee toolkit" introduced new modules in 2014, which the trustees are currently in the process of completing.

All trustees have formal annual assessments which review TKU and set development objectives. These objectives are met through tailored training programmes which use a variety of training tools, including interactive workshop sessions, seminars and individual study. Use is made of in house expertise and the trustees' own advisers as well as external training programmes and seminars.

The trustees also carry out formal board reviews which look at the effectiveness of the board as a whole. The last formal review was completed in March 2013 and the next is due towards the end of 2015.

At least once a year the trustees set aside a day for team development, facilitated by in house and external expertise. This year the trustees spent two training "Away Days" using a workshop format, focusing on the new DC pensions flexibilities introduced by the Government in April 2015.

Every year the trustees also spend a day, usually in November, reassessing the pension scheme's risk framework and agreeing priorities for the scheme business plan.

### How the scheme is structured

#### A brief history of the scheme

This pension scheme was established in the 1950s to provide pension benefits for Eagle Star's UK staff. Over the years, as the company has changed with acquisitions and mergers, various different pension arrangements have been moved into the trust creating the scheme we have today, which is Zurich's staff pension scheme in the UK and the largest employee pension scheme throughout Zurich globally.

In 2001, the Allied Dunbar and Zurich Insurance pension schemes were transferred into the trust, at which point the scheme changed its name to the Zurich Financial Services UK Pension Scheme. Members kept their existing benefits within what we

now call the old scheme tiers - AD, ES and ZI. From 1 October 2000, new joiners came into a new benefit tier called Tier 2000 (T2K).

The old scheme tiers (including T2K) were all what is known as "defined benefit" or "final salary" benefits: that is, the final emerging pension is calculated by reference to service and pensionable salary close to leaving or retirement.

In 2007, after a period of consultation with employees, the old scheme tiers were closed and existing members were given the choice of joining ZPensionBuilder or ZCashBuilder. ZPensionBuilder is also "final salary" but on a more simplified basis than the old scheme structure. ZCashBuilder is a "defined contribution" or "money purchase scheme", where the final benefits depend on how much has been paid in, what the investment returns have been and how much it costs to buy a pension when you retire. Since April 2007 new members come straight into ZCashBuilder.

In 2005, the old Gresham Trust plc Pension and Assurance Scheme merged with the scheme and in April 2009 the former Eagle Star Executives' pension scheme transferred across as an entirely standalone section. During 2009 and 2010 some former members of the Zurich Financial Services UK Supplementary Pension Scheme (a top up arrangement for former AD members) transferred their funds into the trust. The following diagram shows the scheme in its current form. Note that AVCs<sup>6</sup> paid before 1 April 2007 are now accounted for under ZCashBuilder but the investments have not changed.

In April 2015, following consultation with employees, the company announced its intention to close ZPensionBuilder to future accrual on 31 December 2015. From 1 January 2016, all active members will be in ZCashBuilder.

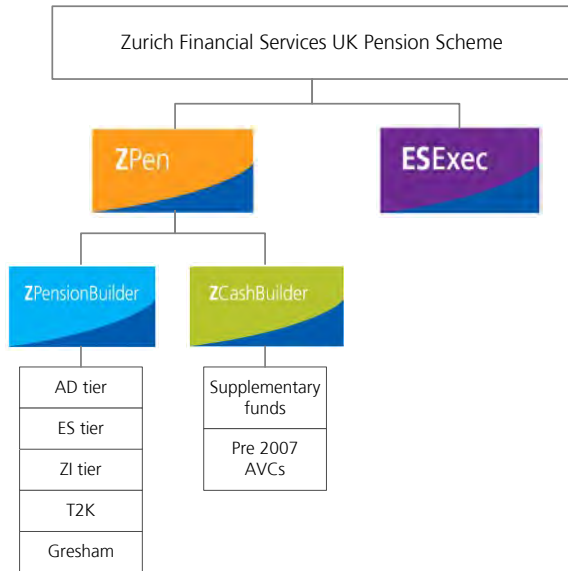
<sup>5</sup> Pensions Act 2004

<sup>6</sup> Additional Voluntary Contributions

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Scheme structure



Importantly, assets cannot be moved between the ZPensionBuilder, ZCashBuilder and ESExec sections in order to meet any funding deficits – all these monies are ring fenced for the members in those sections.

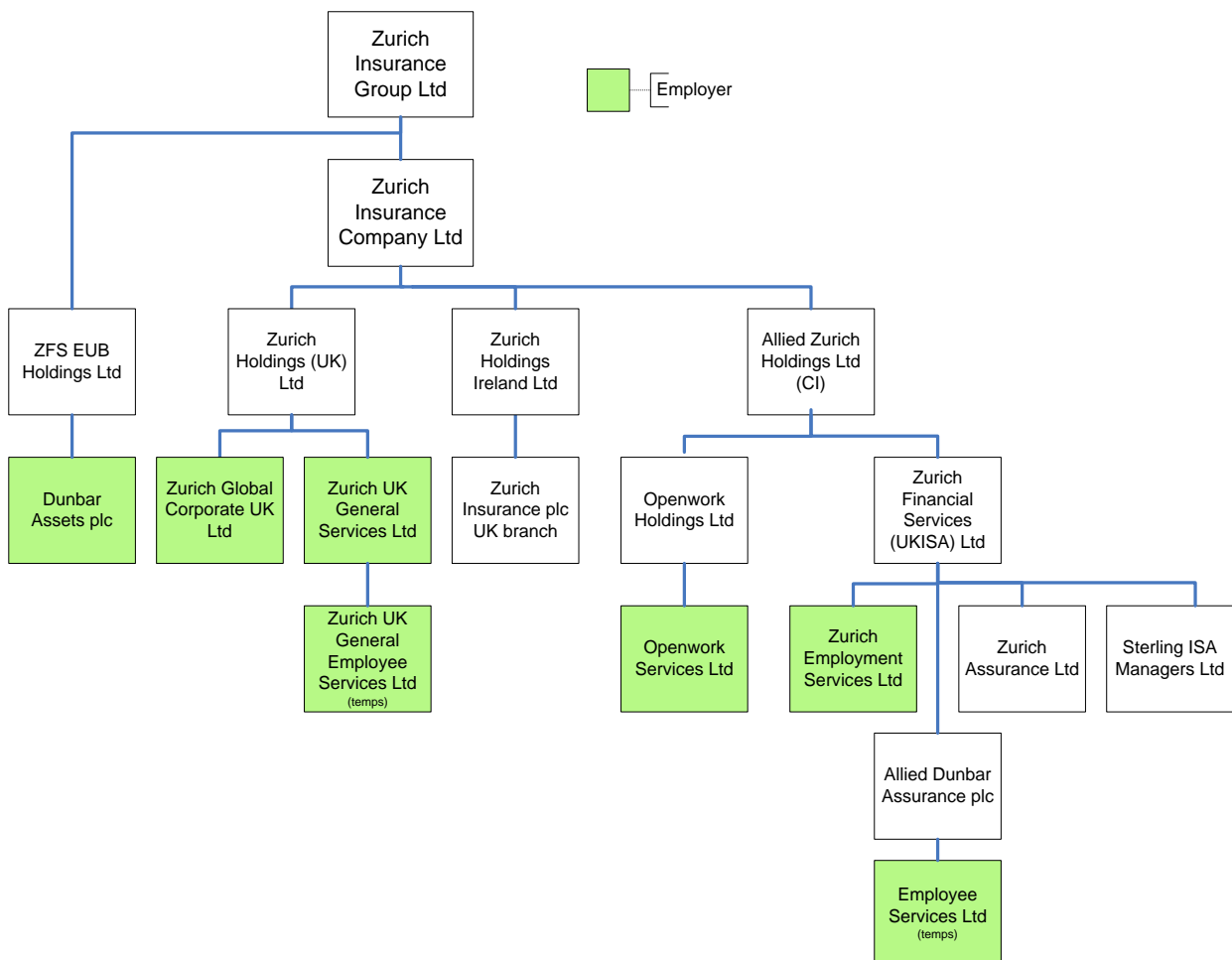
### The trustee company

The trustee company, Zurich Financial Services UK Pension Trustee Limited, has 100 shares. Zurich Financial Services (UKISA) Limited holds 99 of these and the remaining share is held by Capita Fiduciary Group. The share held by Capita Fiduciary Group is a 'golden share'. Any amendment to the Articles of Association for the trustee company requires the consent of the golden shareholder.

Zurich Financial Services (UKISA) Limited appoints all of the trustee company directors, although the appointment or removal of the independent trustee company director requires the consent of the golden shareholder.

### The sponsoring company

The company responsible for the scheme is Zurich Financial Services (UKISA) Limited. Zurich Financial Services (UKISA) Limited is a UK holding company. Only UK employing companies participate in the scheme. The chart below shows a simplified structure of the employers within the UK businesses. The Union of Finance Staff (UFS) also participates in the scheme.



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Overview of the scheme year

#### Activities during the year: trustee meetings

The trustees meet as a full board at least four times a year, as well as a day to review the risk framework and agree priorities for the scheme business plan. An additional meeting is set aside for training and development. The trustees also meet from time to time in committees to consider, amongst other things, discretionary,

administrative and investment issues. They will usually act by consensus, although they do each have one vote, should the need arise. The Chairman does not have a casting vote.

The trustees keep an attendance record and attendance at the board and other committee meetings during the scheme year was as shown in the table below. There were more meetings than normal this scheme year due to additional consideration of the triennial valuation and also the pension proposals from the sponsoring employer

#### Meetings this scheme year

<b>July 2014</b>	Board meeting: <i>valuation</i>
<b>August 2014</b>	Board meeting: <i>valuation</i>
<b>September 2014</b>	Funding committee: <i>investment &amp; valuation</i> Quarterly board meeting
<b>October 2014</b>	Board meeting: <i>risk review</i>
<b>November 2014</b>	Pensions proposals sub-committee (2 meetings)
<b>December 2014</b>	Pensions proposals sub-committee (2 meetings) Quarterly board meeting Funding committee: <i>investment &amp; valuation</i>
<b>January 2015</b>	Pensions proposals sub-committee (2 meetings) Funding committee: <i>investment &amp; valuation</i>
<b>February 2015</b>	Pensions proposals sub-committee (3 meetings)
<b>March 2015</b>	Pensions proposals sub-committee (4 meetings)
<b>April 2015</b>	Funding committee: <i>investment &amp; valuation</i> Quarterly board meeting
<b>May 2015</b>	Trustee training day (2 days)
<b>June 2015</b>	Quarterly board meeting

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Meeting attendance this scheme year

	Trustee board Including quarterly board meetings, risk day and trustee training	Funding Committee	
Paul Trickett	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	<b>Key</b> <span style="color: blue;">■</span> attended <span style="color: lightblue;">■</span> did not attend <span style="color: gray;">■</span> attendance not required
Roy Brimblecombe	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Clive Gilchrist	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Dave Hodges	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Tim Holliday	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Christian Jochum	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Tom McKenna	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Graham Mearns	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Gillian Mitchell	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	
Alan Wood	■ ■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■	

Please note that Christian Jochum attended funding committee meetings in his capacity as investment adviser prior to becoming a trustee member of the committee.

A sub-group of the trustees also met an additional 13 times between October 2014 and April 2015, to discuss the pension proposals.

### Changes made in the scheme year

In November 2014, Zurich and Openwork entered into consultation with their employees on closing ZPensionBuilder to future accrual and providing all members with ZCashBuilder benefits going forward. The trustees were not involved in the consultation process, but were required to agree to any rule amendments necessary to give effect to the changes. After working extensively with their advisers to test rigorously the financial imperative for change, the trustees agreed in principle to the changes. They believe that the final changes and transitional arrangement (applicable to Zurich employees) announced by Zurich and Openwork achieve an acceptable balance.

The majority of the pension scheme changes will not come in until 1 January 2016. However, as part of the transitional arrangements agreed for Zurich employees, all ZCashBuilder members will receive at least a 12% contribution from the company with effect from 1 July 2015. ZCashBuilder members currently on 14% or due to receive 14% on 1 January 2016 will continue to do so until 31 March 2016.

In addition, from 1 July 2015 any members who leave with less than 2 years' qualifying service will be able to leave their benefits in ZCashBuilder until they either take their pension benefits or elect to transfer them elsewhere.

These changes have been reflected in a Deed of Amendment executed on 25 June 2015.

On 31 December 2015, ZPensionBuilder will close to future accrual and all active ZPensionBuilder members will join ZCashBuilder. Benefits earned in ZPensionBuilder up to 31 December 2015 will continue to be linked to final pensionable salary until members leave or take their pension, whichever is sooner. From 1 January 2016 to 31 March 2016, Zurich employees moving from ZPensionBuilder to ZCashBuilder will receive the current ZCashBuilder+ age related contributions rates from the company. From 1 April 2016, the transitional arrangements for Zurich employees will end and the company will pay 12% of pensionable salary to ZCashBuilder for all Zurich members.

From 1 January 2016 Openwork will pay 5% of pensionable salary for Openwork employees and match any employee salary sacrifice up to a further 5% of pensionable salary.

In addition to the changes to the pension benefit, Zurich and Openwork also offering members the option to switch to new style death in service benefits that will be introduced for new starters to Zurich and Openwork from 1 January 2016. Details of this option will be provided towards the end of this year.

### Pension flexibilities

In April 2015, the law changed the way in which people can access their pension savings from defined contribution arrangements like ZCashBuilder. This means that many people will be able to take cash from their pension how and

when they like without having to purchase a fixed income for life (annuity). The trustees spent two days participating in a training workshop about these new flexibilities and considered how they can be offered to members. More information will be available later in the year. As part of this work the trustees are also considering how the default ZCashBuilder investment strategies will need to change to reflect the new options.

### **Financial statements**

The financial statements for the year are set out on [pages 42 to 58](#) and scheme membership details are on [page 14](#).

The trustees confirm that the financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

### **Scheme running costs**

A budget for scheme expenses is agreed by the trustee on an annual basis and actual spend against budget is monitored throughout the year.

As detailed in note 10 of the financial statements scheme expenses for the year ended 30 June 2015 amounted to £6m (2014: £4.7m) of which £2.4m (2014: £1.4m) was a payment of the Pension Protection Fund Levy. The remaining £3.6m (2014:£3.3m) is in respect of the expenses of running the scheme and includes scheme management and administration, actuarial fees, legal fees, audit fees and investment advisory fees. In addition the scheme incurred investment management expenses as detailed in note 13 of the financial statements amounting to £9.4 million for the year ended 30 June 2015 (2014:£8.5m).

During the year ended 30 June 2015 the scheme received a contribution from the employers totalling £4.4 million (2014:£4.4 million) towards the expenses of running the scheme.

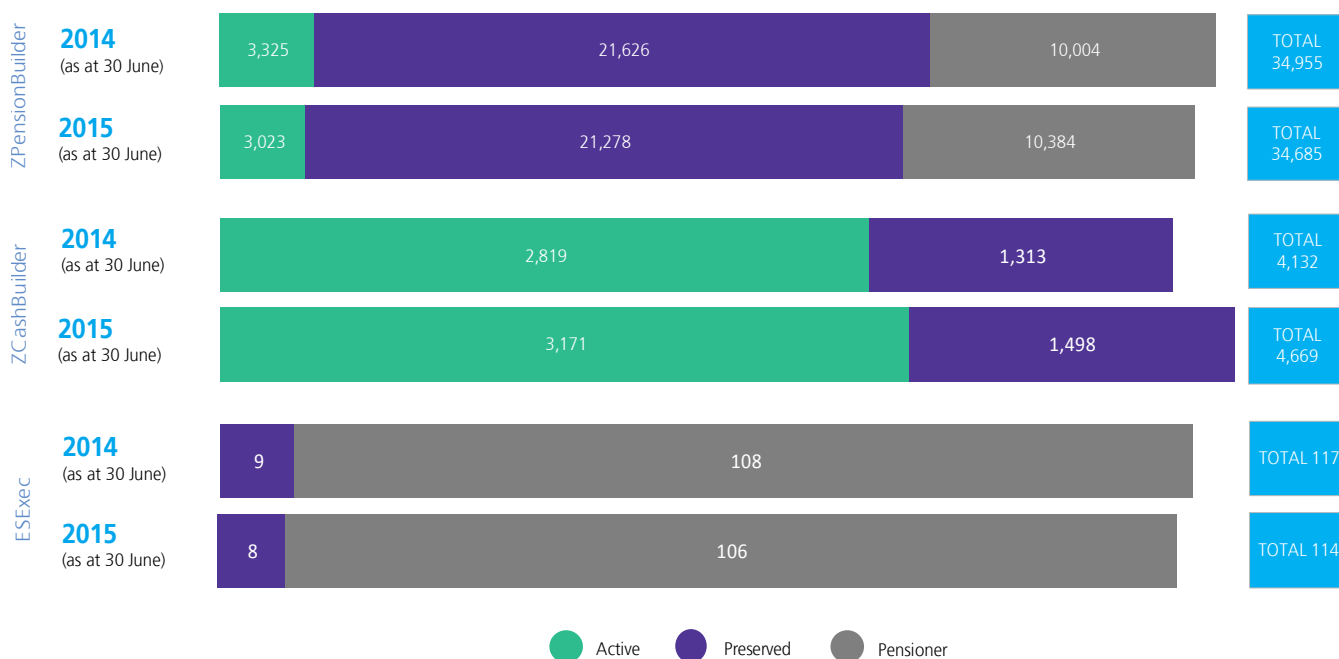


# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Membership details

The change in membership of the scheme is given below



		Active				Former Employees with Preserved Benefits						Pensioners		
		Total	ZPB	ZCB+	ZCB	Total	ZPB	ZCB+	ZCB	ZCB Awaiting Decisions	ES Exec	Total	Zpen	ES Exec
<b>Balance at start of year</b>	<b>39,204</b>	<b>6,144</b>	<b>3,325</b>	<b>120</b>	<b>2,699</b>	<b>22,948</b>	<b>21,626</b>	<b>273</b>	<b>955</b>	<b>85</b>	<b>9</b>	<b>10,112</b>	<b>10,004</b>	<b>108</b>
Retrospective adjustments	7	7	1	(1)	12	9	-	3	-	-	2	2	-	
New Joiners	789	1	-	788	-	-	-	-	-	-	-	-	-	
Switches	-	(20)	20	-	-	-	-	-	-	-	-	-	-	
Leavers with preserved benefits	(475)	(185)	(19)	(271)	475	185	19	271	-	-	-	-	-	
Leavers awaiting decisions	(46)	-	-	(46)	46	-	-	-	46	-	-	-	-	
Leavers with less than two years service	(75)	-	-	(75)	(52)	-	-	-	(52)	-	-	-	-	
Leavers transferred out	(36)	-	-	(36)	(210)	(118)	(5)	(52)	(34)	(1)	-	-	-	
Deaths	(2)	(2)	-	-	(16)	(16)	-	-	-	-	(210)	(207)	(3)	
Retirements	(112)	(103)	(7)	(2)	(419)	(408)	(7)	(4)	-	-	531	531	-	
Partial benefits taken	-	-	-	-	-	-	-	-	-	-	33	33	-	
Pension ceased	-	-	-	-	-	-	-	-	-	-	(59)	(59)	-	
Dependant pensioners	-	-	-	-	-	-	-	-	-	-	81	80	1	
<b>Balance at 30 June</b>	<b>39,468</b>	<b>6,194</b>	<b>3,023</b>	<b>115</b>	<b>3,056</b>	<b>22,784</b>	<b>21,278</b>	<b>280</b>	<b>1,173</b>	<b>45</b>	<b>8</b>	<b>10,490</b>	<b>10,384</b>	<b>106</b>

ZCB+ is in respect of ZPB members who have switched to ZCB.  
Retrospective adjustments reflect changes due to late notification.  
The new joiner in ZPB relates to returning expatriate.

### Customer services

#### Expert help for members

We offer a range of ways of getting in touch and finding out more about your benefits. Your first port of call for benefit quotations should always be our secure website: [www.zpen.info](http://www.zpen.info) but if you need to speak to someone directly, the Customer Services teams in Cheltenham and Darlington are available at the end of the telephone. You can also write or email us with your enquiry.

Regional Pensions Support Manager, Faye Willetts, and two of our pension experts, Rich Cypher and Julia Mortlock, travel to all Zurich's main offices on a regular basis to help employees fully understand and appreciate their pension benefits. Support sessions available currently include:

- "The Pensions Power Up", giving information to new employees on their new pension scheme;
- "Back to Basics", providing key pensions information at local team meetings;
- "The Pensions Power Down" to help employees plan for retirement; and
- "The Money Power Up" putting pensions in context of wider savings and other financial considerations.

Feedback is consistently very positive as employees appreciate the opportunity to discuss their position face to face.

#### Regional pensions support team



**Faye Willetts**



**Rich Cypher**



**Julia Mortlock**

#### Email:

[zcashbuilderteam@rpm.co.uk](mailto:zcashbuilderteam@rpm.co.uk)

#### The ZCashBuilder Team

RPMI  
PO Box 377  
Darlington  
County Durham  
DL3 6XY



#### Telephone

0800 232 1915  
Internal:  
7727 6611



#### The ZPen Team

Zurich  
The Grange  
Bishops Cleeve  
Cheltenham  
GL52 8XX



#### Email:

[zpenteam@uk.zurich.com](mailto:zpenteam@uk.zurich.com)

#### Pensioners

For queries about your pension payments  
please contact  
0800 232 1915

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### The scheme on line

Members can calculate and set up their own benefits on line.

ZPensionBuilder members are able to calculate their own pension benefits and set up their pension using the self service facilities on the scheme's secure website ([www.zpen.info](http://www.zpen.info)). To date more than 1,900 members have used the website to set up their own retirement benefits.



### Online facilities for ZCashBuilder

ZCashBuilder members are able to view their funds and switch their investments on line. The on line facilities are available 24/7 365 days a year, so members can use the website when it is convenient to them and from any location where they have internet access. The website is secure: members have individual passwords which they set themselves and no information is saved onto the computer used to access the website. Additional security checks are made before any benefits are paid.



### Access to up to date information on line

ZCashBuilder members can run quotes known as statutory money purchase illustrations (SMPI) on line giving them an indication of potential benefits at retirement. Members are able to vary their retirement age and amount of savings to see the impact on potential benefits, helping them to plan for retirement. Naturally, the final amount will depend on investment returns and the final cost of buying pensions.

There's also a page specifically for pensioners providing information about pension pay dates, pension increases, the Pensioners Association and contact details for pay and tax queries. In addition, since January 2012 pensioners have been able to register with the website so they can see their pension payslips on line.

Current employees are also able to let the trustees know who they would like to benefit in the event of death in service by using the on-line nomination form.

Members are kept up to date with the latest developments affecting their scheme through the NewsFlash! feature on the website. In addition, the annual trustees' newsletter is available on line.

All key scheme documentation is available to download, including:

- Annual report & accounts;
- Valuation report
- Member's booklet
- Statement of investment principles
- Contribution schedule
- Annual actuarial report
- Trustee dispute procedure

### Funding benefits in ZPensionBuilder and ESExec

The trustees are responsible for making sure there is enough money in ZPensionBuilder and ESExec to pay the benefits as they fall due. So, the trustees need to:

- understand how much the benefits are going to cost (the pension scheme "liabilities"), and
- have an investment strategy which ensures that the pension scheme is in good shape to meet the benefit costs as they arise.

The trustees and the company have agreed a funding policy, summarised in a Statement of Funding Principles. The statement is prepared by the scheme actuary after the trustees and the company have examined all the relevant factors, such as:

- the return on investments (including an estimate of what these will be in the future),
- how the liabilities have been affected by pay rises, pension increases and how long pensioners are living after retirement.

The ongoing funding of the scheme is closely monitored by the trustees and by a dedicated funding committee, which meets at least once a quarter with the scheme actuary.

### Funding committee

The funding committee is made up of representatives from the trustee board and from the company, chosen for their experience and expertise. The Pensions Regulator encourages regular dialogue between trustees and employers on scheme funding matters. At Zurich, the funding committee is the forum for this dialogue. The work is specialist, and committee members (both trustee and company representatives) are selected to ensure the appropriate level of expertise is maintained. Apart from the committee members themselves, various other people regularly attend the meetings, including members of the UK Pensions & Benefits team, as well as external specialist investment advisers and the actuary. The trustees have two investment advisers: Zurich Investment Management, who develop proposals, and Hymans Robertson, who advise the trustees on these proposals and on the direction of the investment strategy.

The committee's work falls into two areas, although there is a great deal of overlap between these:

- valuation: keeping the cost of benefits under review
- investment: implementing the strategy set by the trustee board.

### Funding committee: Trustee members



**BESTrustees**  
Independent trustee  
represented by  
Clive Gilchrist  
*valuation & investment*



**Roy Brimblecombe**  
Pensioner trustee  
*valuation & investment*  
Resigned 30 September 2015



**Gillian Mitchell**  
Company nominated trustee  
*valuation & investment*



**Paul Trickett**  
Trustee chair  
*valuation & investment*



**Christian Jochum**  
Company nominated trustee  
*valuation & investment*  
appointed 3.12.14

### Funding committee: Company members



**David Ford**  
Head of Strategic Finance:  
Global Life  
*valuation*



**Andy Jackson**  
Head of Capital & Liquidity  
Management:  
Zurich Insurance Company Ltd  
*investment*

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015



**Vince Rennie**

Chief Investment Officer: Zurich  
UK Life  
*investment until 9.12.14*



**Paul Sutton**

Group Head of Total Rewards:  
Zurich  
*valuation*



**Stuart Tyler-Lloyd**

Balance Sheet Chief Investment  
Officer  
*investment from 9.12.14*

### Advisers

#### Investment advisers

Hymans Robertson



#### Investment analysts

Zurich Insurance Company, Investment  
Management



#### Scheme actuary

Mark Howard, FIA  
Barnett Waddingham



### Valuing the benefits

At least once every three years the trustees ask the scheme actuary to carry out a valuation to assess the

financial position of the ZPensionBuilder and ESExec sections. This has two main purposes:

1. to determine the current financial position of the ZPensionBuilder and ESExec sections based on all benefits earned so far, and
2. to establish the cost of providing benefits in the future.

There are several steps in the valuation process:

#### Step 1: determining the value of benefits earned to date

The actuary calculates the value of the benefits earned so far for all members – the “technical provisions”. This includes those who have preserved benefits<sup>7</sup> and those who have actually retired.

In making his calculations, the actuary makes assumptions about things like return on investments, inflation in the future and how long members are expected to live. These assumptions are agreed by the trustees, the company and the actuary.

#### Step 2: determining the funding level

The actuary compares the technical provisions in the ZPensionBuilder and ESExec sections with the value of the assets in the relevant section of the fund. The result of this comparison is called the “funding level”. If the fund is worth more than the value of the benefits earned so far, there will be a “surplus”. If the reverse applies there will be a “deficit”.

A surplus or deficit does not necessarily mean that there is too much cash (or a cash shortfall) in the fund. The valuation is essentially a snapshot in time taking account of the various factors described above. The true position ultimately depends on whether the assumptions made are borne out in practice. The ZPensionBuilder and ESExec sections may have different funding outcomes: for example, one could be in surplus and the other in deficit.

#### Step 3: determining the funding rate

Using the same assumptions and current benefit levels, the actuary then determines the long term cost of providing ongoing benefits (the “funding rate”).

#### Step 4: agreeing the contribution rate

When the funding level and the funding rate are known, the trustees and the company agree a contribution rate for the future. If there is a deficit, the trustees and the company also agree how to address this.

The funding committee works through the valuation process with the actuary in a series of workshops, starting several months before the effective date. The product of these workshops is a recommendation to the trustee board, from which

<sup>7</sup> Members have preserved benefits if they have left the company but have not yet reached retirement age.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

the valuation method is finalised, producing final results. These results are then presented to the company, which responds with proposals for funding any deficit and for the level of future contributions to the scheme. The whole process is conducted in close partnership between the company and trustees. Between valuations, the committee reviews the funding position quarterly and makes recommendations to the trustee board in respect of the annual actuarial report.

### Funding position

The most recent full actuarial valuations of ZPensionBuilder and EExec section (the latter, formerly the ES Executives' scheme) were carried out as at 30 June 2013. Between three yearly valuations the trustees publish annual funding updates, the most recent of which is as at 30 June 2015.

### ZPensionBuilder

	30 June 2012 £million	30 June 2013 £million	30 June 2014 £million	30 June 2015 £million
Assets (excluding AVCs/APCs)	£4,411	£4,621	£4,948	£5,559
Asset backed contribution (Scottish Limited Partnership)	n/a*	n/a*	n/a*	£782
Amount needed to provide benefits	£5,545	£5,236	£5,679	£6,586
Surplus/(Shortfall)	(£1,134)	(£615)	(£731)	(£245)
Funding level	80%	88%	87%	96%

\* The asset backed contribution was not put in place until 31 July 2014

Following completion of the 30 June 2013 valuation, an asset backed contribution (ABC) arrangement was set up for ZPensionBuilder to address the deficit in that section.

In summary, special contributions were made to ZPensionBuilder on 31 July 2014, on condition they were used to purchase an interest in a Scottish Limited Partnership (SLP). The ABC arrangement is structured by way of loans guaranteed by Zurich and will generate an annual income stream for ZPensionBuilder of £60 million, with the first income payment paid in June 2015. The income stream will cease after 24 years, or sooner, if certain funding conditions are met (or if certain prescribed events occur).

Although the ABC arrangement was not put in place until 31 July 2014, it was intended to eliminate the deficit at 30 June 2013. A pricing agent, jointly appointed by the trustees and Zurich, has determined that the aggregate value as at 30 June 2013 of the pension scheme's interest in the SLP plus the payment of £48.2 million under the

previous schedule of contributions amounts to £615 million. Therefore at 30 June 2013 the funding level would have been 100%.

Should the SLP arrangement fail to operate as expected (e.g. due to changes in future legislation), Zurich Financial Services (UKISA) Limited, the Principal Employer, has agreed to procure that the employers become responsible for continuing payment of contributions of at least £60m per annum payable by 30 June each year. The period over which these future payments will then be made will depend on the circumstances at the time.

Employer contributions increased from 28.5% to 34.3% of pensionable salaries for ZPensionBuilder members from 1 March 2014 to meet the cost of future service benefits as they are earned from year to year.

In addition, employer contributions increased from 2.1% to 2.6% of pensionable salaries in respect of ZCashBuilder members with effect from 1 March 2014 to meet the cost of death and ill health benefits.



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

An additional amount of £4.3m will be paid by the employer each year to cover the expenses of running the ZPen section and the PPF levy.

Since the ABC was put in place the funding level has worsened giving rise to a new deficit. Although the assets have performed well, this has been offset by the decrease in the investment return assumption, which is mainly due to the fall in long-dated gilt

yields. If a deficit remains at the next full valuation due on 30 June 2016, the trustees and company will agree how to address this.

### ESExec section

	30 June 2012 £million	30 June 2013 £million	30 June 2014 £million	30 June 2015 £million
Assets (excluding AVCs/APCs)	£154.3	£157.1	£160.3	£170.9
Amount needed to provide benefits	£177.9	£165.2	£167.9	£180.7
Surplus/(Shortfall)	(£23.6)	(£8.1)	(£7.6)	(£9.8)
Funding level	87%	95%	95%	95%

To eliminate the deficit in the ESExec section, the employer has agreed to pay £1.7 million a year until 2018 and £0.9 million in 2019, by 30 June each year.

The funding level has remained broadly unchanged since the last full valuation on 30 June 2013. Although the investment return assumption fell significantly from the update at 30 June 2014 (mainly due to the fall in gilt yields), the majority of this has been offset by the good performance of the assets and the deficit reduction contributions paid.

There are no active members and hence no one is building future benefits under ESExec. Therefore there is no need for regular contributions to support

future benefits. But Zurich has agreed with the trustees to make an annual contribution of £37,000 each year to cover the expenses of running the ESExec section and the PPF levy.

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A copy of the full report on the valuation at 30 June 2013 is available on our website [www.zpen.info](http://www.zpen.info).

By law, the statements from the scheme actuary on the next page and pages [60 and 61](#) must be included in this annual report. The wording complies with guidelines issued by the Institute and Faculty of Actuaries.

**Actuarial certificate**

## **Certification of the calculation of technical provisions**

### **Zurich Financial Services UK Pension Scheme**

*ZPen Section and ES Executives' Section*

#### **Calculation of technical provisions**

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 30 June 2013 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 .....*28 August 2014*.....

Signature: 

Name: Mark A J Howard

Address: St James House  
St James Square  
Cheltenham  
GL50 3PR

Date: *28 August 2014*

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: Barnett Waddingham LLP

### Investment strategy

The funding committee keeps the investment strategy under review, developing proposals for the trustee board for future strategies, and then implementing them once they are agreed. Within the committee's remit it can appoint investment managers, agree fees, carry out the necessary consultation with the company and decide the best tactics for working toward the final strategy. The committee also reviews the investment managers, custodian and advisers and provides oversight of the day to day investment activity carried out by the managers and internal teams.

The committee is responsible for managing investment strategy in each section of the scheme being ZPensionBuilder, ESExec and ZCashBuilder, which are described in more detail below.

When considering investment strategy the committee will look at actively and passively managed options. Actively managed means we expect the managers to beat the market whilst in a passively managed option the manager will ensure that the spread of investments within the fund is similar to the spread in the relevant market index.

### ZPensionBuilder & ESEExec distribution of investments

The overriding objective for the trustees and the funding committee is to design and put in place an investment strategy that will deliver sufficient cash to pay benefits when they fall due by reaching an appropriate balance between risk, seeking returns through growth assets and the extent to which the assets should be distributed to match its liabilities (this is known as the strategic asset allocation). The committee considers the investment strategy for ZPensionBuilder and ESEExec separately but applies the same principles to both sections.

The table below shows the strategic asset allocation as at 30 June 2015.

Asset type	ZPensionBuilder (%)	ESEExec (%)
Growth assets		
<i>Equities</i>	19.5	16.5
<i>Real estate</i>	3	3.5
<i>Loans</i>	5	-
Liability matching assets		
<i>Corporate bonds</i>	27	28
<i>Gilts</i>	25.5	25
<i>Index linked gilts</i>	20	27
	100	100

### Derivatives

The trustees also use the following derivatives to manage risk:

**Forwards:** The scheme has overseas investments which mean that the value of the schemes assets can be affected by movements in foreign currencies. The scheme's investment managers use forwards to reduce some of the exposure to currency risk.

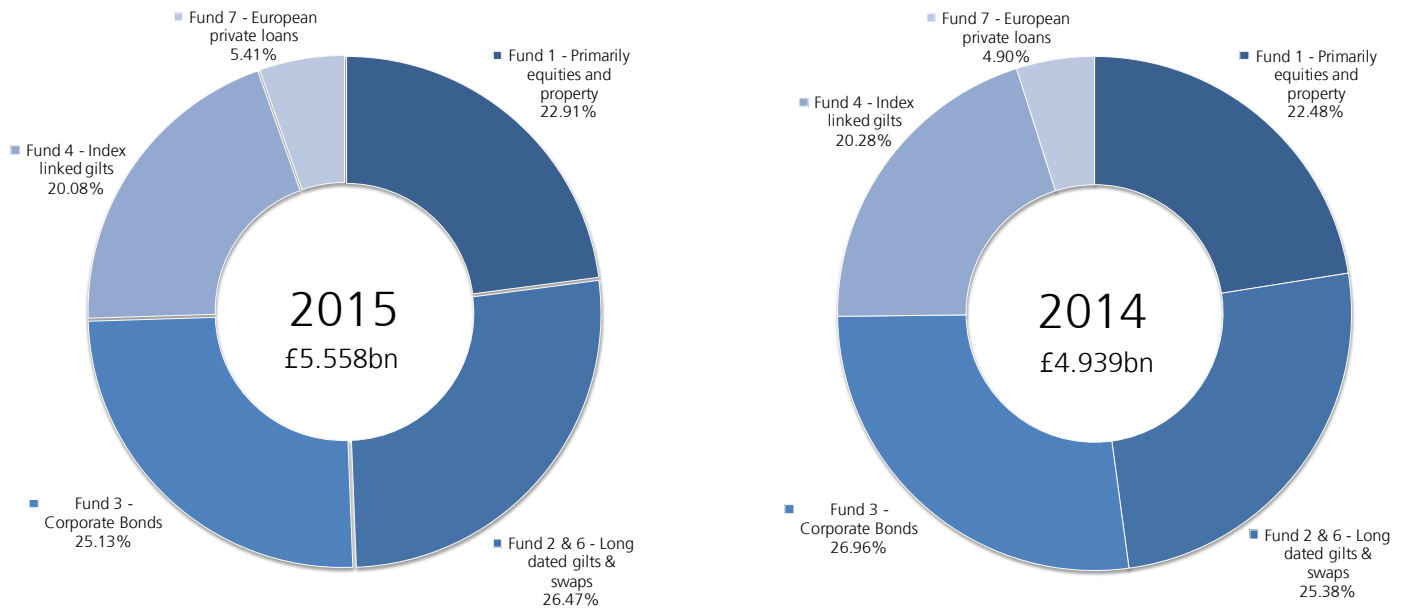
**Futures:** The schemes investment managers use futures to hedge against the risk of movements in foreign currency and interest rates associated with holding non-sterling bonds.

**Swaps:** The trustees decided to reduce exposure to changes in interest rates in ZPensionBuilder. When interest rate yields fall the present value of the benefits increases and therefore the funding gap increases to the extent that the benefit liabilities are not fully backed by sufficiently long-dated bonds. Entering into interest rate swap contracts with a bank helps to protect against this effect. The trustees considered this approach carefully before formally deciding that the scheme should enter into long dated interest rate swaps.

# Zurich Financial Services UK Pension Scheme

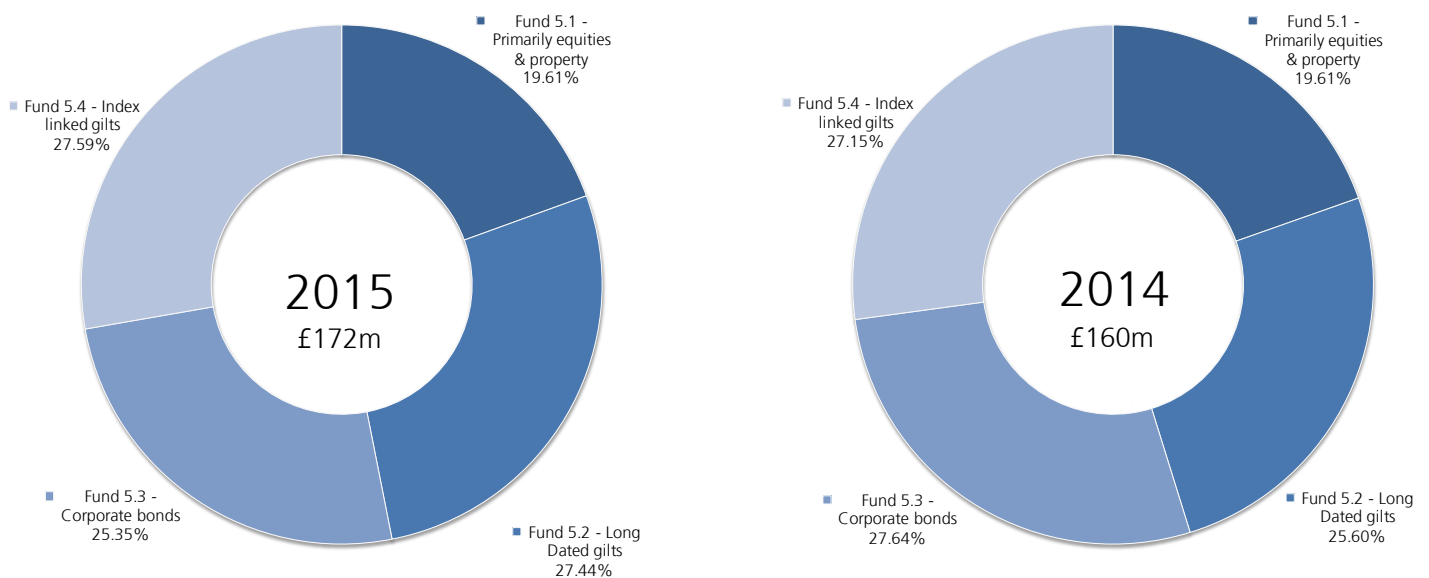
## Annual report for the year ended 30 June 2015

The actual distribution of investments for ZPensionBuilder at 30 June 2015 compared with 30 June 2014 is shown below.



As at 30 June 2015 the loan fund and approximately 50% of the corporate bond fund were managed by M&G Investment Management. The rest of the investments were managed by Columbia Threadneedle Investments.

The actual distribution of investments for ESExec at 30 June 2015 compared with 30 June 2014 is shown below.



All the investments for the ESExec section are managed by Columbia Threadneedle Investments.

### **Interest in Scottish Limited Partnership**

As detailed on pages 19 and 53, on 31 July 2014 the scheme acquired an interest in a Scottish Limited Partnership (SLP), funded by a special contribution from the employer of £697m. The partnership agreement is structured to provide the scheme with an annual income of £60m. However as the interest in the SLP is a vehicle solely for the purpose of addressing the funding deficit, it is not considered as part of the asset allocation or the investment performance information and is therefore not included in the tables on pages 22, 23 and 25.

### **Management of Investments**

The trustees have delegated management of investments to professional investment managers listed on page 7. These managers manage the investments within the restrictions set out in investment management agreements. The mandates put in place by the trustees specify how rights

attaching to the scheme's segregated investments are acted upon. This includes active voting participation and consideration of social, ethical and environmental factors when making investment decisions.

### **Custody**

The Northern Trust Company acts as custodian for all investments. These investments are held in a designated nominee account at Northern Trust in the name of the trustee of the scheme. The trustees receive reports each month covering the assets held by the custodians and transactions in the month. These are monitored by the trustees and, if appropriate, followed up with the custodian on a timely basis. The custodian is independent of the investment managers and provides a check on the recording of the assets of the scheme and their performance

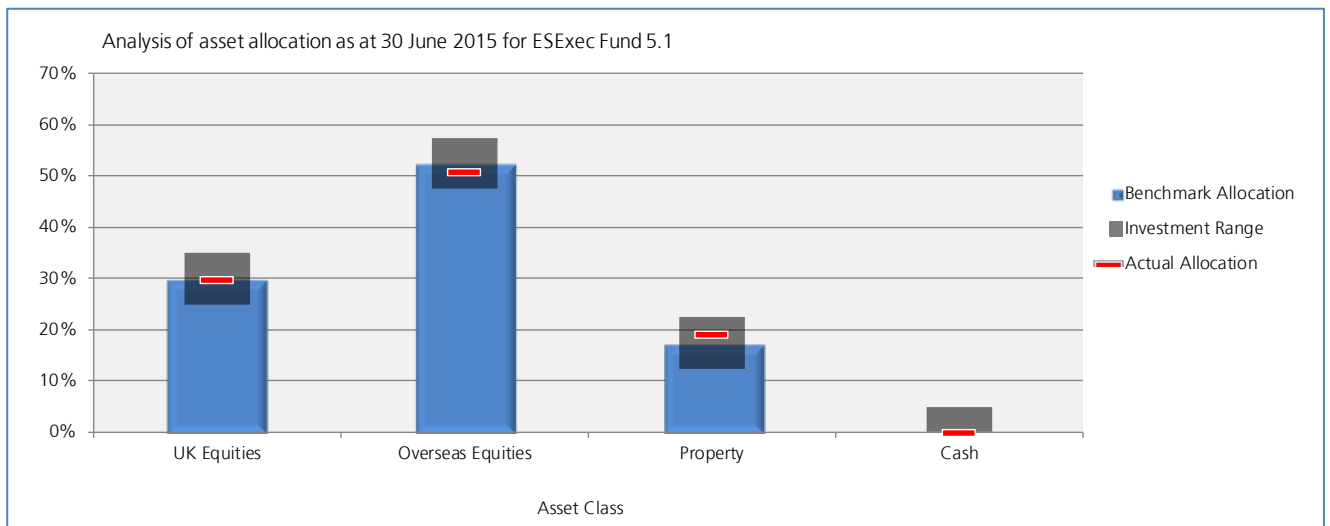
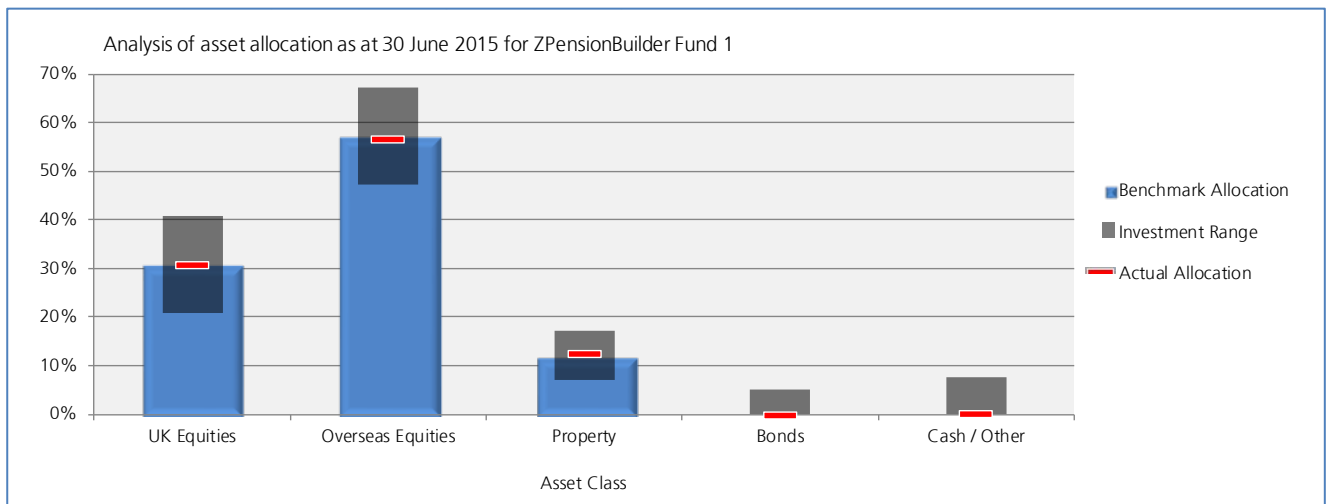
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Investment performance

In the actively managed portfolios, the trustees set the benchmark allocation against which performance is measured and then allow the investment manager discretion to manage investments within ranges around these benchmarks in order to accommodate short term changes between different markets and also to allow the manager to add value by being over or under the benchmark weight in different types of assets.

The diagrams below show the benchmarks, ranges and actual allocation at the year end for the ZPensionBuilder growth fund (fund 1) and the ESExec section growth fund (fund 5.1). All other funds are 100% invested in their specific asset classes. Full details of the performance are given on [pages 30 to 40](#).



The trustees believe that there are normally no restrictions to the marketability of the investments (except for the SLP which is subject to certain restrictions defined in the underlying agreement) on a short term basis. However, there may be occasions

on which the investment manager would have to restrict the purchase or the redemption of units in managed funds such as property, so as to protect the interests of existing or remaining investors.



### ZCashBuilder Investments

The funding committee is also responsible for providing members of ZCashBuilder with a suitable range of funds in which to invest. When considering this they start with the same principles as they apply to the ZPensionBuilder investment strategy.

On 1 June 2011 e-Z plan became the default option for new members joining the scheme and offers a blend of diversified funds that are, where possible, in broadly similar asset classes to those used in ZPensionBuilder. There are three funds depending on the member's proximity to retirement.

- ZFundBuilder: a growth fund which adopts broadly similar investment principles as applied to ZPensionBuilder to aim for growth at an acceptable level of risk.
- ZPensionPurchasePot: a pre-retirement fund that aims to invest in broadly similar assets to those held by commercial annuity providers.
- ZRetirementLumpSum: a pre-retirement fund that invests in cash and cash like assets and reflects broadly the amount members have indicated they may like to take as a retirement lump sum.

Members' funds are automatically moved from ZFundBuilder to ZPensionPurchasePot and ZRetirementLumpSum as retirement approaches. Members simply select the age they expect to take their benefits and the amount of the fund they expect to take as cash, with a default of age 60 with 25% cash. Other self select funds are also available so individuals can decide for themselves which funds they want to use. They can also put some of their contributions into the default programme and some into self select options. For example, some people may decide to put the company's contributions into the programme and invest their own personal contributions themselves. ZFundBuilder is also

available as a self select unitised fund for people who don't want to use the programmed switching to a pre retirement fund. A full list of the funds available to members of ZCashBuilder is available at [www.zpen.info](http://www.zpen.info)

The funds available under ZCashBuilder are currently going through a detailed review following the new pension flexibilities announced under the 2014 Budget.

With the exception of the Sterling Liquidity First and property funds, ZCashBuilder funds are passively managed against the relevant index: meaning that the manager ensures that the spread of investments in the fund is similar to the spread in the relevant market index.

### ZCashBuilder performance for the year ended 30 June 2015

The year to 30 June 2015 saw positive performance with the exception of the Aquila UK Equity Index Fund; all funds either outperformed or were in line with benchmark. The Aquila UK Equity Index Fund outperformed benchmark over 3 years and was in line with benchmark over 5 years to 30 June 2015.

Over the 3 years to 30 June 2015 all funds either outperformed or were in line with benchmark with the exception of the Corporate bond 15+ Year Index Fund, which showed a slight underperformance, however the fund's performance over 5 years to 30 June 2015 slightly outperformed benchmark..

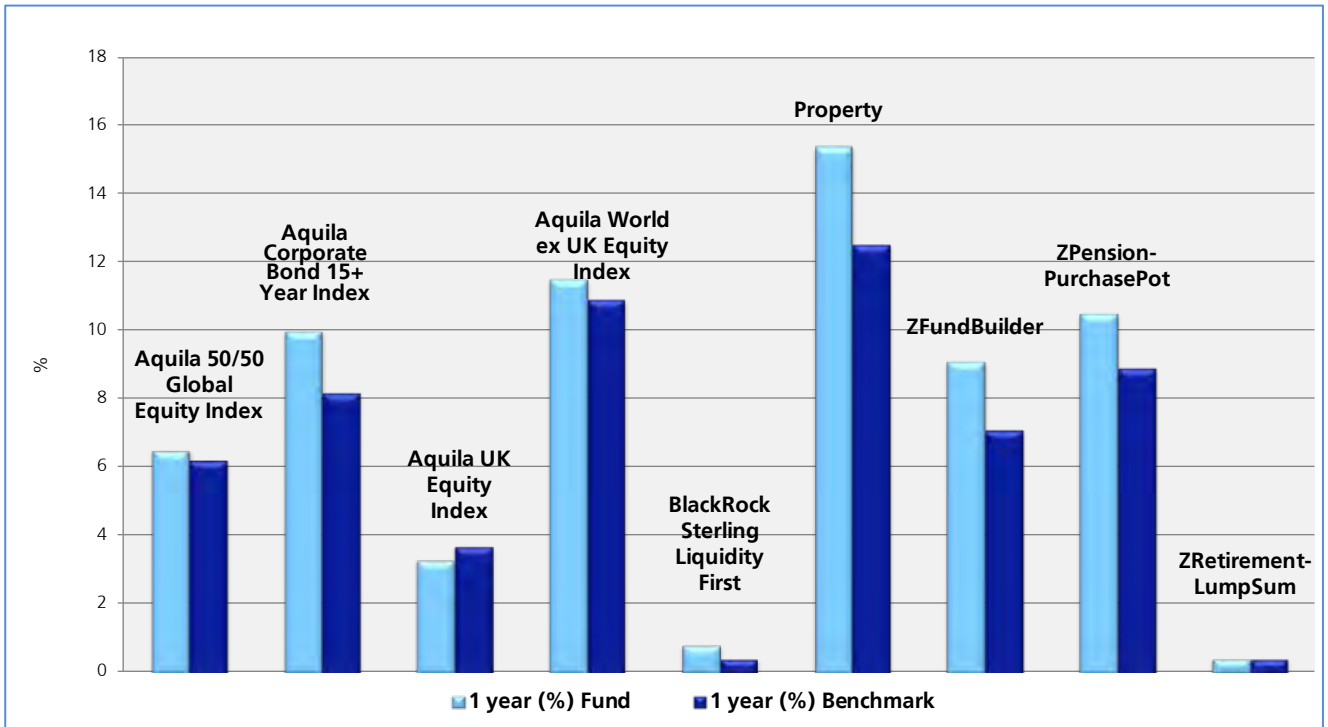
Performance over a one, three and five year period is shown on pages [page 26 to 28](#).

The trustees continue to monitor the performance of these funds on a quarterly basis to ensure they remain appropriate during the prevailing market conditions.

# Zurich Financial Services UK Pension Scheme

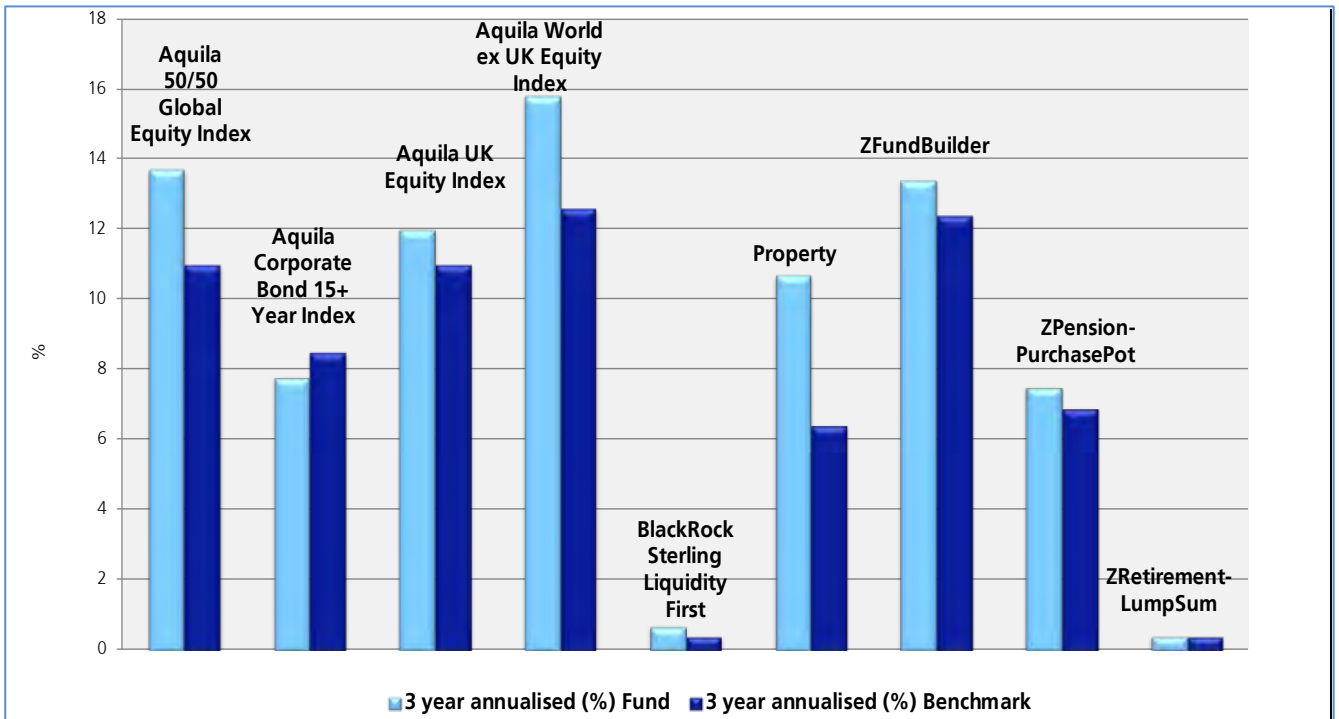
## Annual report for the year ended 30 June 2015

### ZCashBuilder performance for the year ended 30 June 2015



Source: Zurich Assurance Ltd

### ZCashBuilder performance for the three years ended 30 June 2015

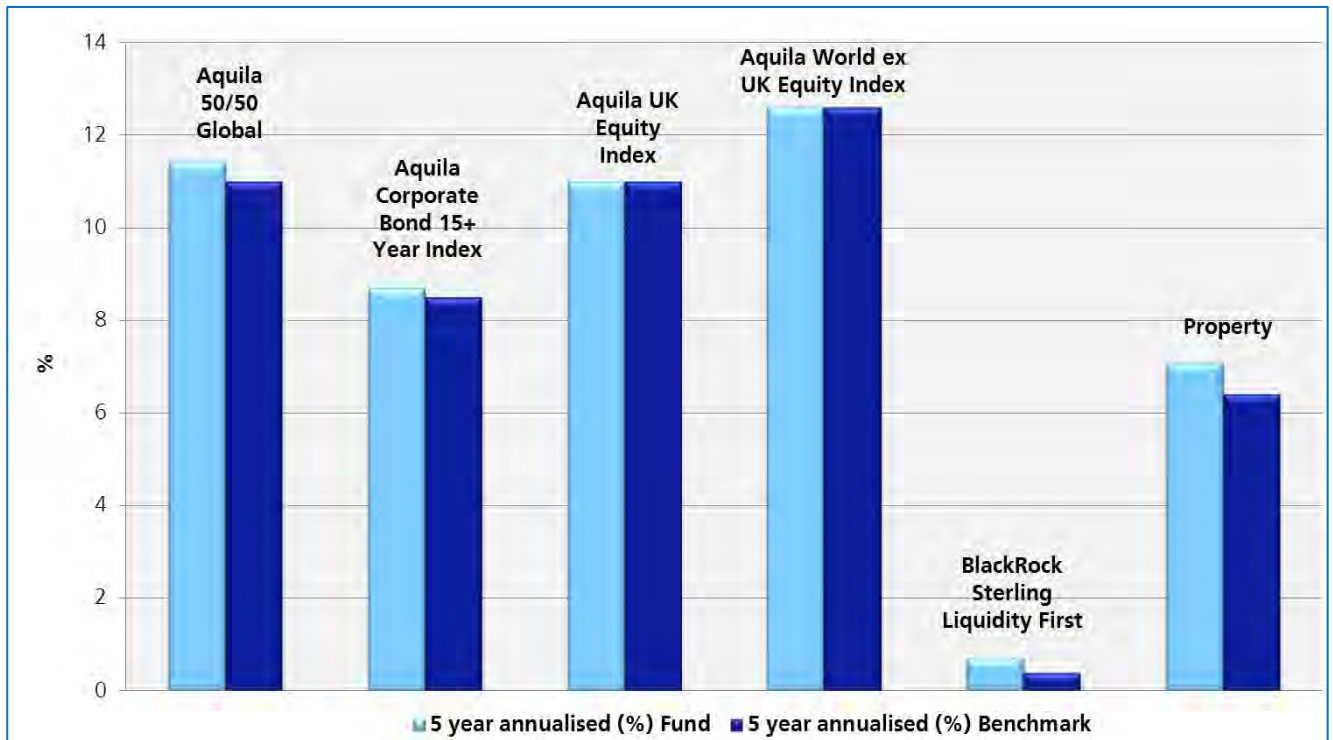


Source: Zurich Assurance Ltd

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### ZCashBuilder performance for the five years ended 30 June 2015



Source: Zurich Assurance Ltd

5 year data is not available for the e-Z plan funds as they were launched on 1 June 2011.

Members make their investment selections online at [www.zpen.info](http://www.zpen.info). Until 31 May 2011 the Aquila 50/50 Global Equity Index fund was the default investment option for members who do not make their own investment choice. Since 1 June 2011, e-Z plan has been the default option.

**Looking ahead**

This report brings you highlights from the scheme year, but it doesn't end there of course. The funding committee continues to monitor the scheme's investments to ensure that the chosen investment strategy remains appropriate and the full trustee board receives regular updates on ZPensionBuilder's financial position from the actuary.

Over recent years the trustees have developed a programme to reduce exposure to interest rates by entering into £500m nominal interest rate swap contracts, a further £250m nominal of fixed interest swaps is planned, when pre-determined target rates are reached.

Following completion of the triennial valuation and finalisation of the pension changes (detailed on page 2), the next step for the trustees is a full review of the ZPensionBuilder strategic asset allocation, which is currently underway.

The funding committee has also undertaken a detailed review of the funds and choices currently offered under ZCashBuilder, following the Chancellor of the Exchequer's pension reform announcement in his budget speech on the 19 March 2014. The

changes allow individuals more freedom and choice on how they take their retirement fund. Further information on the new fund choices under ZCashBuilder will be available later in the year.

**Statement of investment principles**

In accordance with section 35 of the Pensions Act 1995 the trustees, after consultation with Zurich Financial Services (UKISA) Limited and the investment manager, have drawn up a statement of investment principles governing decisions about investments for the purposes of the scheme, which they review on a regular basis. The statement describes the trustees' investment objectives and how investments are chosen, what kinds of investments they hold, the balance between different types of investment, their approach to risk and how they monitor the investment performance. The latest statement of investment principles dated 3 December 2014 is available on [www.zpen.info](http://www.zpen.info).

The signing of the trustees' report also confirms the trustees' approval of the investment managers' reports on [pages 30 to 40](#) and the disclosures on [pages 63 to 74](#).

For and on behalf of the trustee board:

Trustee name	<u>SP TRICUETT</u>
Signature	<u>SPM</u>
Date	<u>11/11/15</u>

## Report from the investment manager



### Executive Summary

Value as at 30 June 2015

Portfolio	Market Value (GBP)
Fund 1 - Growth Portfolio	1,277,694,861
Fund 2 - Long Dated Gilt Portfolio	1,378,903,887
Fund 3A - Sterling Investment Grade Bond Portfolio	690,274,113
Fund 4 - Index Linked Gilts Portfolio	1,114,943,659
Fund 6 - Overlay	94,380,893
<b>Total Assets</b>	<b>4,556,197,413</b>
Fund 5 – Executive Scheme	171,747,345
<b>Total Assets including Executive Scheme</b>	<b>4,727,944,758</b>

### New Global Brand – Columbia Threadneedle Investments

On the 30<sup>th</sup> March 2015 we introduced our new global brand Columbia Threadneedle Investments. This new brand represents the combined capabilities, reach and resource of Threadneedle and our US-based affiliate, Columbia Management, offering clients access to the best of both firms. Combined, Threadneedle and Columbia have over £320.2 billion in assets under management and more than 450 investment professionals investing across developed and emerging market equities, fixed income, multi-asset solutions and alternatives. Both Columbia and Threadneedle are owned by leading US financial services firm Ameriprise Financial, Inc. (NYSE: AMP) and together form the 30<sup>th</sup> largest global asset management group.

### Market Overview

■ Global equity markets delivered a positive performance over the year, but the headline result masked increasing divergence between markets around the world. Among the developed markets, Japan was particularly strong in local-currency terms, while Europe and the US also produced good returns. Currency movements had an important effect on overall returns for UK-based investors, with the yen and the euro weakening over the period, whereas the dollar strengthened. Markets in Asia also had a good year, with China performing particularly well.

### Performance Highlights

- For the reporting year, within the ZPensionBuilder, Fund 1 (Growth Portfolio) outperformed the index, returning 10.4% against a benchmark return of 7.5%. Despite a positive return of 6.2%, Fund 3A (Sterling Investment Grade Bond Portfolio) underperformed the index return of 6.5%. Meanwhile, Fund 2 (Long Dated Gilt Portfolio) and Fund 4 (Index Linked Gilts Portfolio) performed in line with its benchmark, returning 18.5% and 14.5% respectively.
- For the EsExec, Fund 5.1 (Growth Portfolio) strongly outperformed the index, returning 14.1% against the benchmark return of 10.5%. Meanwhile, despite a positive return, Fund 5.3 (Sterling Investment Grade Bond Portfolio) underperformed its index, returning 6.1% against a benchmark return of 6.5%. Fund 5.2 (Long Dated Gilt Portfolio) and Fund 5.4 (Index Linked Gilts Portfolio) performed in line with its benchmark, returning 18.6% and 15.9% respectively.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Performance returns for ZPensionBuilder and EsExec for year to 30 June 2015

	1 year %	
ZPensionBuilder	Fund	B/Mark
Fund 1 Growth - Equities including Property	10.4	7.5
Fund 2 Long Dated Gilts	18.5	18.5
Fund 3A Sterling Investment Grade Bonds	6.2	6.5
Fund 4 Index Linked Gilts	14.5	14.5
Fund 2 and 6 Long Dated Gilts and Overlay Combined	26.6	26.9
<b>EsExec (Fund 5)</b>		
Fund 5.1 Growth	14.1	10.5
Fund 5.2 Long Dated Gilts	18.6	18.5
Fund 5.3 Sterling Investment Grade Bonds	6.1	6.5
Fund 5.4 Index Linked Gilts	15.9	15.8

Source for fund data is Columbia Threadneedle Investments, index information is provided by FactSet  
Performance figures are total returns in sterling terms with fund prices calculated from month-end global close valuations, gross of fees

### Market Review

- Central banks' monetary policy was a key theme throughout the year, as markets in weaker economies – primarily the eurozone and China – were buoyed by more aggressive monetary easing. Early in 2015, a bigger-than-expected programme of quantitative easing (QE) from the European Central Bank boosted equities in Europe and beyond, and took the euro to multi-year lows against the US dollar. Economic data was broadly encouraging; GDP figures for the first quarter of 2015 indicated that the eurozone economy grew by 0.4% and the eurozone composite purchasing managers' index reached a four-year high in June. While the eurozone briefly slipped into deflation, it emerged soon afterwards.
- Markets and currencies increasingly came under the sway of slumping oil prices. While cheaper oil offered the prospect of a boost to consumer spending, it also ravaged the economies of oil exporters, primarily Russia. As price declines persisted into 2015, concern mounted that the real culprit was weakening demand in slowing economies.
- In Japan, investor sentiment had initially deteriorated in the wake of a consumption-tax hike in April 2014, and questions were raised about the sustainability of stimulus policies. The yen weakened considerably, diluting returns for UK-based investors. In the autumn of 2014, a bigger-than-expected boost to QE buoyed markets, while meagre yields on bonds further whetted investors' appetite for risk. Investors were also cheered by the sharp upward revision to GDP growth for the first quarter. This revealed that the economy expanded at an annualised rate of 3.9%, compared with an initial estimate of 2.4%, and was considerably better than the market expected. The higher figure was attributable to a marked improvement in business spending, with companies taking advantage of record profits and strong cash balances to increase their capital expenditure.
- During the period under review, Asian markets' performance was driven largely by the ebb and flow of sentiment regarding global liquidity. Along with geopolitical tensions in Ukraine, the Federal Reserve's reductions in QE put pressure on Asian equities earlier in the period. A strengthening US economy and dollar placed emerging-market currencies under increasing pressure in the opening quarter of 2015. While slowing growth in China also weighed on sentiment, emerging-market equities received some succour from the looser monetary policy in the eurozone and Japan.
- Chinese equities produced strong returns overall, despite a sharp sell-off in June, as the A-share market suffered from a clampdown on margin trading and concerns grew about stretched valuations. In response to the sharp fall, the People's Bank of China announced a further reduction in official interest rates, along with cuts to the reserve-requirement ratio for the banks.
- The UK corporate bond market was strong throughout the second half of 2014. Corporate bond spreads were little changed over the period, but lower gilt yields – helped by a more



dovish tone from the Bank of England on interest rates – propelled the market to double-digit returns. However, the first half of 2015 was fairly challenging for the sterling fixed-income market. Real and nominal yields rose in the face of improved economic performance, the surprise victory of the Conservative Party in the May general election and growing speculation over the timing of a rise in interest rates in the UK.

- Gilts initially rallied strongly post the election result, but retraced the whole move over the next few days. Another strong US labour report in June, together with hawkish rhetoric from numerous MPC members caused 10-year gilt yields to rise again during June, and they finished the first half of 2015 at 2.0%.

### Market Outlook and Strategy

- Market volatility has increased in recent weeks, reflecting the continuing crisis in Greece and the heavy sell-off in Chinese equities. In China, policymakers have used a wide range of tools in an attempt to stabilise the stock market.
- On balance, we continue to prefer equities over bonds, although we do not think that the valuation re-rating that has driven equities higher in recent years can continue indefinitely. We are therefore continuing to emphasise secular growth or 'self-help' stories, such as Japan, where corporate reform continues.
- Given the macroeconomic uncertainties, we expect global monetary policy to remain accommodative; at the time of writing, markets barely price in one US interest rate rise for this year. tactically positioned marginally longer duration versus the benchmark, which dampened performance as rates went up.
- The Long Dated Gilt portfolio (Fund 2) and the Index Linked Gilt Portfolio (Fund 4) are both managed to track their respective benchmarks.

### Performance returns for ZPensionBuilder to 30 June 2015

	1 year %		3 years %*		5 years %*	
	Fund	B/Mark	Fund	B/Mark	Fund	B/Mark
Fund 1 Growth - Equities including Property	10.4	7.5	14.0	12.0	12.0	7.3
Fund 2 Long Dated Gilts	18.5	18.5	6.3	6.4	9.6	9.6
Fund 3A Sterling Investment Grade Bonds	6.2	6.5	6.7	6.6	7.3	7.2
Fund 4 Index Linked Gilts	14.5	14.5	6.9	7.0	8.9	8.9

Source for fund data is Columbia Threadneedle Investments, index information is provided by FactSet

Performance figures are total returns in sterling terms with fund prices calculated from month-end global close valuations, gross of fees.

\*Annualised returns for 3 and 5 year figures.

Note: The Long Dated Gilt Fund (Fund 2) and the Index Linked Bond Fund (Fund 4) are managed to track the long-gilt index benchmark and the index-linked benchmark respectively

### Performance Review

- Fund 1 (Growth Portfolio) outperformed the index, returning 10.4% against a benchmark return of 7.5%. This outperformance was primarily down to stock selection within the European equity, UK equity and the global small-cap equity portfolios.
- In the European equity portfolio, Ryanair delivered impressive results; the low-cost airline is benefiting from improved customer-service initiatives and lower fuel costs. The stock was also buoyed by news that IAG has launched an offer for Irish airline Aer Lingus, in which Ryanair has a stake. Novo Nordisk also performed strongly having made encouraging comments regarding potential price increases. The company recently reported some positive trial results for an oral type-2 diabetes drug, and announced that it was to reapply for approval of a key trial drug, Tresiba, in the US.
- Within the UK equity portfolio, our overweight position in Sage contributed positively after the company reported strong organic revenue growth, an improved operating-profit margin and an increase in the dividend during the period. This data reassured the market following Sage's appointment of a new CEO.
- In the global small-cap portfolio, stock successes included Shimadzu, which performed well thanks to the structural growth in the company's markets as a result of increased testing requirements. Another top contributor was SS&C Technologies, which announced its first dividend together with a share buyback, and investors were encouraged by the proposed

acquisition of DST. Fidelity National Financial was also a leading contributor.

- The Sterling Investment Grade Bond portfolio (Fund 3A) achieved a positive return but underperformed its benchmark over the 12 months under review. Security selection was the primary driver of fund returns; Pennon and Tesco were among the top performing issuers, while owning Gazprom bonds against a zero weighting in Russian Railways provided a small further benefit to relative returns. Duration positioning detracted slightly; the fund was tactically positioned marginally longer duration versus the benchmark, which dampened performance as rates went up.
- The Long Dated Gilt portfolio (Fund 2) and the Index Linked Gilt Portfolio (Fund 4) are both managed to track their respective benchmarks.

### Portfolio Activity

- During the 12-month period, we adjusted the Growth portfolio (Fund 1) in line with client instructions, reducing exposure to long-dated gilts.
- With the proceeds, we added to our exposure to emerging-market equities, global small-cap equities, European equities, North American equities and UK equities.
- In terms of significant flows during the period, £50 million was transferred from Fund 2 to Fund 1 in the fourth quarter of 2014 and £50 million was withdrawn from Fund 2 during the first quarter of 2015. The £60 million deficit contribution as at the end of June 2015 was invested into Fund 2.

### Performance returns for Executive Scheme to 30 June 2015

	1 year %		3 years %*		5 years %*	
	Fund	B/Mark	Fund	B/Mark	Fund	B/Mark
Fund 5.1 Growth Investment Grade Bonds	14.1	10.5	14.8	14.0	12.4	11.6
Fund 5.2 Long Dated Gilts	18.6	18.5	6.5	6.5	9.6	9.6
Fund 5.3 Sterling Investment Grade Bonds	6.1	6.5	6.8	6.6	7.0	6.8
Fund 5.4 Index Linked Gilts	15.9	15.8	7.5	7.5	9.8	9.7

Source for fund data is Columbia Threadneedle Investments, index information is provided by FactSet

Performance figures are total returns in sterling terms with fund prices calculated from month-end global close valuations, gross of fees.

\*Annualised returns for 3 and 5 year figures.

Note: The Long Dated Gilt Fund (Fund 5.2) and the Index Linked Bond Fund (Fund 5.4) are managed to track the long-gilt index benchmark and the index-linked benchmark respectively

### Performance Review

- Fund 5.1 (Growth Portfolio) outperformed the index, returning 14.1% against a benchmark return of 10.5%. The portfolio's asset allocation proved rewarding although most value was added through stock selection within the underlying funds. In particular, this outperformance was due to strong selections in the Europe, UK small-cap and Asia-Pacific portfolios.
- In the European equity portfolio, Ryanair delivered impressive results over the year; the low-cost airline is benefiting from improved customer-service initiatives and lower fuel costs. The stock was also buoyed by news that IAG has launched an offer for Irish airline Aer Lingus, in which Ryanair has a stake. Meanwhile, Novo Nordisk made encouraging comments regarding potential price increases during the period. The company reported some positive trial results for an oral type-2 diabetes drug, and announced that it was to reapply for approval of a key trial drug, Tresiba, in the US.
- Within the UK small-cap portfolio, the major stock contributors included Crest Nicholson, while the underweighting and eventual sale of Synergy Health also added value.
- In the Asia-Pacific portfolio, the overweight positions in Ping An Insurance, CK Hutchison

and Zhuzhou CSR Electric Times were among the top contributors over the year.

- The Sterling Investment Grade Bond portfolio (Fund 5.3) achieved a positive return but underperformed its benchmark over the 12 months under review. Sector positioning detracted from returns, notably the overweighting in sovereign debt, although the fund's selection of government bonds proved rewarding. Overall, security selection proved beneficial with Tesco among the top-performing issuers.
- The Long Dated Gilt Portfolio (Fund 5.2) and the Index Linked Gilt Portfolio (Fund 5.4) are both managed to track their respective benchmarks.

### Portfolio Activity

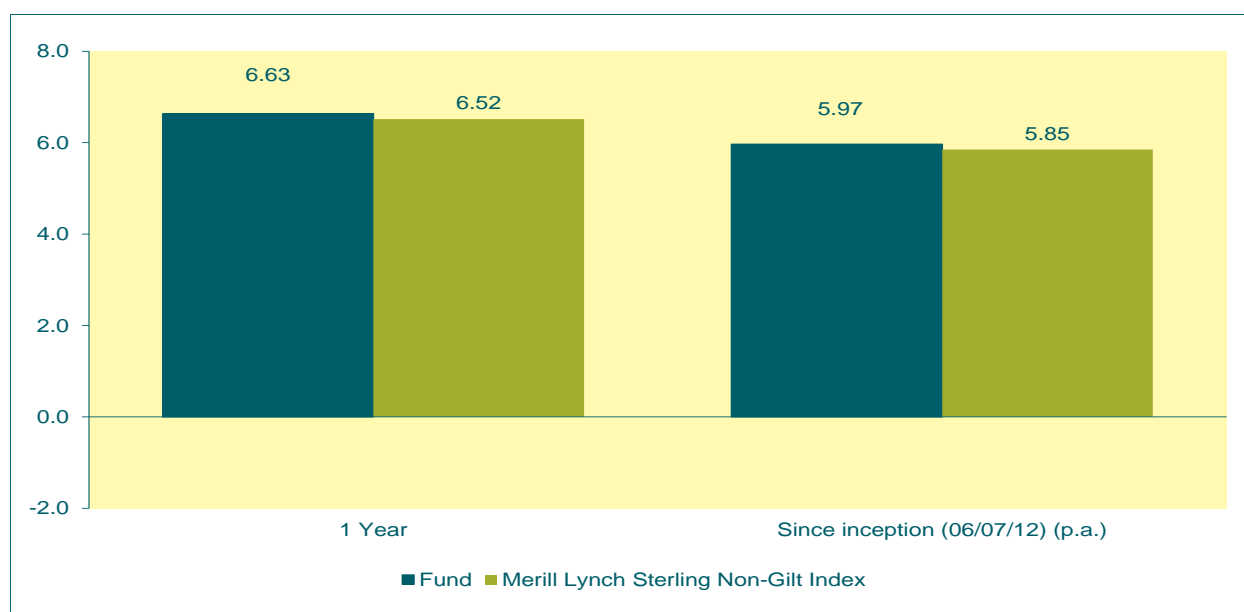
- During the 12-month period, we adjusted the Growth Portfolio (Fund 5.1) in line with client instructions, reducing exposure to US equities, specifically US small-cap equities.
- Conversely, we added to the exposure to Asia-Pacific equities, European equities and UK equities.
- In terms of significant flows during the period, the £1.7 million deficit contribution as at the end of June was invested into Fund 5.2.

Report from the investment managers – M&G Investments

Zurich Financial Services UK Pension Scheme: Public Bond Mandate

For the period  
1 July 2014 to 30 June 2015

Portfolio performance  
At 30 June 2015



\* Performance is calculated gross of fees.

\* Ex-Ante Tracking Error 1.19%

Performance attribution

Year to 30 June 2015

<b>Corporate bond sector selection</b>	<b>0.17%</b>
- Underweight Supranationals	
- Overweight Securitised	
- Overweight Financials	
- Overweight Dollar Credit	
<b>Corporate bond stock selection</b>	<b>-0.04%</b>
<b>Corporate bond duration</b>	<b>-0.02%</b>
<b>Total</b>	<b>0.11%</b>

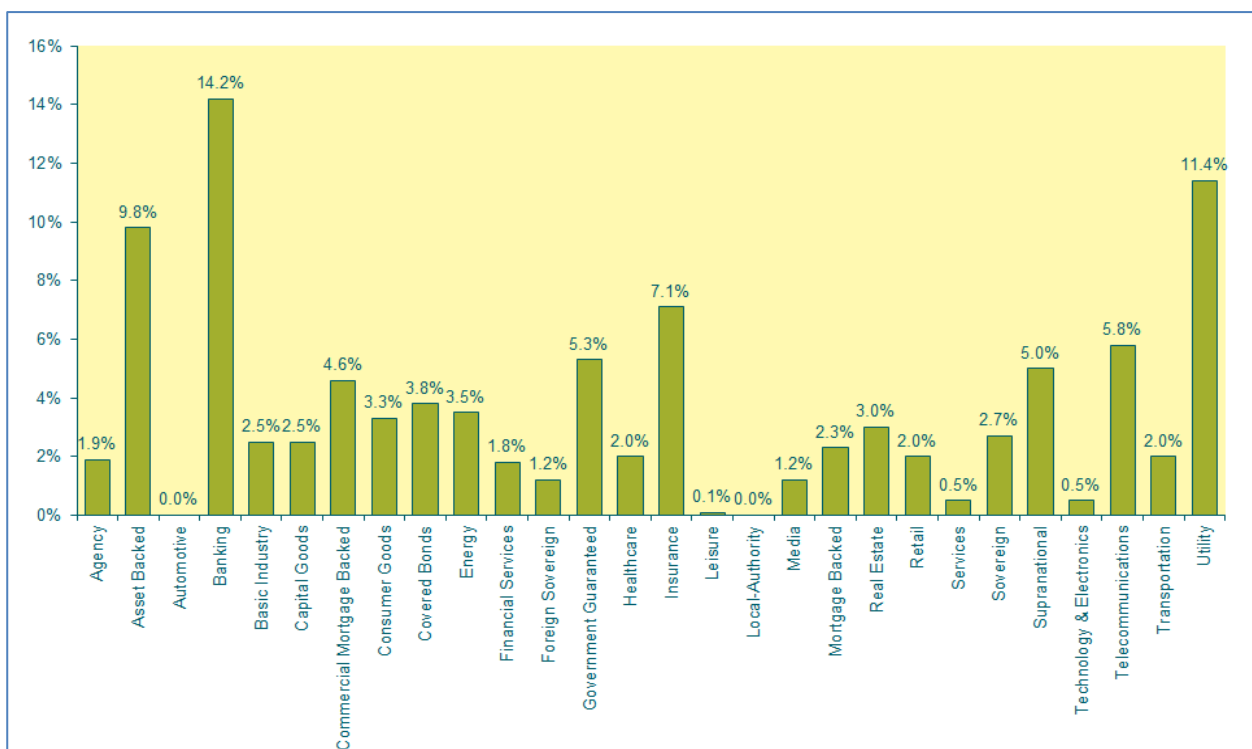
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Sector Distribution

#### At 30 June 2015

	End of year (%)	End of prior year (%)	Change in distribution (%)
Fixed interest gilts	2.7	1.5	1.2
Fixed interest non-gilts	85.3	94.3	-9.0
European bonds	3.4	2.8	0.6
US Corporate bonds	7.1	0.5	6.5
Cash and other liquid assets	1.5	0.9	0.7
Total	100.0	100.0	0.0



\* Merrill Lynch sector level 3

### Investment strategy during the period

The sterling corporate bond market performed well from mid-2014 to early 2015, as gilts prices and corporate bond spreads rose. Towards the middle of 2015 the sterling investment grade corporate bonds market fell in value primarily driven by a sharp fall in government bond prices. Portfolio activity predominantly focussed on taking part in new issues and identifying value opportunities in the secondary markets:

Stock level positioning remained a focus throughout the year. The portfolio continued to invest in new issues across different sectors, taking advantage of attractive valuations.

In 2014 the portfolio invested in Orange, a telecommunications company issued a £600mn 5.75% fixed rate hybrid issue, callable by the issuer in April 2023, Reed Elsevier, a media company issued a £300mn five year senior unsecured fixed rate bond, Health Care REIT, issued a £500mn 4.5% fixed rate senior unsecured bond maturing in December 2034, RSA Insurance issued a £400mn 5.125% fixed rate hybrid bond maturing in October 2045 (the bond was issued at an attractive spread of 2.8% over gilts).

In early 2015 the portfolio invested in Paragon, an established provider of affordable housing across the South East of England. They issued a £250mn 3.625% fixed rate bond maturing in 2047. Mondelez International, a food beverage company issued a £450mn 3.875% fixed rate bond maturing in 2045.

More recent examples include the purchase of the Sterling long dated debt of Denmark's largest energy company, DONG Energy. The debt will mature in 25 years and was generously priced compared to other Sterling denominated assets of similar maturity.

The portfolio also purchased the Sterling long dated debt of the British multinational financial services company, Legal and General. Our analysts view this company as being strongly

placed to continue to perform well within its sector.

The portfolio maintained its overweight position versus the benchmark in securitised bonds. We continued to identify attractively priced assets in the securitised market.

In early 2015, the portfolio increased its exposure to US Dollar corporate bonds. The additional yield offered by US\$ denominated corporate bonds versus corporate bonds issued in Sterling widened during the latter half of 2014, resulting in US\$ denominated corporate bonds becoming attractively priced relative to Sterling corporate debt.

As the price of oil collapsed in late 2014, the additional yields offered by the debt of global energy providers such as BP and Shell climbed to attractive levels. These energy giants are more resilient to a low oil price than some of their less diversified domestic peers; hence the US dollar denominated debt of both organisations was purchased.

In addition, the portfolio also purchased the US\$ debt of Talisman Energy, a Canadian oil and gas company. The company is currently in the process of being purchased by Spanish global energy firm, Repsol. Talisman's debt currently trades at a significantly lower price than the debt of Repsol. This price differential should converge as the merger moves forward.

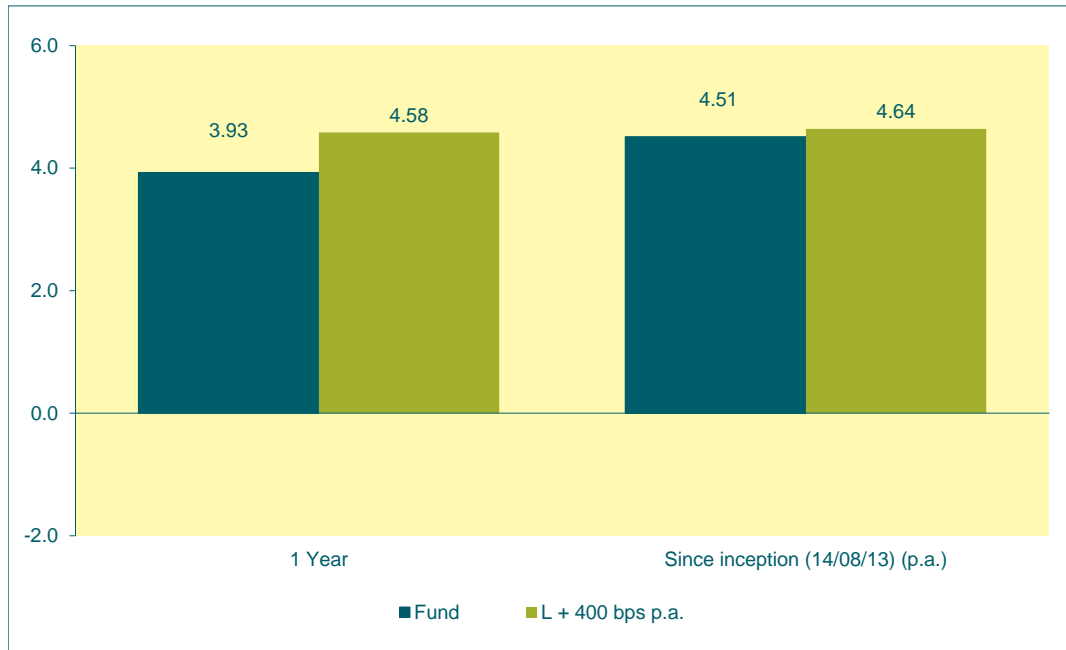
Throughout the period the portfolio maintained its underweight position in government guaranteed and supranational bonds. These securities offer poor value compared to other areas of the Sterling investment grade market. We therefore retained our underweight position in these sectors

The portfolio removed its small short duration position relative to the benchmark and returned to a neutral duration position. In 2015 the small short duration position was closed as gilt yields, which had fallen to historic lows, increased during the second quarter of 2015.

## Zurich Financial Services UK Pension Scheme: European Loan mandate

*For the period*  
*01 July 2014 to 30 June 2015*

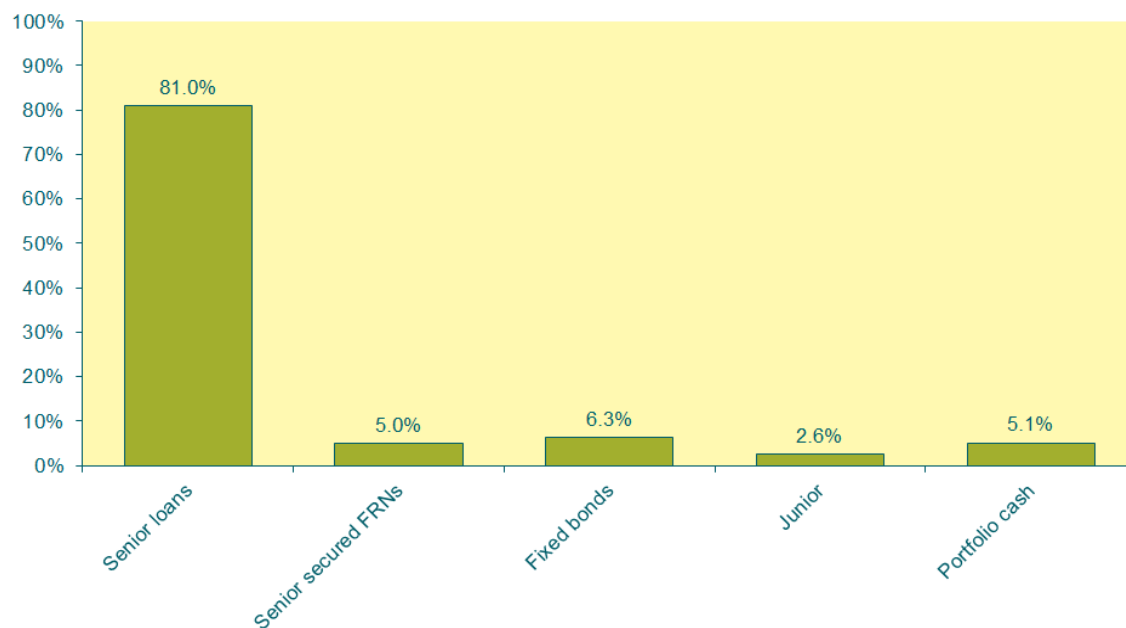
**Portfolio performance**  
**At 30 June 2015**



\* Performance is calculated gross of fees

\* Benchmark is 3-month LIBOR + 400bps per annum in the medium term (3-5 years)

**Portfolio split**  
**At 30 June 2015**



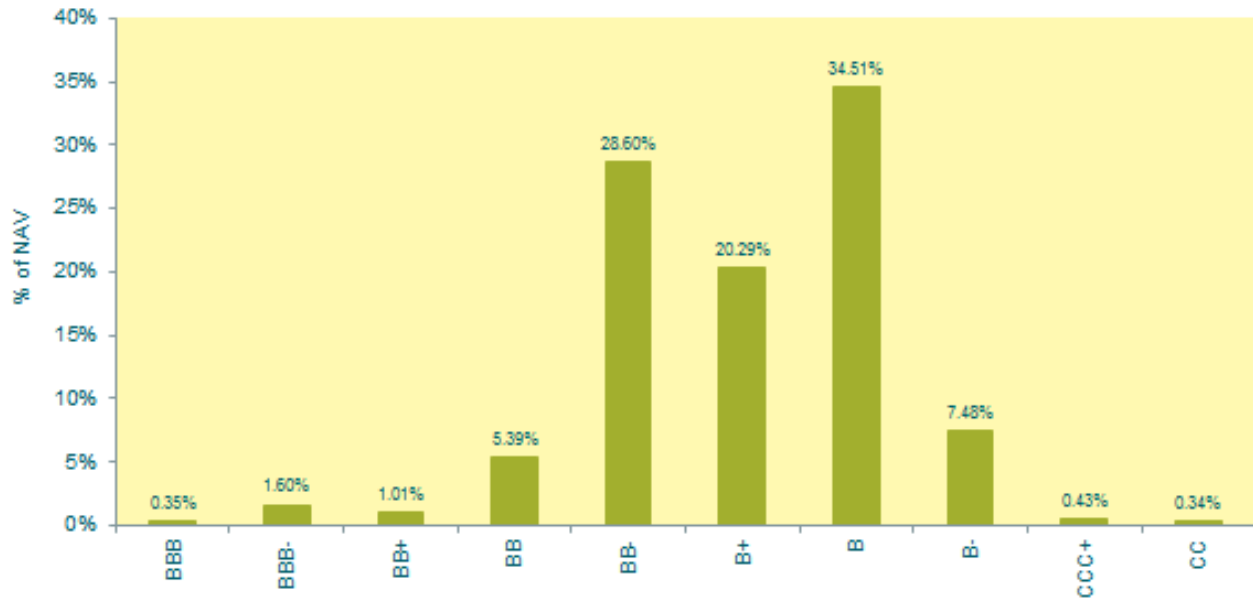


# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

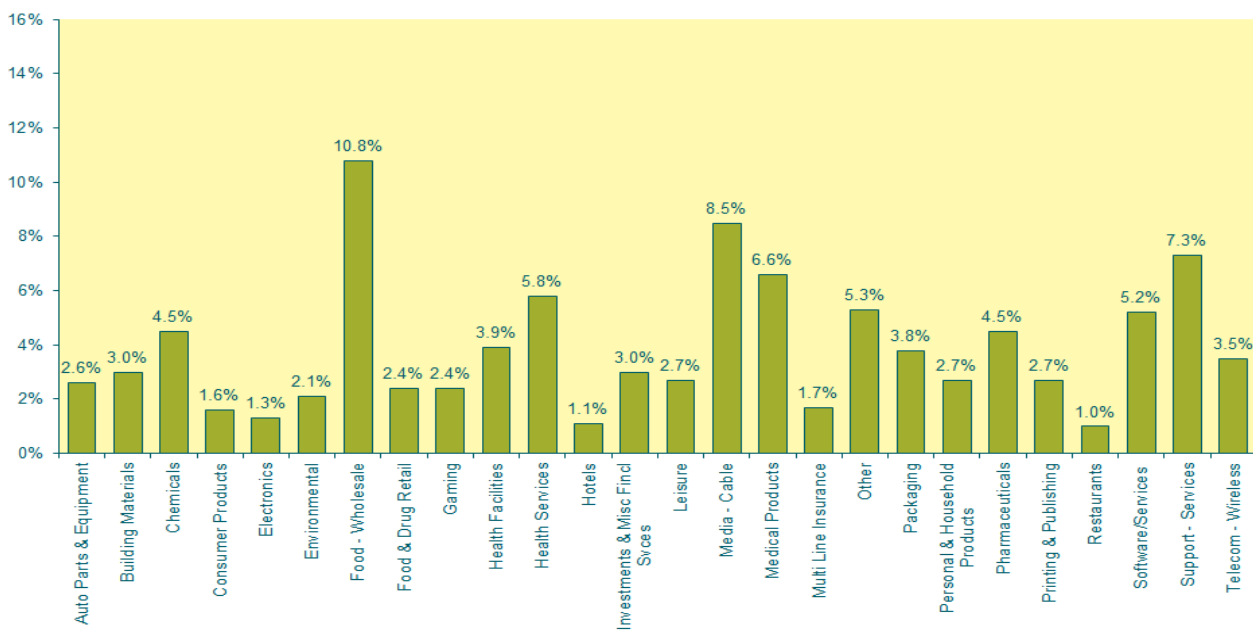
### Ratings split – using M&G internal ratings

At 30 June 2015



### Sector split

At 30 June 2015



\* Merrill Lynch sector level 4

### Investment strategy through the period

The loan mandate was established on 15 August 2013. The portfolio manager has had the following strategy for the management of the loan portfolio in the last year:

Maintaining issuer diversity within the portfolio. European leveraged loans exhibit asymmetric risk-reward characteristics and as such high levels of specific risk are not desirable within a portfolio. By the end of the reporting period, the loan portfolio had exposure to 106 different issuers (significantly ahead of the stated minimum number of 75 holdings and ahead of the 99 issuers held in the portfolio this time last year).

Aiming to maintain as close to full investment as possible, minimising cash drag on the portfolio. This has been a particular challenge in the year given the high level of prepayments experienced by the portfolio (22% for the first half of 2015, and 31% over the 12 months to 30th June 2015). The issue has been compounded by a lower loan issuance than the equivalent period last year (although a high level of repayments is indicative more generally of increased corporate activity from which new loan investment opportunities should follow, albeit with a lag). However, the fund had a proforma cash balance of just 5% of NAV at the end of the reporting period. The manager sought to deploy the additional £50m subscription made to the fund in March as quickly but as judiciously as practicable and this process is now largely complete.

Maintaining a high level of portfolio quality to minimise risk of credit stress. The portfolio has been invested in senior secured loans with only limited investments in junior secured loans, where demonstrable additional value could be identified. M&G's loan team has maintained very high levels of rejection rates in new primary transactions (72% of all deals seen in 2015 through the end of the second quarter), the highest levels of selectivity since the credit crisis. As before, the loan mandate has only invested in those loans that have satisfied M&G's rigorous credit standards and the fund currently has a single holding subject to review by M&G's Major Problem Credit Committee, representing less than 1% of the fund's value

Delivering lower volatility of fund returns than the wider loan market. European leveraged loans generally exhibit lower volatility than other asset classes and the strategy for M&G's loan funds is to deliver performance with volatility that is lower still than the wider European loan market by careful credit selection and assiduous on-going monitoring.

Tactical use of non-loan investment permissions. The loan mandate incorporates the flexibility to invest tactically in fixed rate bonds, and the portfolio manager has utilised this flexibility to add a small number of secured fixed rate bond positions to the portfolio. Indeed, rates-related weakness in the high yield market during the quarter has offered several opportunities leading to further additions being made to the portfolio. However, given the greater relative stability seen generally in the loan market this fixed exposure has remained limited and stood at 6.4% of NAV by the end of the period, a modest increase only on the level reported this time last year.

Maximising value from indifference to currency. Other loan market participants like structured loan vehicles (CLOs) typically have a preference for EUR-denominated loan issues. There can therefore be value derived from investing in non-EUR denominated issues (in pricing or terms), all of which are hedged back to GBP using monthly forward FX contracts. By the end of the reporting period, the portfolio had invested in assets denominated in 10 different currencies, and 42% of the portfolio was denominated in currencies other than EUR.

**Independent auditors' report to the trustees of the Zurich Financial Services UK Pension Scheme**

**Report on the financial statements**

**Our opinion**

In our opinion the financial statements, defined below:

- show a true and fair view of the financial transactions of the scheme during the year ended 30 June 2015, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

**What we have audited**

Zurich Financial Services UK Pension Scheme's financial statements comprise:

- the net assets statement as at 30 June 2015;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the trustees; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the trustees' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Our responsibilities and those of the trustees**

As explained more fully in the statement of trustees' responsibilities, the trustees are responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the trustees 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*  
**PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
Bristol

Date *23 November 2015*

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial Statements

#### Fund account for year ended 30 June 2015

Amount in £'000	Note	ZPension-Builder	ZCash-Builder	ESExec	2015 total	2014 total
<b>Contributions and other income</b>						
Contributions	4	754,973	22,573	1,737	779,283	123,212
Transfers in	5	97	1,215	-	1,312	1,608
Other income	6	342	-	-	342	1,258
		<b>755,412</b>	<b>23,788</b>	<b>1,737</b>	<b>780,937</b>	<b>126,078</b>
<b>Benefits and other payments</b>						
Benefits Payable	7	(135,834)	(4,557)	(7,831)	(148,222)	(145,093)
Payments to and on account of leavers	8	(33,088)	(4,190)	(4,014)	(41,292)	(14,813)
Other payments	9	(637)	-	-	(637)	(645)
Administrative expenses	10	(6,036)	-	(65)	(6,101)	(4,674)
		<b>(175,595)</b>	<b>(8,747)</b>	<b>(11,910)</b>	<b>(196,252)</b>	<b>(165,225)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>579,817</b>	<b>15,041</b>	<b>(10,173)</b>	<b>584,685</b>	<b>(39,147)</b>
<b>Returns on investments</b>						
Investment income	11	219,540	1	2,134	221,675	158,198
Change in market value of investments	12	615,861	9,133	19,285	644,279	226,299
Investment management expenses	13	(9,115)	-	(261)	(9,376)	(8,526)
		<b>826,286</b>	<b>9,134</b>	<b>21,158</b>	<b>856,578</b>	<b>375,971</b>
<b>Net increase in the scheme</b>		<b>1,406,103</b>	<b>24,175</b>	<b>10,985</b>	<b>1,441,263</b>	<b>336,824</b>
<b>Net assets of the scheme</b>						
<b>At start of year</b>		<b>4,934,537</b>	<b>116,286</b>	<b>160,349</b>	<b>5,211,172</b>	<b>4,874,348</b>
<b>At end of year</b>		<b>6,340,640</b>	<b>140,461</b>	<b>171,334</b>	<b>6,652,435</b>	<b>5,211,172</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial statements

#### Net assets statement at 30 June 2015

Amount in £'000	Note	ZPension-Builder	ZCash-Builder	EExec	2015 total	2014 total
<b>Assets not designated to members</b>						
Investment assets	12	6,439,071	2,409	171,934	6,613,414	5,132,828
Investment liabilities	12	(98,709)	-	(318)	(99,027)	(32,047)
Current assets	14	15,761	15	299	16,075	7,983
Current liabilities	15	(13,905)	-	(581)	(14,486)	(10,578)
		6,342,218	2,424	171,334	6,515,976	5,098,186
<b>Assets designated to members</b>						
Investment assets	12	-	136,264	-	136,264	112,635
Current assets	14	-	2,232	-	2,232	1,745
Current liabilities	15	(1,578)	(459)	-	(2,037)	(1,394)
		(1,578)	138,037	-	136,459	112,986
<b>Net assets of the scheme at 30 June</b>		<b>6,340,640</b>	<b>140,461</b>	<b>171,334</b>	<b>6,652,435</b>	<b>5,211,172</b>

The financial statements summarise the transactions and net assets of the scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the scheme year are not dealt with in the financial statements. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the statement by the actuary on [page 21](#) and in the section entitled 'valuing the benefits' on [pages 18 to 20](#) of the trustee's report and these financial statements should be read in conjunction with those pages. The actuary's statement, made under Section 222 of The Pensions Act 2004 and dated 28 August 2014, is based on a valuation with an effective date of 30 June 2013. The accompanying notes form part of these financial statements.

The financial statements on [pages 42 to 57](#) were approved by the trustees on 11 November 2015 and are signed on their behalf by:

Director



Name

SP Rickert

### 1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007) ("the revised SORP").

### 2. Additional personal contributions

Some members paid additional personal contributions (APCs) during the year to increase their pension entitlement on retirement. There are further details in note 4. Contributions are separately invested in a policy with Zurich Assurance Ltd.

### 3. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements.

#### a) Investments

Equities traded through the Stock Exchange Electronic Trading Service ("SETS") are valued on the basis of the bid price. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market. Pooled funds have been valued at the closing bid price as advised by the investment manager.

Accrued interest is excluded from the market value of fixed interest securities and index linked securities but is included in investment income receivable.

Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

Insurance policies are included in the financial statements at a valuation undertaken by the insurer. Where they provide all the benefits payable to particular members of the scheme, effectively discharging the trustees' full liability towards such members, these policies have been included in the financial statements at nil value. The purchase cost of annuities is charged to the fund account as benefits payable.

The trustees interest in the Scottish Limited Partnership (SLP) has been valued by the trustees, having consulted with its advisers, at fair value. The fair value is calculated by an independent pricing agent using a discounted cash flow model based on the expected present value of future cash flows, arising over the partnership arrangement.

#### b) Investment income

Income from equities, and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/ interest.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

Income from fixed interest, index-linked securities, cash and short term deposits is accounted for on an accruals basis.

Income arising from the trustees interest in the SLP is accounted for in accordance with the agreement under which it is paid.

Income arising from annuity policies is included in investment income and the pensions paid included in pension payments.

#### c) Derivatives

Derivative contracts are valued at fair value. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices.

Derivative contracts' changes in fair value are included in change in market value where the economic purpose of the contracts relates to assets. Where the economic purpose relates to income, the change in fair value is included in investment income.

The fair value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

**Financial statements**

**Notes to the financial statements (continued)**

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The fair value of interest rate swaps is calculated by the investment manager, using discounted cash flow pricing models based on the current value of future expected net cash flows arising over the swap, taking into account the time value of money, or the market price of comparable instruments at the year end date, if they are publicly traded. Therefore interest is accrued monthly on a basis consistent with the terms of the contract.

The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gain and losses on open contracts. Net interest rate receipts and payments on swap contracts are reported in investment income and expense respectively.

Exchange traded futures are valued as the sum of the daily mark to market, which is calculated as the difference between the settlement prices at the reporting date and the inception date.

**d) Foreign currencies**

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.

**e) Contributions**

Normal contributions from both the employer and members are accounted for on an accruals basis in the payroll period to which they relate.

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

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Additional personal contributions from the members are accounted for, on an accruals basis, in the month deducted from the payroll.

Employers' deficit funding contributions, contributions to purchase the interest in the SLP and other contributions are accounted for in accordance with the agreement under which they are being paid, or in the absence of an agreement, on a receipt basis.

**f) Benefits**

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 and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the scheme as appropriate.

**g) Transfers to and from other schemes**

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or other Zurich group companies or payable to the pension schemes of new employers for members who have left the scheme. They are accounted for on a cash basis or, where the trustees have agreed to accept the liability in advance of receipt of funds, on an accruals basis from the date of the agreement.

**h) Other expenses and other income**

Other income, administrative expenses, premiums on term insurance policies and investment management expenses are accounted for on an accruals basis.



# Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2015

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Notes to the financial statements

## 4. Contributions

Amount in £'000	ZPension-Builder	ZCash-Builder	ESExec	2015 total	2014 total
<b>Employers</b>					
- Normal	51,867	13,176	-	65,043	59,700
- Deficit reduction plan	-	-	1,700	1,700	49,900
- To purchase an interest in SLP	697,000	-	-	697,000	-
- Additional contributions arising from salary sacrifice	-	7,700	-	7,700	6,812
- Augmentations	1,806	-	-	1,806	673
- Other contributions	4,300	-	37	4,337	4,361
<b>Members</b>					
- Additional personal contributions	-	1,697	-	1,697	1,766
	<b>754,973</b>	<b>22,573</b>	<b>1,737</b>	<b>779,283</b>	<b>123,212</b>

Following the latest triennial valuation at 30 June 2013 the company and the trustees agreed to fund the ZPensionBuilder deficit by entering into an SLP with effect from the 31 July 2014. The scheme received a special contribution of £697m which was used to purchase an interest in the SLP. Under the partnership agreement the trustees will receive an annual income of at least £60m with effect from June 2015. Income from the SLP is reflected as investment income in note 11. In addition an annual contribution of £4.3m is being paid to ZPensionBuilder to cover scheme expenses including the PPF levy. These contributions were previously included as part of the employers normal contribution.

An annual deficit contribution of £1.7m will continue to be paid under the ESEExec section. Other contributions of £37k are also paid to the ESEExec section of the scheme, to cover expenses.

## 5. Transfers in

Amount in £'000	ZPension-Builder	ZCash-Builder	ESEExec	2015 total	2014 total
Individual transfers	97	1,215	-	1,312	1,608
	<b>97</b>	<b>1,215</b>	<b>-</b>	<b>1,312</b>	<b>1,608</b>

Transfers in are received from other schemes within the Zurich group of companies worldwide.

## 6. Other income

Amount in £'000	ZPension-Builder	ZCash-Builder	ESEExec	2015 total	2014 total
Claims on life assurance policy	342	-	-	342	1,252
Bank interest	-	-	-	-	6
	<b>342</b>	<b>-</b>	<b>-</b>	<b>342</b>	<b>1,258</b>

The company pays contributions to ZPensionBuilder in respect of death and ill health benefits for all members of both ZPensionBuilder and ZCashBuilder. These contributions are included as part of normal contributions in note 4. As such, these benefits are settled from ZPensionBuilder for all members.

# Zurich Financial Services UK Pension Scheme

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### Notes to the financial statements

#### 7. Benefits

Amount in £'000	ZPension-Builder	ZCash-Builder	EExec	2015 total	2014 total
Pensions	115,457	-	7,831	123,288	117,383
Commutations and lump sum retirement benefits	19,878	3,997	-	23,875	24,853
Lump sum death benefits	499	3	-	502	2,155
Purchase of annuities	-	557	-	557	702
	<b>135,834</b>	<b>4,557</b>	<b>7,831</b>	<b>148,222</b>	<b>145,093</b>

#### 8. Payments to and on account of leavers

Amount in £'000	ZPension-Builder	ZCash-Builder	EExec	2015 total	2014 total
Payments for members joining state scheme	-	-	-	-	2
Individual transfers to other schemes	33,088	4,190	4,014	41,292	14,811
	<b>33,088</b>	<b>4,190</b>	<b>4,014</b>	<b>41,292</b>	<b>14,813</b>

#### 9. Other payments

Amount in £'000	ZPension-Builder	ZCash-Builder	EExec	2015 total	2014 total
Payments to life assurance policy	637	-	-	637	645
	<b>637</b>	<b>-</b>	<b>-</b>	<b>637</b>	<b>645</b>

Following advice from the scheme actuary, the trustees take out a life insurance policy to cover lump sum death benefits. This benefit is insured with Zurich Assurance Ltd. Included within normal contributions, the company pays contributions to ZPensionBuilder in respect of death and ill health benefits for all members of both ZPensionBuilder and ZCashBuilder. As such, these benefits are settled from ZPensionBuilder for all members.

#### 10. Administrative expenses

All administrative expenses and investment management fees are borne by the scheme. Settlement of the administrative expenses is made initially by the Zurich group and recharged quarterly to the trustees.

Amount in £'000	ZPension-Builder	ZCash-Builder	EExec	2015 total	2014 total
Recharges by Zurich group companies	1,253	-	-	1,253	1,256
Third party professional services	4,783	-	65	4,848	3,418
	<b>6,036</b>	<b>-</b>	<b>65</b>	<b>6,101</b>	<b>4,674</b>

Included in the total above is £102,000 (2014: £101,000) paid to professional trustees in respect of their services to the scheme and to other trustees as out of pocket expenses.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial statements

#### Notes to the financial statements (continued)

#### 11. Investment income

Amount in £'000	ZPension- Builder	ZCash- Builder	ESExec	2015 total	2015 total
Equities and convertibles	24,629	-	-	24,629	24,000
Index linked securities	9,996	-	383	10,379	10,667
Fixed interest securities	103,463	-	1,411	104,874	107,628
Income from SLP	60,000	-	-	60,000	-
Loan fund	10,010	-	-	10,010	4,484
Swaps	10,640	-	-	10,640	9,999
Cash deposits	254	-	-	254	479
Annuity income	529	-	30	559	544
Sundry income	19	1	310	330	397
	<b>219,540</b>	<b>1</b>	<b>2,134</b>	<b>221,675</b>	<b>158,198</b>

# Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2015

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Notes to the financial statements (continued)

## 12. Investments

### a) Zurich Financial Services UK Pension Scheme - investments held at year end

Amount in £'000	ZPension-Builder	ZCash-Builder	ESExec	30 June 2015 scheme total	30 June 2014 scheme total
<b>Investment assets</b>					
UK quoted	400,888	-	-	400,888	340,429
Overseas quoted	668,321	-	-	668,321	548,855
<i>Equities and convertibles</i>	1,069,209	-	-	1,069,209	889,284
UK public sector	858,366	-	47,271	905,637	809,410
UK other	253,265	-	-	253,265	232,109
<i>Index linked securities</i>	1,111,631	-	47,271	1,158,902	1,041,519
UK government bonds	1,421,237	-	46,741	1,467,978	1,306,906
UK corporate bonds	641,015	-	-	641,015	611,797
Overseas government and corporate bonds	633,488	-	-	633,488	610,745
<i>Fixed interest securities</i>	2,695,740	-	46,741	2,742,481	2,529,448
Interest in SLP	782,000	-	-	782,000	-
<i>Interest in SLP</i>	782,000	-	-	782,000	-
<b>Total direct investment assets</b>	<b>5,658,580</b>	<b>-</b>	<b>94,012</b>	<b>5,752,592</b>	<b>4,460,251</b>
Foreign currency instruments	1,020	-	-	1,020	740
Swap assets	89,574	-	-	89,574	8,327
Fixed income futures	669	-	-	669	-
<b>Derivatives</b>	<b>91,263</b>	<b>-</b>	<b>-</b>	<b>91,263</b>	<b>9,067</b>
Managed funds - property	159,898	-	6,340	166,238	142,215
Managed funds - other	-	-	66,994	66,994	65,821
<i>Threadneedle Pensions Ltd Investments</i>	159,898	-	73,334	233,232	208,036
Managed funds - other	42,238	-	3,174	45,412	38,811
<i>Threadneedle Investment Fund Investments</i>	42,238	-	3,174	45,412	38,811
European loan fund	301,230	-	-	301,230	242,502
<i>Loan fund</i>	301,230	-	-	301,230	242,502
<b>Pooled investment vehicles</b>	<b>503,366</b>	<b>-</b>	<b>76,508</b>	<b>579,874</b>	<b>489,349</b>
Post 2007 ZCashBuilder investments	-	127,527	-	127,527	103,205
ZPen supplementary funds	-	3,530	-	3,530	3,410
Pre 2007 AVCs	-	7,616	-	7,616	8,146
<b>ZCashBuilder investments</b>	<b>-</b>	<b>138,673</b>	<b>-</b>	<b>138,673</b>	<b>114,761</b>
Balances due from brokers	17,800	-	416	18,216	6,461
Cash and deposits	127,844	-	583	128,427	128,488
Income receivable	35,233	-	413	35,646	35,989
Income tax recoverable	1,209	-	2	1,211	1,097
Variation margin	3,776	-	-	3,776	-
<b>Total other investment assets</b>	<b>185,862</b>	<b>-</b>	<b>1,414</b>	<b>187,276</b>	<b>172,035</b>
<b>Total Investment assets</b>	<b>6,439,071</b>	<b>138,673</b>	<b>171,934</b>	<b>6,749,678</b>	<b>5,245,463</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial statements

#### Notes to the financial statements (continued)

#### 12. Investments (continued)

##### a) Zurich Financial Services UK Pension Scheme - investments held at year end (continued)

Amount in £'000	ZPension- Builder	ZCash- Builder	ESExec	30 June 2015 scheme total	30 June 2014 scheme total
<b>Investment liabilities</b>					
Foreign currency instruments	(128)	-	-	(128)	-
Swap liabilities	-	-	-	-	(10,578)
Fixed income futures	(1,050)	-	-	(1,050)	-
<i>Derivatives</i>	(1,178)	-	-	(1,178)	(10,578)
Balances due to brokers	(18,185)	-	(318)	(18,503)	(12,099)
Obligation to return collateral	(79,346)	-	-	(79,346)	(9,370)
<i>Other investment liabilities</i>	(97,531)	-	(318)	(97,849)	(21,469)
<b>Total investment liabilities</b>	<b>(98,709)</b>	<b>-</b>	<b>(318)</b>	<b>(99,027)</b>	<b>(32,047)</b>
<b>Total net investments</b>	<b>6,340,362</b>	<b>138,673</b>	<b>171,616</b>	<b>6,650,651</b>	<b>5,213,416</b>

# Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2015

Financial statements

Notes to the financial statements (continued)

## 12. Investments (continued)

### b) ZPensionBuilder - reconciliation of movements in investments during the year

Amount in £'000	Value as at 1 July 2014	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value as at 30 June 2015
Equities and convertibles	889,284	539,969	(430,722)	70,678	1,069,209
Index linked securities	998,274	116,539	(139,250)	136,068	1,111,631
Fixed interest securities	2,488,899	715,049	(712,462)	204,254	2,695,740
<i>Direct investments</i>	<i>4,376,457</i>	<i>1,371,557</i>	<i>(1,282,434)</i>	<i>411,000</i>	<i>4,876,580</i>
Swaps	(2,251)	-	-	91,825	89,574
Foreign currency instruments	740	6,460	(6,826)	518	892
Fixed income futures	-	134	(1,824)	1,309	(381)
<i>Derivatives</i>	<i>(1,511)</i>	<i>6,594</i>	<i>(8,650)</i>	<i>93,652</i>	<i>90,085</i>
Managed funds-property	136,727	-	-	23,171	159,898
<i>Threadneedle Pensions Ltd investments</i>	<i>136,727</i>	<i>-</i>	<i>-</i>	<i>23,171</i>	<i>159,898</i>
American Smaller Companies Growth Fund	5,264	-	-	978	6,242
India fund	10,032	3,152	-	1,682	14,866
High yield bond fund	20,507	-	-	623	21,130
<i>Threadneedle Investment Funds investments</i>	<i>35,803</i>	<i>3,152</i>	<i>-</i>	<i>3,283</i>	<i>42,238</i>
European loan fund	242,502	60,010	-	(1,282)	301,230
<i>Loan fund</i>	<i>242,502</i>	<i>60,010</i>	<i>-</i>	<i>(1,282)</i>	<i>301,230</i>
Interest in SLP	-	697,000	-	85,000	782,000
<i>Interest in SLP</i>	<i>-</i>	<i>697,000</i>	<i>-</i>	<i>85,000</i>	<i>782,000</i>
<b>ZPensionBuilder investments</b>	<b>4,789,978</b>	<b>2,138,313</b>	<b>(1,291,084)</b>	<b>614,824</b>	<b>6,252,031</b>
Other investment assets					
Cash and deposits	126,899			1,025	127,844
Balances due from brokers	6,275			17	17,800
Balances due to brokers	(11,937)			(5)	(18,185)
Income receivable	35,587			-	35,233
Income tax recoverable	1,097			-	1,209
Obligation to return collateral	(9,370)			-	(79,346)
Variation margin	-			-	3,776
<i>ZPensionBuilder other assets and liabilities</i>	<i>148,551</i>			<i>1,037</i>	<i>88,331</i>
<b>ZPensionBuilder total net investments</b>	<b>4,938,529</b>			<b>615,861</b>	<b>6,340,362</b>

Sales proceeds are shown net of transaction costs of £675,912 (2014: £917,000) and purchases are shown including transaction costs of £1,295,142 (2014: £1,055,000). In addition to these transaction costs, indirect costs are borne by the scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the price of these investments and are not therefore separately identifiable.

# Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2015

## Financial statements

### Notes to the financial statements (continued)

#### 12. Investments (continued)

##### c) ZCashBuilder – reconciliation of movements in investments during the year

Amount in £'000	Value as at 1 July 2014	Purchases at cost	Sales proceeds	Change in market value	Value as at 30 June 2015
Post 2007 ZCashBuilder investments	103,205	29,051	(13,020)	8,291	127,527
ZPen Supplementary funds & Pre 2007 AVCs	11,556	166	(1,418)	842	11,146
<b>ZCashBuilder investments</b>	<b>114,761</b>	<b>29,217</b>	<b>(14,438)</b>	<b>9,133</b>	<b>138,673</b>

Of the total investments figure £136,264,000 (2014: £112,635,000) is designated to members. The remaining £2,409,000 (2014: £2,126,000) relates to amounts not designated to members.

##### d) ESExec – reconciliation of movements in investments during the year

Amount in £'000	Value as at 1 July 2014	Purchases at cost	Sales proceeds	Change in market value	Value as at 30 June 2015
Index linked securities	43,245	5,573	(7,953)	6,406	47,271
UK government securities	40,549	7,586	(7,480)	6,086	46,741
<i>Direct investments</i>	<i>83,794</i>	<i>13,159</i>	<i>(15,433)</i>	<i>12,492</i>	<i>94,012</i>
Property	5,488	46	(70)	876	6,340
UK Smaller Companies	4,434	95	(256)	774	5,047
European Equities Fund	4,392	295	(306)	398	4,779
North American Equities Fund	3,046	65	(553)	530	3,088
Japanese Equities Fund	2,190	40	(163)	423	2,490
Pacific Basin Equities Fund	2,896	146	(165)	379	3,256
Corporate Bonds	44,293	156	(3,542)	2,659	43,566
UK Equity Fund	4,570	209	(214)	203	4,768
<i>Threadneedle Pensions Ltd investments</i>	<i>71,309</i>	<i>1,052</i>	<i>(5,269)</i>	<i>6,242</i>	<i>73,334</i>
American Smaller Companies Fund	3,008	50	(435)	551	3,174
<i>Threadneedle Investment Funds investments</i>	<i>3,008</i>	<i>50</i>	<i>(435)</i>	<i>551</i>	<i>3,174</i>
<b>ESExec total investments</b>	<b>158,111</b>	<b>14,261</b>	<b>(21,137)</b>	<b>19,285</b>	<b>170,520</b>
Cash and deposits	1,589				583
Balances due from brokers	186				416
Balances due to brokers	(162)				(318)
Interest receivable	402				413
Income tax recoverable	2				2
<i>Cash balances and other assets and liabilities</i>	<i>2,015</i>				<i>1,096</i>
<b>ESExec total net investments</b>	<b>160,126</b>				<b>171,616</b>

Sales proceeds are shown net of transaction costs of £nil (2014: £nil) and purchases are shown including transaction costs of £nil (2014: £nil). In addition to these transaction costs, indirect costs are borne by the scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the price of these investments and are not therefore separately identifiable.



# Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2015

## Financial statements

### Notes to the financial statements (continued)

#### 12. Investments (continued)

e) Investments are managed by Columbia Threadneedle Investments (in conjunction with Threadneedle Asset Management Ltd) and M&G Investment Management Limited. These companies are all registered in the United Kingdom.

f) Investments for ZCashBuilder (post 2007) are available through a Corporate Investment Plan provided by Zurich Assurance Ltd.

g) The trustees hold assets invested separately from ZPensionBuilder assets to secure additional benefits on a money purchase basis for those ZPensionBuilder members electing to pay APCs. These assets are held in ZCashBuilder.

#### h) The valuation of pre 2007 AVCs as at 30 June 2015 can be broken down as follows:

Amount in £'000		2015
With profits	Zurich Assurance Ltd	1,197
Unit linked	Zurich Assurance Ltd	2,548
Unit linked	Threadneedle Pensions Ltd	2,552
Deposit accounts	ReAssure Ltd	1,319
<b>ZPen section</b>		<b>7,616</b>

#### i) Interest in SLP

Following the latest triennial valuation at 30 June 2013 the company and the trustees agreed to fund the deficit by entering into a Scottish Limited Partnership with effect from the 31 July 2014. The scheme received a special contribution from the employer of £697m which was used to purchase an interest in the SLP. The partnership arrangement is structured by way of unsecured loans guaranteed by Zurich Insurance Company Ltd and will generate an annual income of £60 million with the first payment received in June 2015. The income stream will cease after 24 years or sooner if certain funding conditions are met or if certain prescribed events occur.

The trustees and the company jointly appointed Goldman Sachs as pricing agent to prepare a valuation for financial statements purposes of the partnership interest at inception and each year end. The valuation is based on the expected present value of future cash flows arising over the partnership arrangement, applying a discount rate of gilts+1%. These expected future cash flows and their present value are determined using stochastic model that allows for variation in a range of economic parameters (including interest rates, inflation and equity prices) that affect, amongst other things, potential asset and liability values of the scheme through time. Liabilities are calculated at each pricing date with reference to the actual asset mix at 30 June 2013. Goldman Sachs concluded that on inception the fair value of the schemes partnership interest was equivalent to its purchase cost. As at the 30 June 2015, the fair value was £782m (2014: nil).

The trustees have taken advice that the partnership is structured in such a way that it does not constitute an employer-related investment. However the involvement of Zurich group companies in the partnership results in the investment being classed as a related party. In the event of insolvency of Zurich Insurance Company Ltd or any of the schemes employers, the scheme is entitled to receive a recovery amount.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial statements

#### Notes to the financial statements (continued)

## 12. Investments (continued)

### j) Derivative contracts

#### Foreign currency instruments

In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments.

As at 30 June 2015 the scheme had 22 (2014:21) open over the counter forward foreign currency contracts, with settlement dates within one month as follows:

Number of contracts	Currency bought		Currency sold		Assets	Liabilities	Net asset/(liability)
	'000		'000		£'000	£'000	£'000
1	BRL	1,294	GBP	(266)	-	(1)	(1)
3	EUR	33,820	GBP	(24,076)	-	(116)	(116)
1	EUR	66	USD	(74)	-	-	-
7	GBP	55,787	EUR	(77,454)	859	-	859
1	GBP	796	HKD	(9,707)	-	-	-
3	GBP	20,917	USD	(32,628)	161	-	161
1	GBP	1,025	ZAR	(19,728)	-	(8)	(8)
2	MXN	15,303	GBP	(622)	-	(2)	(2)
1	SEK	2,284	EUR	(248)	-	(1)	(1)
2	USD	125	JPY	(15,253)	-	-	-
					<b>1,020</b>	<b>(128)</b>	<b>892</b>

#### Swaps

As detailed on page 22 interest rate swaps are held to decrease the scheme's risk to the impact of interest rate fluctuations.

The scheme held the following over the counter interest rate swaps as at 30 June 2015, with settlement dates in 2043:

Nature of Swap	Notional principal	Assets	Liabilities
	£'000	£'000	£'000
Pay 6 month LIBOR for 3.06%	50,000	7,538	-
Pay 6 month LIBOR for 3.035%	50,000	7,271	-
Pay 6 month LIBOR for 2.993%	50,000	6,822	-
Pay 6 month LIBOR for 3.01%	50,000	7,004	-
Pay 6 month LIBOR for 2.895%	50,000	5,775	-
Pay 6 month LIBOR for 3.21875%	25,000	4,497	-
Pay 6 month LIBOR for 3.255%	25,000	4,689	-
Pay 6 month LIBOR for 3.39625%	50,000	11,385	-
Pay 6 month LIBOR for 3.49125%	50,000	12,313	-
Pay 6 month LIBOR for 3.405%	100,000	22,280	-
		<b>89,574</b>	<b>-</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial statements

#### Notes to the financial statements (continued)

#### 12. Investments (continued)

##### Swaps (continued)

The notional principal of the swap is the amount used to determine the value of the swapped interest receipts and payments. The terms of the swap contract require collateral to be obtained or pledged depending whether the outstanding contracts position is a gain or loss. As at 30 June 2015, collateral of £nil (2014:£8,231,000) is held with the counterparties and is not included within the scheme's net assets. As at 30 June 2015, collateral of £79,346,000 (2014:£9,370,000) is held by the scheme.

##### Futures

The trustees use fixed income futures to reduce their exposure to movements in Foreign exchange rates and interest rates associated with holding non-sterling bonds.

The Scheme held the following exchange traded futures as at 30 June 2015, which are due to expire in less than 1 year:

Type of future	Economic exposure £'000	Assets £'000	Liabilities £'000	Net asset/liability £'000
FUT SEP 15 EURX EUR-BUND	(2,154)	-	(13)	(13)
FUT SEP 15 LIF LONG GILT	90,385	-	(1,037)	(1,037)
FUT SEP 15 10 YR T-NOTES	(16,045)	83	-	83
FUT SEP 15 CBT UL T-BONDS	(31,249)	586	-	586
		<b>669</b>	<b>(1,050)</b>	<b>(381)</b>

#### 13. Investment management expenses

Amount in £'000	ZPension-Builder	ZCash-Builder	ESExec	2015 total	2014 total
Administration, management & custody	9,115	-	261	9,376	8,526
	<b>9,115</b>	<b>-</b>	<b>261</b>	<b>9,376</b>	<b>8,526</b>

#### 14. Current assets

Amount in £'000	ZPension-Builder	ZCash-Builder	ESExec	2015 total	2014 total
Cash at bank	15,202	15	299	15,516	7,402
Sundry debtors	559	-	-	559	581
<i>Not designated to members</i>	<b>15,761</b>	<b>15</b>	<b>299</b>	<b>16,075</b>	<b>7,983</b>
Cash at bank	-	120	-	120	1,675
Sundry debtors	-	2,112	-	2,112	70
<i>Designated to members</i>	<b>-</b>	<b>2,232</b>	<b>-</b>	<b>2,232</b>	<b>1,745</b>
<b>Total current assets</b>	<b>15,761</b>	<b>2,247</b>	<b>299</b>	<b>18,307</b>	<b>9,728</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Financial statements

#### Notes to the financial statements (continued)

#### 15. Current liabilities

Amount in £'000	ZPension-Builder	ZCash-Builder	ESExec	2015 total	2014 total
Due to Zurich group companies	8,975	-	335	9,310	5,880
Outstanding expenses	4,930	-	246	5,176	4,698
<i>Not designated to members</i>	<i>13,905</i>	<i>-</i>	<i>581</i>	<i>14,486</i>	<i>10,578</i>
Outstanding benefits	1,578	459	-	2,037	1,394
<i>Designated to members</i>	<i>1,578</i>	<i>459</i>	<i>-</i>	<i>2,037</i>	<i>1,394</i>
<b>Total current liabilities</b>	<b>15,483</b>	<b>459</b>	<b>581</b>	<b>16,523</b>	<b>11,972</b>

#### 16. Contractual commitments and contingent liabilities

There were no significant contractual commitments or contingent liabilities at 30 June 2015 (2014: no significant) other than the liability to pay future pensions.

#### 17. Concentration of investments

The scheme does not hold over 5% of its assets in any single investment, except for the trustees interest in the SLP which represented 11.8% of the scheme's assets at 30 June 2015 (2014:nil).

#### 18. Related party transactions

In accordance with the requirements of Financial Reporting Standard 8, disclosure is made below of the transactions with related parties of the scheme. In addition to contributions received from employees and payments made to the scheme members, the scheme undertook the following transactions.

- a) APCs, pre 2007 AVCs and the ZPen Supplementary funds held in unit linked and with profits funds, some of which are provided by members of the Zurich group are subject to annual management charges. These typically range from 0.35% to 0.95% of the fund value. The change in market value of these investments is net of this charge.
- b) Contributions made to ZCashBuilder, ZPen Supplementary funds and the pre 2007 AVC funds, are invested in a variety of unit linked and with profits funds, some of which are provided by companies within the Zurich group as disclosed in note 2. The total value of these funds at 30 June 2015 was £138,673,000 (2014: £114,761,000). Of this total, £127,528,000 (2014: £103,205,000) is invested through a Group Investment Only Platform provided by Zurich Assurance Ltd and £7,275,000 (2014: £7,445,000) is invested elsewhere within the Zurich Group.
- c) As detailed in note 9, following advice from the scheme actuary, the trustees agreed to take out a life insurance policy to cover lump sum death benefits. From 30 September 2009 this benefit has been insured with Zurich Assurance Ltd.
- d) The scheme does not hold any investment in shares of Zurich group or in any other company or person connected with these companies.
- e) All administrative expenses are initially settled by Zurich Employment Services and then recharged to the scheme on a quarterly basis. Amounts due to be settled at 30 June 2015 are disclosed in note 15, as balances due to Zurich group of companies.

**Financial statements**

**Notes to the financial statements (continued)**

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- f) At the year end three trustees were in receipt of a pension from the scheme (2014: three). Pensions are calculated in line with the Trust Deed and Rules.

Other than the remuneration disclosed in note 10, the trustees of Zurich Financial Services UK Pension Trustee Ltd and key management of the scheme had no material transactions with the scheme.

- g) On the 31 July 2014 the scheme received a special contribution from the employer of £698m used to purchase an interest in Zurich (Scotland) Limited Partnership. The Scheme has received income of £60m from Zurich (Scotland) Limited Partnership where the other partners are companies in the employer group including Zurich Employment Services Limited and Zurich UK General Services Limited.
- h) Other than those items disclosed above and elsewhere in the financial statements, there were no other related party transactions.

**19. Employer Related Investments**

As detailed in note 12 (j) the trustee have taken legal advice that their interest in the SLP does not constitute an employer related investment.

The scheme did not hold any employer related investments during the year or at the year end.

**20. Subsequent events**

On the 28 April 2015, following consultation, the company announced a number of changes to pension benefits as detailed on [page 12](#). In addition to a number of transitional arrangements it has been agreed that from 31 December 2015 ZPensionBuilder will be closed to future accrual. All active members of ZPensionBuilder will become members of ZCashBuilder for future contributions from 1 January 2016.

There were no other subsequent events requiring disclosure in the financial statements.

**Independent auditors' statement about contributions to the trustees of the Zurich Financial Services UK Pension Scheme**

**Our opinion**

In our opinion, the contributions required by the schedules of contributions for the scheme year ended 30 June 2015 as reported in the summary of contributions have in all material respects been paid in accordance with the schedules of contributions certified by the scheme actuary on 23 December 2010 and 28 August 2014.

**What we have examined**

Zurich Financial Services UK Pension Scheme's summary of contributions for the scheme year ended 30 June 2015 is set out on the following page.

**What an examination of the summary of contributions involves**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme under the schedules of contributions and the timing of those payments.

We test and examine information, using sampling and other techniques, to the extent

we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

**Our responsibilities and those of the trustees**

As explained more fully in the statement of trustees' responsibilities, the scheme's trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the trustees 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*

**PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
Bristol

Date *23 November 2015*

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Summary of contributions payable during the year

During the year, the contributions payable to the scheme were as follows:

	Members £'000	Employer £'000	Total £'000
Normal contributions - ZPensionBuilder	-	51,867	51,867
Normal contributions - ZCashBuilder	-	13,176	13,176
Other contributions - ZPensionBuilder	-	4,300	4,300
Other contributions - ESExec	-	37	37
Deficit reduction plan- ESExec	-	1,700	1,700
<i>Required by the schedules of contributions</i>	-	71,080	71,080
To purchase interest in SLP	-	697,000	697,000
Voluntary contributions received from members	1,697	-	1,697
Augmentation costs	-	1,806	1,806
Additional contributions arising from salary sacrifice	-	7,700	7,700
<i>Other contributions payable</i>	1,697	706,506	708,203
<b>Total contributions reported in the financial statements</b>	<b>1,697</b>	<b>777,586</b>	<b>779,283</b>

The actuary's certificate confirming the adequacy of the contribution rate is shown on the following page.

The summary of contributions on this page was approved by the trustees on 11 November 2015 and is signed on their behalf by:

Director



Name

SP RICKETT



**Actuarial certification of schedule of contributions**

ZPensionBuilder actuarial certificate 28 August 2014

**Certification of the schedule of contributions**

**Zurich Financial Services UK Pension Scheme  
ZPen Section**

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the Recovery Plan dated 28 August 2014.

I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 August 2014.

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

Signature: 

Date: 28 August 2014

Name: Mark Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: St James House  
St James Square  
Cheltenham  
GL50 3PR

Employer: Barnett Waddingham LLP

**ZPensionBuilder actuarial certificate 30 June 2015**

**Zurich Financial Services UK Pension Scheme**  
**ZPen Section**

**Adequacy of rates of contributions**

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 June 2013 to be met by the end of the period specified in the Recovery Plan dated 28 August 2014

I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 August 2014.

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

Signature:



Date:

30 June 2015

Name:

Mark Howard

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

St James House  
St James Square  
Cheltenham  
GL50 3PR

Employer:

Barnett Waddingham LLP

**Actuarial certification of schedule of contributions (continued)**

**ESExec actuarial certificate**

**Certification of the schedule of contributions**

**Zurich Financial Services UK Pension Scheme  
ES Executives' Section**

**Adequacy of rates of contributions**

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 June 2013, to be met by the end of the period specified in the recovery plan dated ..... 28 August 2014 .....

I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated ..... 28 August 2014 .....

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

Signature: 

Date: 28 August 2014

Name: Mark Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: St James House  
St James Square  
Cheltenham  
GL50 3PR

Employer: Barnett Waddingham LLP

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

### Compliance statement

#### Tax status of the scheme

The scheme is a registered scheme and as such is exempt from most UK income and capital gains taxes. The trustees know of no reason why this registration should be withdrawn.

#### Transfers out of the scheme

Individuals who leave the scheme before they retire can, if they wish, transfer the value of their benefits (usually known as a cash equivalent) into another pension arrangement. During the scheme year all cash equivalent values were calculated and verified in the manner prescribed by regulations made under section 97 of the Pension Schemes Act 1993. No allowance is made in these calculations for any discretionary benefits. There were no transfers where the cash equivalent paid was less than the amount provided for by section 94(1) of the Pension Schemes Act 1993.

#### Scheme investments

The investment manager appointed on behalf of the trustees to manage funds under section 34 of the Pensions Act 1995 is appropriately authorised under the Financial Services and Markets Act 2000 to manage investments or is specifically exempted from the requirements of the Act. The investment manager appointed has the appropriate knowledge and experience necessary to manage the particular investments delegated to them.

#### Increases to pensions in payment

Pensions in payment are increased annually, but in different ways for each of the tiers. The following table sets out the pension increases for this scheme year. For members who retire part way through the year, the first increase is usually a proportion of the full year amount.

There is more information about how pension increases are calculated in the member's guide. For pensioners who are over state pension age and who were members of tier 2000, the ZI, ES or ES Exec tiers, the state rather than the scheme may increase part of their pension. ZPensionBuilder pension increases are due on the same date as the member's old scheme pension. There were no discretionary increases during the scheme year ended 30 June 2015 (2014: none).

Category	Date	Amount
ZPensionBuilder	1 July 2014	2.5%
	1 July 2015	0.9%
	(former ES tier & Tier 2000)	
	1 October 2014	2.6%
	(former ZI tier)	
ES tier	1 January 2015	2.0%
	(former AD tier)	
Tier 2000	1 January 2015	3.0%
	(former AD IOM tier)	
ES Exec	1 July 2014	3.0%
	1 July 2015	3.0%
ZI tier	1 July 2014	2.5%
	1 July 2015	0.9%
AD tier	1 October 2014	2.6%
	1 January 2015	2.0%
AD Isle of Man	1 January 2015	3.0%

### Compliance statement

#### Statement of trustees' responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the trustees. Pension scheme regulations require the trustees to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The trustees are responsible for supervising the preparation of the financial statements and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The trustees are also responsible for making available certain other information about the scheme in the form of an annual report.

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

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

The trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the trustees are required by the Pensions Acts 1995

and 2004 to consider making reports to the Pensions Regulator and to members.

The trustees are responsible for the maintenance and integrity of the scheme's website, [www.zpen.info](http://www.zpen.info). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### The Pensions Regulator – codes of practice

The Pensions Regulator is a statutory body which regulates work based pension arrangements.

The Pensions Regulator's objectives are to protect the benefits of pension scheme members, to reduce the risk of calls on the Pension Protection Fund (PPF), and to promote the good administration of work-based pension schemes.

The Pensions Regulator has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives. The Pensions Regulator will target its resources on those areas where members' benefits are at greatest risk.

Codes of practice provide practical guidelines on the requirements of pensions legislation and set out the standards of conduct and practice expected of those who must meet these requirements. The intention is that the standards set out in the codes are consistent with how a well run pension scheme would choose to meet its legal requirements.

Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the codes of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant codes of practice into account.



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2015

The Pensions Regulator has so far produced 13 codes of practice, which are listed in the table below, alongside a commentary on how the scheme has complied with them during the scheme year covered by this annual report. The Pensions Regulator Code 6 – “Reporting late payment of contributions to personal pensions” has not been included as this is not applicable to the scheme.

### **Code 1: Reporting breaches of the law in force April 2005**

Breaches in the law, and reasonable grounds for believing that there has been a breach in the law are reportable to the Regulator. Not all breaches need to be reported and so it must be decided whether the breach is of material significance to the Regulator.

### **How the scheme complied during the scheme year**

The executive team report regularly to the trustees on breaches, errors, complaints and other risks.

The trustees and their advisers are alerted to significant breaches immediately and decide whether the breach should be reported to the Regulator. The trustees’ advisers can report independently to the Regulator if they feel there is a material issue.

During the current scheme year there have been no significant breaches brought to the trustees’ immediate attention and no matters have been deemed significant enough to require reporting to the Regulator.

### **Code 2: Notifiable events in force April 2005**

There are a number of notifiable events designed to give the Pensions Regulator early warning of a possible call on the Pension Protection Fund.

The events fall into two groups:

- scheme-related - to be notified by trustees;
- employer-related - to be notified by employers.

Some examples of scheme related events include changes in auditor or actuary, payment of benefits on more favourable terms and transfers of scheme assets of more than 5% of the fund / £1.5m.

Examples of employer related events include a decision not to pay a debt to the scheme, a change in credit rating and the employer trading wrongfully. Even if a notifiable event does occur it does not necessarily always need to be reported, this largely depends on the type of event and in some cases the materiality.

### **How the scheme complied during the scheme year**

There has been one transfer value in excess of £1.5m paid during the scheme year. This was reported to the Pensions Regulator, who confirmed that all was in order.

### **Code 3: Funding defined benefits in force February 2006: revised July 2014**

This code encourages trustees to work collaboratively with employers to agree an appropriate funding plan that recognises the objectives of both trustee and employer, and requires:

- A statement of funding principles specific to the circumstances of each scheme to be produced, setting out how the statutory funding objective will be met,
- Periodic actuarial valuations and actuarial reports,
- A schedule of contributions,
- A recovery plan, where the statutory funding objective is not met.

### **How the scheme complied during the scheme year**

A statement of funding principles, schedules of contributions and recovery plan were put in place as part of the valuation as at 30 June 2013. The schedule of contributions was revised on 30 June 2015 to accommodate the change in contribution rates for ZCashBuilder members which were agreed as part of the pension changes from 1 July 2015. The trustees have worked closely with the employer to ensure that the funding plan meets trustee and employer objectives.

**Code 4: Early leavers – reasonable periods in force May 2006**

The code sets out the various periods that are considered reasonable when dealing with an early leaver (with less than 2 years' qualifying service but more than 3 months' service) where a transfer is an option if it is effected within a certain time period from leaving.

**How the scheme complied during the scheme year**

Arrangements are in place so that early leavers are notified of their options, and given the time as set out in the code, in which to make their decisions. Timescales are monitored and any breaches or potential breaches are notified to the trustees and their advisers as noted for Code 1. Most ZPensionBuilder calculations can now be done instantly by the members themselves through ZPen on line and members can also set up their own pension.

**Code 5: Reporting late payment of contributions to occupational money purchase schemes in force May 2006: revised September 2013**

Schemes on a money purchase basis are required to have a payments schedule setting out when contributions are due and when they should be paid by the employer to the scheme. This code sets out what constitutes late payments and the circumstances in which the Regulator regards these as material. Trustees must report late payment where they have reasonable cause to believe that the employer is unwilling to pay the outstanding contributions or there is possible dishonesty.

**How the scheme complied during the scheme year**

The payment schedule is wrapped up with the scheme's schedules of contributions. Internal controls are in place to monitor that contributions are dealt with in compliance with the schedule of contributions and any failures are notified to the trustees and their advisers as detailed for Code 1. During the year, there were no errors relating to collecting contributions

**Code 7: Trustee knowledge and understanding: TKU in force May 2006: revised November 2009 and July 2014**

The trustee toolkit is required learning for trustees unless they have a suitable alternative. (New trustees to complete within six months). Existing trustees should review their own knowledge and understanding at least annually against the scope of knowledge contained in the trustees' toolkit and undertake to fill any gaps that they expose.

Trustees should keep their own records of their learning activities.

Trustees should recognise where they have insufficient knowledge and understanding and "rectify the issue at once" if they are called on to make a decision.

Trustees must have sufficient working knowledge (through reading) of the main scheme documents so that they are able to use them effectively when carrying out their duties as trustees

**How the scheme complied during the scheme year**

The trustees have a formal policy which says:

- all trustees must develop and maintain a level of TKU sufficient to enable them to discharge their duties effectively and to meet the Pension Regulator's requirements;
- no trustee will participate in decisions on matters where he or she has insufficient TKU;
- the trustees review the policy regularly and at least annually to ensure continued compliance;
- each trustee has a regular assessment session with the trustee chair and Zurich's UK Head of Pensions and Benefits to look at development areas and to agree appropriate objectives;
- trustees maintain CPD logs which are formally reviewed at the annual assessments;
- when trustees consider or decide a matter, they are always provided with the relevant scheme documents/extracts together with expert advice on the interpretation of those documents and the impact of the current matter before them.



**Code 8: Member nominated trustees – putting arrangements in place in force November 2006**

There is a requirement to have a certain proportion (currently 1/3) of trustees that have been nominated by the scheme members and where this isn't the case time periods deemed reasonable are set out for achieving this goal.

**How the scheme complied during the scheme year**

The trustees have a selection process whereby pensioner members and UK current employee members can put themselves forward to be trustees. All such appointments are subject to satisfying a trustee selection panel of their suitability for the role. The selection process includes interviews and an assessment session designed to test aptitude for the trustee role.

**Code 9: Internal controls in force November 2006**

This code sets out what is expected of a well run scheme and how it should operate and monitor activity to minimise risk.

**How the scheme complied during the scheme year**

The trustees hold an annual 'risk day' where the scheme is reviewed to assess and grade the respective risks faced by the scheme. An action plan is then prepared to monitor and manage the identified risks – noting their relevant likelihood and materiality. Ongoing review and day to day management is then supported by the executive team.

**Code 10: Modification of subsisting rights in force January 2007**

This code broadly aims to protect members past rights in a scheme. From time to time a scheme may wish to change the benefit structure and this may have an impact on past rights that have been built up. The aim of this code is to ensure that where past rights are altered the overall value is not reduced.

**How the scheme complied during the scheme year**

Whenever the scheme has altered benefits this has always been in respect of benefits to accrue from a future date so past rights have been protected. Any changes to past benefits have always been to enhance their value e.g. benefit improvements that may have been granted on a scheme merger.

**Code 11: Dispute resolution in force July 2008**

This code provides specific guidance on the Pensions Regulator's expectation of the reasonable time periods stated in the legislation related to dispute resolution. The code confirms that:

- trustees should make and advise decisions within four months of issues being raised under their dispute resolution procedures;
- trustees' dispute resolution procedures may include a "reasonable period" of six months after which an application to raise a dispute will not normally be considered.

**How the scheme complied during the scheme year**

The trustees' formal dispute resolution procedure complies with the timescales for decisions set out in the code. There is a two stage process, with a decision required to be made and notified within two months under each stage:

- 1 Stage 1: the matter is considered by the scheme secretary;
- 2 Stage 2: (if the issue remains unresolved) the matter is considered by the trustee board.

The trustees' dispute resolution procedure states that, where a member has transferred out of the scheme, they must normally make an application to raise a dispute within six months of the transfer.

### Code 12: Circumstances in relation to the material detriment test : *in force June 2009*

This code of practice sets out the circumstances in which the Pensions Regulator expects to issue a contribution notice, requiring additional money to be paid into the scheme. This includes the following circumstances if there has been no prior discussion and agreement of suitable provisions with the trustees and Regulator.

- the transfer of the pension scheme out of the UK;
- the transfer of the sponsoring employer out of the UK;
- removal or substantial reduction of employer support;
- transfers to another scheme which significantly reduces sponsor support or funding;
- a restructure of the scheme which benefits another entity without taking proper account of members' interests.

### How the scheme complied during the scheme year

The trustees are engaged in an ongoing dialogue with the company on material changes and restructures which could potentially impact the employer covenant. This includes formal reviews, at least annually, of the employer covenant.

### Code 13: Governance and administration of occupational defined contribution trust-based pension schemes : *in force November 2013*

This code of practice sets out the 6 principles which tPR believes should be adopted by all work based DC schemes in order to be capable of delivering good member outcomes:

**Principle 1 - Essential characteristics:** schemes are designed to be durable, fair and deliver good outcomes for members.

**Principle 2 - Establishing governance:** there should be a comprehensive scheme governance framework with clear accountabilities and responsibilities made transparent.

**Principle 3 – People:** those accountable for scheme decisions understand their duties and are fit and proper to carry them out.

**Principle 4 - Ongoing governance and monitoring:** schemes benefit from effective governance and monitoring through their full lifecycle.

**Principle 5 – Administration:** schemes are well administered with timely, accurate and comprehensive processes and records.

**Principle 6 – Communications to members:** communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings. These Principles are underpinned by 31 DC "quality features".

### How the scheme complied during the scheme year

The trustees:

- manage the scheme through a comprehensive risk framework which is formally reviewed at least annually;
- have a formal policy on managing conflicts of interest;
- have a written policy on knowledge and understanding which requires them to complete the trustees' toolkit, maintain their CPD and have a formal assessment at least annually;
- ensure they seek professional qualified advice when appropriate;
- ensure funds (including charging structures) are kept under review by the investment committee and the trustee board for appropriateness and value to members;
- ensure administration is kept under constant review for timeliness, accuracy and completeness of data;
- have a comprehensive and proactive member communication and education programme. Employees attend seminars when they first join the company and then subsequently at key points throughout their membership. In addition, expert help is available at any time on request.

On 28 June 2013, the trustee board appointed a ZCashBuilder committee to focus on ZCashBuilder matters and, in particular, the elements needed to achieve good benefit outcomes for members.

**Governance statement for ZCashBuilder**

1. The Pensions Regulator has set out governance requirements for defined contribution pension arrangements such as ZCashBuilder. This statement sets out how we, as pension scheme trustees, comply with these requirements.
2. The Pensions Regulator's requirements are set out in the following documents, which are publicly available on the Regulator's website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk) .
  - Code of practice 13: Governance and administration of occupational defined contribution trust-based schemes
  - Regulatory guidance for defined contribution schemes.These documents are underpinned by a list of "quality features" which the Regulator expects to be present in defined contributions pension arrangements.
3. We have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out by the Pensions Regulator.
4. Based on our assessment we believe that we have adopted the standards of practice set out in the code of practice and the regulatory guidance. These help demonstrate the presence of the required quality features, and we believe will help deliver better outcomes for members at retirement.
5. Where we are seeking to achieve or maintain 'best practice' level, we explain this below.

The Pensions Regulator expects trustees to keep their systems, processes and controls under review and to consider how their scheme demonstrates the 31 quality features. To assist trustees in this task, the Regulator has produced an assessment framework. Trustees are not obliged to publish to pension scheme members, but we have decided that our members should have this information and so our assessment framework is attached to this statement. This framework includes action plans for maintaining or achieving best practice level.



**Paul Trickett**  
**Chair: Zurich Financial Services UK Pension Trustee Ltd**

**September 2014**

**Investment Governance Group (IGG): Principles for Investment Governance**

In 2002 Paul Myners published a review of institutional investment which found shortcomings in the expertise and organisation of investment decision making by pension fund trustees. The "Myners Principles" followed: these set out to codify best practice in investment decision making. Compliance with the Principles was voluntary but pension fund trustees were expected to consider how these principles applied to their fund and to report on a 'comply or explain' basis on how they had used them.

Following a further review of institutional investment in 2008, the IGG was set up to encourage ownership and promotion of the Myners' Principles. The IGG has updated the original Principles (aimed at defined benefit/final salary schemes) and also used these as a basis for their six Principles for defined contribution/money purchase schemes.

The Principles complement existing regulations but are not a legal requirement. The IGG suggest that they are used as a checklist against which pension schemes can identify areas in need of improvement.

All the Principles are listed below, together with notes on our approach.

**(1) Effective decision making**

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

**How we work with this principle**

There is a specialist funding committee in place which formulates proposals/strategy which are received by the trustee board.

The trustees have the support of independent expert advisers when examining the proposals and the methodology behind the proposals. This advice ensures that the trustees have sufficient knowledge and understanding to comment on and challenge these proposals and the methodology behind them.

**(2) Clear objectives**

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisers and investment managers.

**How we work with this principle**

The funding committee has a dual focus on the ongoing valuation of the scheme's liabilities (as reported in quarterly funding updates from the scheme's actuary) and on the scheme's investments.

**(3) Risk and liabilities**

In setting and reviewing their investment strategy, trustees should take account of the form and structure of the liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

**How we work with this principle**

The trustee board receives regular updates from the sponsoring employer on the employer covenant and seeks expert advice from the scheme actuary and the legal adviser in evaluating the covenant.

During the year PwC carried out an in depth review of the employer covenant for the trustees.

**(4) Performance assessment**

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

**How we work with this principle**

Reports are received from the investment managers at least quarterly and the investment branch of the funding committee meets regularly with the investment managers to discuss performance.

The trustees have a policy of maintaining their individual knowledge and understanding and record their development on individual training logs which are reviewed regularly. In addition, the trustees regularly assess their effectiveness as a board.

**(5) Responsible ownership**

Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

**How we work with this principle**

The trustees' Statement of investment principles includes a statement which says that the trustees have considered how social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments.

**(6) Transparency and reporting**

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

**How we work with this principle**

The trustees' report to members on such matters formally in the trustees' annual report and provide updates in between these reports through trustees' newsletters and [www.zpen.info](http://www.zpen.info). Key scheme documents including full valuation report and report and accounts are made available to all members on [www.zpen.info](http://www.zpen.info).

**IGG: Principles for investment governance for defined contribution pension schemes**

**(1) Clear roles and responsibilities**

Roles and responsibilities in relation to investment decision making and governance are clearly defined and communicated to interested parties.

**How we work with this principle**

The trustee board, the investment branch of the funding committee and the trustees' investment advisers (Zurich Investment Management and Hymans Roberston) have clearly defined roles, agreed by the trustee board, in relation to decision making and implementing investment strategy.

**(2) Effective decision making**

Decisions relating to investment governance are taken on a fully informed basis and investment governance processes are sound.

**How we work with this principle**

The trustees have a documented policy on knowledge and understanding setting out their commitment to ensuring they have sufficient TKU to make informed decisions. Detailed strategy design and implementation is delegated to the expert investment branch of the funding committee, working with Zurich Investment Management. The trustees receive advice from their independent advisers, Hymans Roberston, when making decisions on investment strategy and governance.

**(3) Appropriate investment options**

The investment options provided take account of a range of member risk profiles and needs and are designed appropriately.

**How we work with this principle**

The default ZCashBuilder fund ("e-Z Plan") provides a "lifestyle" approach for members' investments (see below). As an alternative to the default, members can choose to invest in any e-Z plan funds or a range of other funds, including equity and bond funds.

**(4) Appropriate default strategy**

An appropriately designed investment strategy is offered for members who prefer not to make a choice.

**How we work with this principle**

The default ZCashBuilder fund (“e-Z plan”) provides a “lifestyle” approach for members’ investments. Contributions are invested in a blended equity fund (“ZFundBuilder”) until the member is within 5 years of his or her chosen retirement date. Once the member is within 5 years of retirement, investments are gradually moved into a blended bond/gilt fund (“ZPensionPurchasePot”) and a deposit/treasury fund (“ZRetirementLumpSum”).

**(5) Effective performance assessment**

The performance of investment options is monitored.

**How we work with this principle**

The performance of funds within e-Z Plan is kept under review and the “white labelling” of these funds enables badly performing funds to be replaced without requiring members to switch individual investments.

**(6) Clear and relevant communication to members**

Clear information on the investment options and their characteristics that will allow members to make informed choices is provided.

**How we work with this principle**

Members can see their ZCashBuilder funds at all times on [www.zpen.info](http://www.zpen.info). The website also includes easy to understand fund fact sheets, stating investment objectives, fees and risk/return characteristics of each available fund.

**Contacts for further information**

**The Pensions Advisory Service (TPAS)**

Any concern connected with the scheme should be referred to David Lidbury, Customer Services Manager, whose address appears on [page 6](#) of this report, and who will address the problem as quickly as possible.

TPAS is available at any time to assist members and beneficiaries of occupational pension schemes in connection with any –

- (a) pensions query they may have; or
- (b) difficulty which they have failed to resolve with the trustees or administrators of the scheme.

A local TPAS advisor can usually be contacted through a Citizen's Advice Bureau. Alternatively TPAS can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB

Telephone: 0845 601 2923  
e-mail: online form available

Website address: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

**Registrar of Occupational and Personal Pension Schemes**

The scheme is registered with the Registrar of pension schemes (the scheme reference number is shown on the front page). The Registrar also operates a pension tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service  
The Pension Service  
Tyneview Park  
Whitley Road  
Newcastle upon Tyne  
NE98 1BA

Telephone: 0845 6002 537  
Website address: [www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm](http://www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm)

**Useful addresses**

The organisations below deal with different pension matters helping to protect the interests of people with pensions.

**The Pensions Regulator**

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

Phone: 0845 600 0707  
Fax: 0870 2411144  
Web: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)  
Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)



**The Pensions Ombudsman**

11 Belgrave Road  
London  
SW1V 1RB

Phone: 020 7630 2200

Fax: 020 7821 0065

Web: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)