

Zurich Financial Services UK Pension Scheme

**Annual report and financial statements for
the year ended 30 June 2018**

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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Welcome from the Trustee Chair



Welcome to the 2018 annual report. Our main focus this year has been on ensuring that we are providing good quality customer services to all our members and maintaining our rigorous approach to scheme governance.

We have three types of scheme member: those with only DB benefits, those with only DC benefits and those with both. In response to your feedback I have highlighted below the sections of this report that will be of most interest to you depending on the benefits you have in the scheme.

For members with DC benefits

Value for members

The trustees have a duty to assess value for members in the scheme's DC arrangements. Our review for this scheme year focussed on whether the scope and quality of the services available to DC members provide good value when compared with the costs and charges. Our DC advisers, Hymans Robertson, provided benchmarking information gathered from other pension schemes to support our review. A number of you also participated in a focus group and your valuable input helped us to draw conclusions on whether the scheme services are suitable for, relevant to, and valued by members and also the performance of those services – thank you.

Overall we were reassured that we are running quality DC arrangements which provide good value for members. You can read more about our assessment of value for members in the Chair's statement on page 18.

Dedicated DC sub-committee

We are in the process of setting up a dedicated DC sub-committee of the trustee board to consider DC specific pension scheme matters which we expect to be in place from Q1 2019.

For members with DB benefits

Valuation & funding

We undertake a full scheme valuation every three years, with an annual update in the intervening years. The last full valuation was completed in June 2017, with a valuation date as at 30 June 2016 and pages 26 to 31 provide more information about the valuation process and results. The annual update at 30 June 2017 showed that the funding level of the ZPensionBuilder section has reduced slightly since the valuation on 30 June 2016 which is primarily due to a change in market conditions (i.e. an increase in long-term inflation

expectations and a fall in corporate bond spreads) which has offset the contributions received into the scheme and the positive investment experience. In contrast, the funding level of the ES Executives' section has improved slightly since the valuation on 30 June 2016 because the increase in long-term inflation expectations has a lower impact than for the ZPensionBuilder section.

Factor review

Following a full valuation it is normal practice for the trustees to review the factors used when calculating members' benefits for consistency with the valuation assumptions. Following this review we updated the majority of the scheme factors including the transfer value basis and also those used when scheme members take their pension early or give up pension for tax free cash.

Investment

Our investment strategy is kept under constant review and aims to find a balance between risk, control and maintaining growth. In 2017 we agreed to use Liability Driven Investment (LDI) to further reduce the ZPensionBuilder section's exposure to changes in interest rates and inflation and this is being managed for the scheme by Insight Investment Management (Global) Limited.

Also, we have reviewed the investment strategy in the ES Executives' section and agreed to maintain the allocation to growth assets but increase the allocation to fixed interest gilts and decrease the allocation to index linked gilts. Further details on the scheme's investment strategy is provided on pages 33 to 35.

Scheme actuary

Following the scheme year end, Mark Howard resigned his position as Scheme Actuary. Mark is retiring from Barnett Waddingham in May 2019, but will cease to be a Scheme Actuary from early December 2018. The trustees have invited Susanna Morran, also from Barnett Waddingham, to take over from Mark. Susanna has supported Mark with the actuarial work on the scheme in recent years and will be formally appointed shortly.

For all members

General Data Protection Regulation (GDPR)

The GDPR is the new regulation that was brought in by the EU on 25 May 2018 to introduce greater control over the use of personal data. As a data controller, the trustees have obligations under the GDPR and we have undertaken a full review to ensure that we, and our data processors, comply with those obligations. Further details regarding how we process personal information relating to you were outlined in our February 2018 newsletter which is available on www.zpen.info.

Participating employers

On 9 April 2018 Zurich sold its shares in the Openwork group of companies and Openwork exited the scheme as a participating employer. Openwork's share of the DB obligations were apportioned to Zurich Employment Services Limited (ZES) - another participating employer in the scheme. At the same time the trustees entered into a funding agreement with ZES (backed by UKISA) to pay additional contributions over the next eight years with a present value that is broadly comparable to Openwork's share of the obligations.

On 29 June 2018, Zurich acquired Oak Underwriting Plc which was owned by RSA. Oak has joined the scheme as a participating employer for DC benefits only.

You can read more about the Openwork sale and Oak acquisition on page 11.

Changes to the board

Last year we reported that the term of office for three of the four member nominated directors expired in August 2017 and on 30 June 2017, the fourth member nominated trustee, Anna Fleming, resigned from the Board on leaving the Company. Following a selection process, Tim Culling, Graham Mearns, Tom McKenna and Alan Wood were appointed/re-appointed to act as member-nominated directors for a three-year term with effect from 15 August 2017.

Cécile Fresneau (Chief Underwriting Officer) resigned as a company-appointed director when she left the Company on 31 August 2017. With effect from 24 September 2018, the Company has appointed Amy Brettell, Chief of Staff, to fill the vacancy left by Cécile.

Trustee knowledge and understanding

The trustees are committed to developing and maintaining their knowledge and understanding. As part of this we attended the training "away day", an established part of the trustee's calendar. This year we received training on liability driven investment and member options. We also participated in a focus group on environmentally and socially responsible investment. All our training is delivered by appropriate specialists in the relevant fields.

I hope you enjoy reading this year's report and find it engaging and informative. If you have any comments or queries please contact Claire Calo (scheme secretary) at the address on page 6. Finally, don't forget to keep up to date by visiting our website www.zpen.info on a regular basis.

With very best wishes



David Sims
(Chair)

13 November 2018

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 11) 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
- 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 governance policies and industry best practice, but operates quite independently. As at 30 June 2018 there was a company nominated vacancy, however this was filled by Amy Brettell, following the UKISA board meeting on 24 September 2018.

ZPen trustee board at 30 June 2018



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 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 2017 and Tom McKenna, Graham Mearns and Alan Wood were reappointed for a further three year term. At the same time Tim Culling was appointed as a new member nominated trustee.

Changes to the trustee board

Tim Culling <i>Member nominated</i>	Appointed 15 August 2017
Tom McKenna <i>Member nominated</i>	Re-appointed 15 August 2017
Graham Mearns <i>Member nominated</i>	Re-appointed 15 August 2017
Alan Wood <i>Member nominated</i>	Re-appointed 15 August 2017
Cécile Fresneau <i>Company nominated</i>	Resigned 31 August 2017
Amy Brettell <i>Company nominated</i>	Appointed 24 September 2018

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Trustees



David Sims
Trustee Chair



BESTrustees
Represented by
Clive Gilchrist
Deputy Chair, BESTrustees



Christian Jochum
Head of Strategy
Development, Investment
Management



Graham Mearns
former Risk manager for
Openwork
Re-appointed
15 August 2017



Amy Brettell
Chief of Staff,
CEO Office
Appointed
24 September 2018



Simon Clifford
Global Head of Life
Technical Excellence



Tom McKenna
Engineer Surveyor
Re-appointed
15 August 2017



Gillian Mitchell
Senior Pensions Advisor




Tim Culling
Former Head of Customer
Care, Global Life
Appointed
15 August 2017





Cécile Fresneau
Chief Underwriting Officer
UK General Insurance
Appointed 19 October 2016
Resigned 31 August 2017



Alan Wood
National Officer,
Community
Re-appointed
15 August 2017

 Company
nominated

 Member/
pensioner
nominated

 Independent
trustee

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Emma Skuse
Head of UK Pensions & Benefits



UK Pensions & Benefits Team

Contacts

For general information and individual benefit enquiries:

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E-mail: david.lidbury@uk.zurich.com

To contact the trustees:

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Zurich
Compass House
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Shurdington Road
Cheltenham
Glos, GL51 4UE

E-mail: claire.calo@uk.zurich.com

Further details on how to contact us are on page 24.

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Trustees' advisers

Investment managers

ZCashBuilder:



ZURICH

On 3 April 2018, Zurich Corporate Savings was sold to Lloyds Banking Group (the funds remain insured by Zurich Assurance Ltd until the part VII transfer takes effect).

ZPensionBuilder

M & G Investments

Insight Investment



Macquarie



ZPensionBuilder & ESExec

Columbia Threadneedle (Previously Threadneedle Pensions Ltd)



Custodian & investment performance

ZPensionBuilder & ESExec

The Northern Trust Company



Investment advisers

Hymans Robertson



Investment analysts

Zurich Insurance Company, Investment Management



ZURICH

Bankers

Lloyds TSB Bank plc

The Royal Bank of Scotland plc

Scheme actuary

Mark Howard FIA¹, Barnett Waddingham LLP



Independent auditors and independent covenant advisers

PricewaterhouseCoopers LLP



Solicitors

Simmons & Simmons LLP

Simmons & Simmons

Insurance company

Zurich Assurance Ltd



Customer services

ZPensionBuilder

UK Pensions & Benefits, Zurich



ZCashBuilder & pensioner payroll

RPMI



Trustee company secretary

Zurich Corporate Secretary (UK) Limited

Scheme secretary

Claire Calo, Zurich

¹ Following the scheme year end, Mark Howard resigned his position as Scheme Actuary on retirement from Barnett Waddingham. In his statement on leaving office, he noted no circumstances connected with his resignation which significantly affected the interests of the members, prospective members or beneficiaries of the Scheme.

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 law¹ 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 law² 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 practice³.

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 law⁴ 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.

Trustee knowledge and understanding

By law⁵, 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's trustee board has a formal policy on TKU, and this is regularly reviewed to ensure continued compliance with the Regulator's requirements. New

¹ United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

³ Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014)

⁴ Pensions Acts 1995 and 2004

⁵ Pensions Act 2004

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trustees attend introductory training and must complete the Regulator's training course, the "trustee toolkit", within six months of appointment. When the "trustee toolkit" introduces new modules all trustees are expected to complete these as soon as possible.

All trustees have formal annual assessments which review TKU. Any training needs identified by the assessments 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 2016 and the next formal board review will take place in November 2018.

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 focussed on Liability Driven Investments (LDI), liability management and member choices and participated in an ESG investment focus group.

Every year the trustees also spend a day, usually in November, reassessing the pension scheme's risk framework, after which the priorities are agreed for the scheme work plan for the following year.

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.

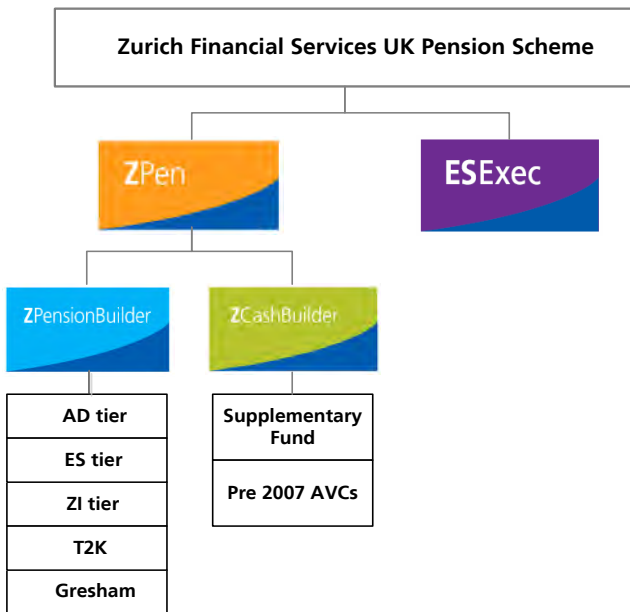
In 2007, after a period of consultation with employees, the old scheme tiers were closed and existing members were given the choice of joining ZPensionBuilder or ZCashBuilder. ZPensionBuilder is also "final salary" but on a more simplified basis than the old scheme structure. ZCashBuilder is a "defined contribution" or "money purchase scheme", where the final benefits depend on how much has been paid in and what the investment returns have been at the time the member comes to take the benefits. 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 diagram on the following page shows the scheme in its current form. Note that AVCs⁶ 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 the closure of ZPensionBuilder to future accrual on 31 December 2015. From 1 January 2016, all active members are building up benefits in ZCashBuilder.

⁶ Additional Voluntary Contributions

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 sponsoring company for the scheme is Zurich Financial Services (UKISA) Limited ("UKISA"). UKISA is a UK holding company. Only UK employing companies participate in the scheme. The chart on the next page shows a simplified structure of the employers within the UK businesses.

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Changes to the participating employers

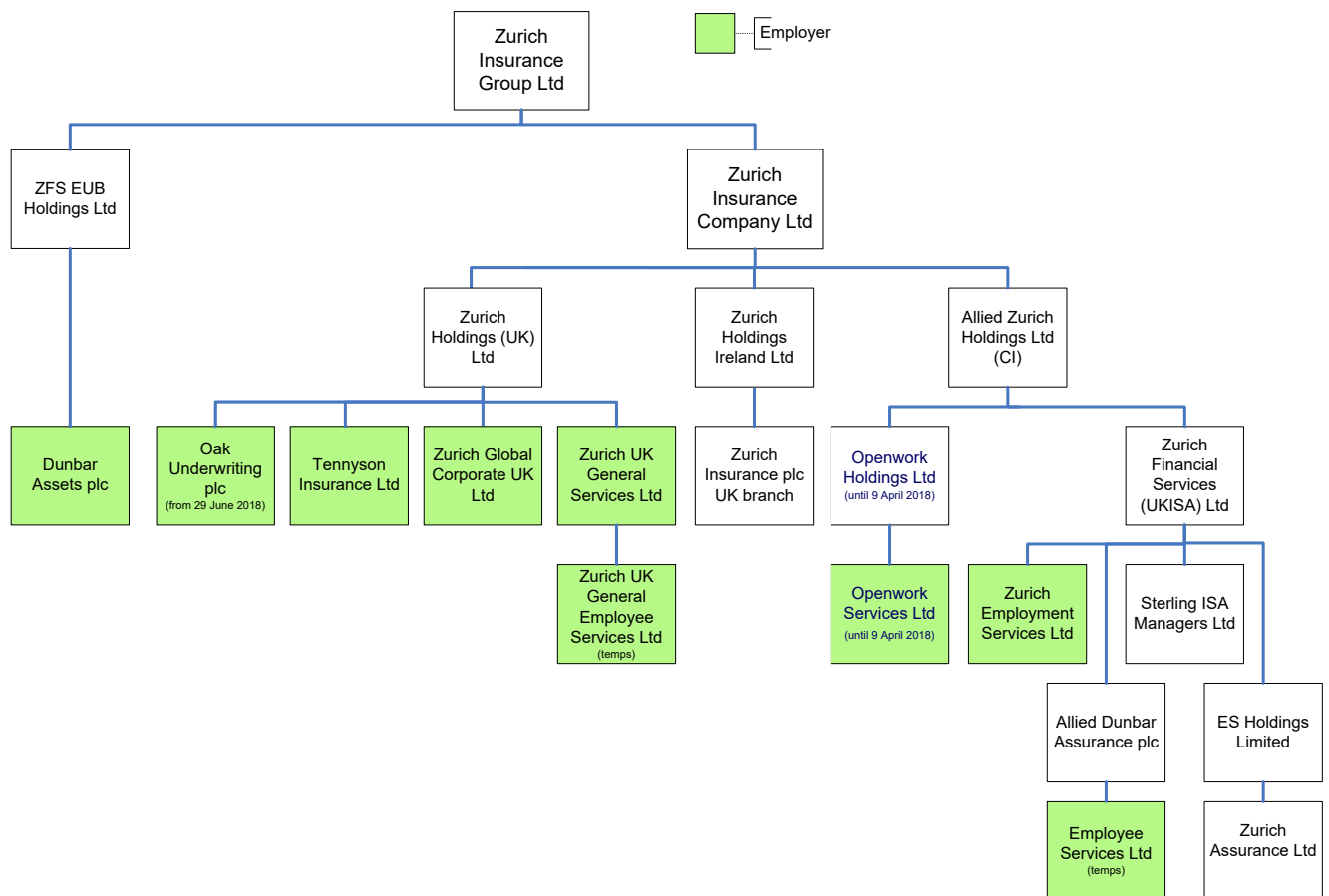
Openwork

Zurich sold its shares in Openwork Holdings on 9 April 2018 and as a condition of sale, Openwork Services Ltd "OSL", the employer in the Openwork group of companies, exited the pension scheme as a participating employer as at the sale date. Zurich Employment Services Limited (ZES) entered into a flexible apportionment arrangement (FAA) with OSL and assumed responsibility for Openwork's obligations under Section 75 of the Pensions Act 1995. This is permitted under pensions regulations and has been notified to the Pensions Regulator: there are no outstanding issues in relation to the arrangement. At the same time, ZES has agreed to a funding

arrangement that sits outside of the schedule of contributions that will pay staged instalments equal to a total present value of £40m. This is broadly equal to the contribution that OSL would have been required to pay under Section 75 when it exited. Subsequent valuations and revisions to the schedule of contributions will not affect this agreement. ZES's parent company (UKISA) has agreed to put ZES in sufficient funds to enable the contributions to be paid.

Oak Underwriting

On 29 June 2018, Zurich acquired Oak Underwriting Plc which was owned by RSA. Oak has joined the scheme as a participating employer for DC benefits only.



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Overview of the scheme 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 work 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 Chair does not have a casting vote.

Occasionally, it is necessary to have additional meetings to consider specific matters.

The trustees keep an attendance record and attendance at the board and other committee meetings during the scheme year is as shown in the table below.

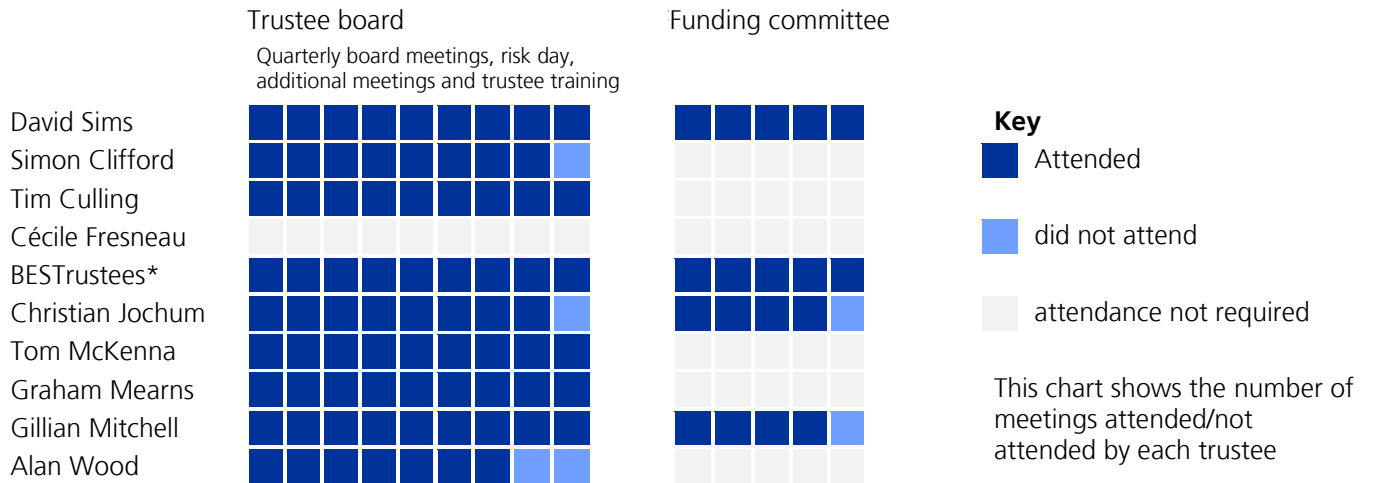
Meetings this scheme year

August 2017	Additional funding committee
September 2017	Funding committee Quarterly board meeting
November 2017	Annual risk day Funding committee
December 2017	Quarterly board meeting
January 2018	Additional meetings x2
February 2018	Additional meeting Funding committee
March 2018	Additional meeting Quarterly board meeting
May 2018	Trustee training day Funding committee
June 2018	Quarterly board meeting

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Meeting attendance this scheme year



*BESTrustees have been represented by Clive Gilchrist and Catherine Redmond

Changes made in the scheme year

With the exception of the changes to the participating employers referred to on page 11 there were no other changes made to the scheme during the year.

ZPensionBuilder: 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.

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.

Category	Date	Increase
ZPensionBuilder (ZPB)		
ZPB (former ES tier)	1 July 2017 1 July 2018	3.5% 3.4%
ZPB (former ZI tier)	1 October 2017	3.5%
ZPB (former AD tier)	1 January 2018	3.9%
ZPB (former AD IOM tier)	1 January 2018	5% or 6.3% for pre 1/10/2000 retirements
Legacy tiers		
ES tier	1 July 2017 1 July 2018	3.5% 3.4%
Tier 2000	1 July 2017 1 July 2018	3.5% 3.4%
ESExec	1 July 2017 1 July 2018	3.5% 3.4%
ZI tier	1 October 2017	3.5%
AD tier	1 January 2018	3.9%
AD Isle of Man	1 January 2018	5% or 6.3% for pre 1/10/2000 retirements

Employer related investment

There were no direct employer related investments (as defined by the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005) in Zurich Group companies at any time during the year or at year end.

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. The budget includes costs for ZPensionBuilder, ESExec and ZCashBuilder sections.

Financial statements

The financial statements for the year are set out on [pages 47 to 66](#) and scheme membership details are on [page 17](#)

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.

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.

Scheme investments

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

Statement of trustees' responsibilities in respect of the financial statements

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

- show a true and fair view of the financial transactions of the 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 Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 including making a statement whether the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the scheme will continue as a going concern.

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

The trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard

the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Statement of trustees' responsibility in respect of contributions

The trustee is 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 trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions 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 trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

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.

To date the Pensions Regulator has produced 13 codes of practice and details on how the scheme is compliant can be provided on request from the [Scheme Secretary](#).

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.

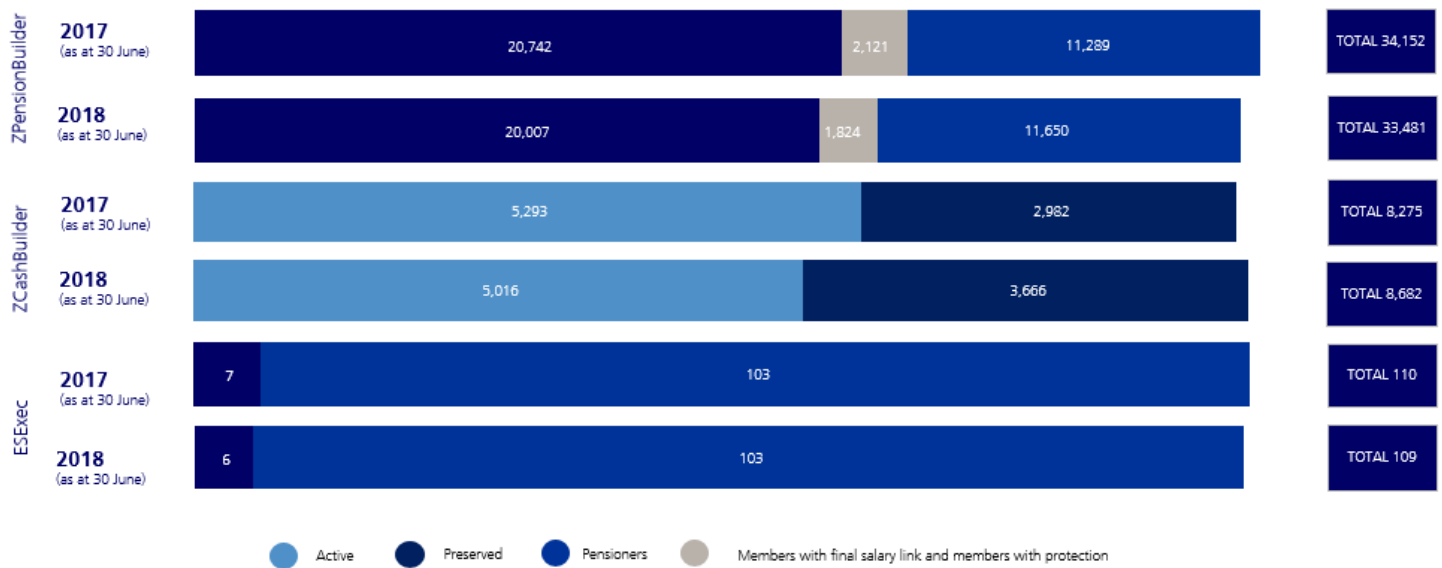
Details of the Principles, together with notes on our approach, are available on request from the [Scheme Secretary](#).

Zurich Financial Services UK Pension Scheme

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Membership details

The change in membership of the scheme is given below



Included within ZPensionBuilder pensioners are 1,359 (2017: 1,397) dependant members and 494 (2017: 492) annuitants.

Included within ESExec pensioners are 19 (2017: 19) dependant members and 8 (2017: 8) annuitants.

Members who transferred from ZPensionBuilder into ZCashbuilder on 1 January 2016 have retained a link to final pensionable salary on their DB benefits.

Please note that the membership statistics have been adjusted to show a summary of member records, not where individual members sit. (Individuals can have more than one record and therefore a ZPB and ZCB benefit).

Chair's Statement regarding DC governance For the year ended 30 June 2018

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the trustees to include an annual statement regarding governance in the annual report and we have taken account of the statutory guidance when preparing this statement.

Default arrangement

ZCashBuilder is as a qualifying pension scheme for auto-enrolment and is therefore required to have a default fund. Within ZCashBuilder there are two default pathways, depending on whether a member has ZPensionBuilder benefits and ZCashBuilder benefits or solely ZCashBuilder benefits.

Within both default pathways, e-Z plan invests in ZFundBuilder up until 5 years before the member's selected pension age where it then gradually switches towards a final position.

If a member has ZPensionBuilder and ZCashBuilder benefits then they will move to the 100% cash lifestyle option within e-Z plan. If a member has only ZCashBuilder benefits then they will move to the 75% drawdown and 25% cash lifestyle within e-Z plan.

Fund Name	Objective	Fund Linked to
ZFundBuilder	To invest in higher risk/return funds to achieve investment growth	Growth
ZRetirementLumpSum	To invest in lower risk/return funds that will be taken as cash at retirement	Cash
ZFlexibleIncomePot	To invest in lower risk/return funds from which drawdown payments can be taken as income	Drawdown

e-Z plan is invested in a series of funds provided by Zurich Assurance Limited. These funds have holdings in underlying pooled funds which have many different fund managers. The trustee cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest although the trustee sets out its ethical investment policy in its Statement of Investment Principles (SIP) which includes some indirect considerations.

Some of the underlying pooled funds are managed actively and some passively. All of these funds are measured against specific benchmarks which are built up from the underlying fund benchmarks.

By investing in this manner, the trustees expect to deliver growth over the member's lifetime within the scheme without excessive risk taking, with an increased focus in the final five years of reducing volatility to enable members approaching retirement to make financial plans for the period after retirement. The trustees consider this approach to be in the best interests of relevant members and relevant beneficiaries.

The principles noted above relating to the default arrangement were last reviewed by the trustees in June 2015 and are documented in the SIP (pages 72 to 86). In recent months, the trustees have been discussing the current default strategy and a full review of the DC funds is currently in progress. The trustees overall objective is to ensure the DC offering delivers good benefit outcomes.

Processing core financial transactions

The trustees have a specific duty to ensure that the core financial transactions (including the investment of contributions, transfer of member assets into and out of the scheme, transfers between different investments within the scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately. These transactions are undertaken on the trustees behalf by the scheme's DC administrator, RPMI and its investment manager Zurich Assurance Limited. The trustees reviewed the processes and internal controls implemented by those organisations on engagement and consider them to be suitably designed to achieve these objective. The trustees also monitor controls on an on-going basis.

The trustees have also agreed service levels and quarterly reporting of performance against those service levels. The specific service level agreements (SLAs) with RPMI relate to a number of processes, including the collection and investment of contributions, investment switches, transfers-in and transfers-out, and benefit payments. All of the processes are split into granular detail and assigned an SLA . In addition, contributions and investments, and the records relating to them, are reconciled monthly. A quarterly report setting out performance levels against the SLA is reviewed by the ZPen team and incorporated within the quarterly governance reports that are issued to the trustees. During the scheme year RPMI have achieved an overall performance against SLA of 98.6% which is above the target recommended by the Pensions Regulator of 95%.

In light of the above, the trustees consider that the requirements for processing core financial transactions have been met.

Charges & Transaction costs

The Administration Regulations require the trustees to make an assessment of charges and transaction costs borne by DC section members and the extent to which those charges and costs represent good value for money for members.

The default arrangement attracts varying levels of management charge depending on how far the member is from their selected pension age. The maximum charge that will be levied on the members, if they are invested 100% in ZFlexibleIncomePot is a charge of 0.585% (of assets under management) for all members. This is lower than the maximum allowed of 0.75%.

The trustees also make available a range of 12 self-select funds which may be chosen as an alternative to the default arrangement. Members can also invest in funds that make up the default arrangement individually. These funds attract annual charges of between 0.33% and 0.87%, and the level of charges for each fund is set out on the following page and on the scheme website. These funds allow members to take a more tailored approach to managing their own pension investments.

The trustees also make available a selection of 13 additional lifestyles that can be selected by the members. The member can choose multiples of 25% in any of the lifestyle funds. For example a member could target 25% in annuity purchase, 50% in drawdown and 25% in cash. The maximum charge for any component of the lifestyle funds is 0.585%.

The trustees review charges and transaction costs on an annual basis, the latest full extract is provided on the following page. The table shows the total annual management charges and transaction costs that are borne by members. The transaction costs are calculated to the latest available date, which in some cases is earlier than the scheme year end date, as there is a reliance on the fund managers to provide the latest available data. Transaction data is unavailable for the Zurich Mixed Investment Fund. This is due to the appointment of a new investment manager to run the fund mandate in February 2018 so there is insufficient transaction data history.

The transaction costs show that the funds remain within acceptable transaction limits, where typically larger volumes of trading are seen on the actively managed funds.

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Funds	Admin charge (bps)**	Fund charge (bps)	Total AMC (bps)	Transaction cost (bps)
ZFundBuilder*	18.5	36.8	55.3	17.5
ZFlexibleIncomePot*	18.5	40	58.5	13.2
ZPensionPurchasePot*	18.5	13.9	32.4	-1.0
ZRetirementLumpSum*	Nil	11.5	11.5	0.0
50/50 Global Equity Index	18.5	13.3	31.8	2.8
UK Equity Index	18.5	12.8	31.3	9.6
World ex-UK Index	18.5	13.5	32	-1.9
Ethical Global Equity Index	18.5	30	48.5	2.1
Corporate Bond Over 15 Year Index	18.5	14	32.5	-0.9
Index-Linked Over 5 Year Gilt Index	18.5	12.9	31.4	0.8
Sterling Liquidity	18.5	12.5	31	2.4
Property	18.5	68.9	87.4	62.0
Zurich Managed Fund	18.5	46.8	65.3	19.2
Zurich Mixed Investments Fund	18.5	39.6	58.1	N/A
HSBC Islamic (Sharia)	18.5	40	58.5	3.0

* Default Funds

**Reduced by 2bps on 1 November 2018

An illustrative example of the cumulative effect over time of the relevant costs and charges on the value of a member's benefits is shown below;

Projected pension pot in today's money		
Years	Before charges	After all charges and costs deducted
5	93,703	91,128
10	150,628	143,271
15	220,894	205,876
20	307,028	280,642
25	411,983	369,523
30	539,222	474,757

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £40,000.
3. Inflation is assumed to be 2.5% each year
4. Contributions are assumed from age 35 to 65 and increase in line with assumed earnings inflation of 2.5% a year
5. It is assumed the Zurich contributions of 12% remain and the member keeps their default salary sacrifice of 5%
6. Charges and transaction costs based on the latest ZFundBuilder figures
7. Values shown are estimates and are not guaranteed

Based on an average member contributing 5% into the pension scheme for 30 years, the total member cost would be £52k, or £64k including the compounding effect of the charges on the fund gains. The charges and cost was determined using transaction costs of 17.5bps and an AMC charge of 57.3bps.

Value for members

The trustees have reviewed the scope of services provided to members in the scheme's DC arrangements against member need and performance in the four core areas of scheme governance and management, investment, administration and communications. They have assessed whether the services represent good value for the relevant costs and charges incurred by members. Direct member feedback was gathered through a series of focus groups and benchmarking information against similar schemes was provided by Hymans Robertson.

The trustees concluded that ZCashBuilder members benefit from good governance with a strong trustee board and the support of a professional inhouse pensions team. The MND selection process is rigorous, as is the risk management process and service provider monitoring. Members benefit from an upper quartile contribution rate to ZCashBuilder and a highly effective administration service provided by RPMI with very good performance against agreed SLAs (above the level recommended by tPR) and a low number of complaints given the size of the membership.

Hymans Robertson have assessed the default and self-select fund ranges as highly suitable with slightly lower charges on average than other schemes' fund ranges in their client database. In addition, there is close performance monitoring and the funds have performed broadly in line with their benchmarks over the period. Members benefit from a range of communication methods and a good website with modeling tools and substantial information. Whilst more segmenting and targeting of communications is desirable, alongside improvements to the members website, there is significant communications support for members, in particular the regional pensions support which is well beyond that typically offered by other schemes.

The legacy AVC arrangements are supplemental to final salary benefits and since the introduction of ZCashBuilder in 2007 they have been closed to future contributions (with the exception of the AD Supplementary Scheme). Fund charges are broadly comparable with similar funds in ZCashBuilder and the majority of funds have performed above their benchmarks. Members have the option to transfer their legacy AVCs to ZCashBuilder at any time, although some legacy AVC funds have valuable 'built in' features such as bonus allocations and guaranteed annuity rates.

Overall, the trustees have concluded that the scheme's DC arrangements are offering good value for members.

Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 sets out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7. The comments in this section relate to the trustees as a body in dealing with the whole scheme and are not restricted to the ZCashBuilder section.

As the only new trustee during the scheme year to 30 June 2018, Tim Culling fulfilled the trustee's policy on knowledge and understanding by

- attending an external introduction to trusteeship course provided by the Pensions & Lifetime Savings Authority
- attending an internal induction session, run by senior members of the ZPen team, which included scheme specific training
- completed the Pension Regulator's trustee toolkit within six months of appointment.

The trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments:

- all are members of the PLSA and as such receive regular updates about the pensions industry and related matters;
- all submit details of CPD undertaken annually, for which a minimum of 15 hours is required;
- all carry out a self-assessment of training needs annually, following which individual discussions with the Chair and the Head of UK Pensions take place to identify any additional training needs;
- all the trustees have successfully completed the Pension Regulator's Trustee Toolkit, which they are required to do within six months of their appointment;
- as part of undertaking regular trustee business, the trustees have a working knowledge of the Trust Deed and Rules, the SIP, the trustees policies, the law relating to pensions and trusts, and the relevant principles relating to funding and investment; individual training is arranged as appropriate, either internally or using an external provider;
- group training is provided during meetings as well as at an annual training day where the trustees receive presentations and take part in workshops. The training day in May 2018 covered an ESG focus group, a DC deep dive and sessions on Liability Driven Investment, and liability management and member choices;
- In addition, the trustees receive advice from professional advisors, and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers.
- There is also a dedicated funding committee made up of representatives from the trustee board and the Company representatives. This committee reports back to the full board regularly on investment and funding matters.

Every three years the trustee board undertakes a Board Effectiveness Review (BER) to identify areas where the board as a whole requires improvement. Trustees, senior members of the ZPen team and external advisers take part in the BER to provide feedback and opinions. The last BER was conducted in 2015 and the 2018 BER is underway.

In addition, the trustees have their own dedicated, secure website where scheme documents, trustee documented procedures and other useful information, including contact information, meeting agendas and minutes are stored. This enables the trustee directors quick access to the most up to date information relating to the ZPen scheme.

The trustees consider that their combined knowledge and understanding, together with the available advice and documentation, enables them to properly exercise their functions.

ZCashBuilder governance

As trustees of the Zurich Financial Services UK Pension Scheme we have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes
- Regulatory guidance for defined contribution schemes

These are underpinned by the DC quality features.

Based on our assessment we believe that we have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help demonstrate the presence of DC quality features, which we believe will help deliver better outcomes for members at retirement.

The Chair's Statement regarding DC governance was approved by the trustees on 13 November 2018 and signed on their behalf by:



David Sims

Chair: Zurich Financial Services UK Pension Trustee Ltd

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 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.

In addition, Regional Pensions Support Manager, Faye Willetts, attends all Zurich’s main offices on a regular basis to help employees fully understand and appreciate their pension benefits. Faye runs a number of support sessions including:

- “The Pensions Power Up”, giving information via webinar to new employees on their new pension scheme;
- “Saving Extra”, explaining the different ways to save for retirement including all the tax & NI savings available;
- “The Retirement Power Up” and “Your Retirement Options” to help employees plan for retirement; and
- “ZCashBuilder Fund Choices” to explain the 12 fund choices and 15 Lifestyle options available to members.

For more information on these and the other sessions now available go to the Support section of the trustees’ website www.zpen.info

Faye is supported by Rich Cypher, Governance & Regional Pensions Support Manager.

Feedback is consistently very positive as employees appreciate the opportunity to discuss their position with a pensions expert.

Our regional pensions support team is here to help educate and inform members about the benefits of ZPen and are not authorised to give financial advice. If you need financial advice you should contact an independent financial adviser (IFA). You can find an IFA at www.unbiased.co.uk

Regional pensions support team



Faye Willetts



Rich Cypher

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The ZPen Team
 Zurich
 Compass House
 Endsleigh Park
 Shurdington Roac
 Cheltenham
 Glos, GL51 4UE

Email:
zpenteam@uk.zurich.com

Pensioners
 For queries about your pension payments
 please contact
 0800 232 1915

The scheme on line

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

Former 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). To date more than 3,000 members have used the website to set up their own retirement benefits.

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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. The final benefits available 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 & financial statements;
- Valuation report
- Member's booklet
- Statement of investment principles
- Contribution schedule
- Annual actuarial report
- Trustee dispute procedure



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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 payments as they arise (the pension scheme “assets”).

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: Trustee members



David Sims
Trustee Chair
valuation & investment



BESTrustees
Independent trustee
represented by
Clive Gilchrist
valuation & investment



Christian Jochum
Company nominated trustee
valuation & investment



Gillian Mitchell
Company nominated trustee
valuation & investment

Funding committee: Company members



David Ford
Head of Strategic Finance:
Global Life
valuation



Andy Jackson
Head of Capital & Liquidity
Management: ZIC
investment



Tim Grant
UK Financial Controller
valuation
Appointed 24 September 2018



Paul Sutton
Group Head of Total Rewards:
Zurich
valuation
Resigned 30 September 2018



Brian Olvany
Head of Private Debt, Zurich
investment

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Advisers

Investment advisers

Hymans Robertson



Investment analysts

Zurich Insurance Company, Investment Management



Scheme actuary

Mark Howard, FIA
Barnett Waddingham



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.

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 ESEExec sections. The purpose of the valuation, completed as at 30 June 2016, was to determine the current financial position of the ZPensionBuilder and ESEExec sections based on all benefits earned to 30 June 2016.

The steps in the valuation process were:

Step 1: determining the value of benefits earned to date

The actuary calculated the value of the benefits earned to 30 June 2016 for all members – the “technical provisions”. This included those who had preserved benefits⁷ and those who had actually retired.

In making these calculations, the actuary made assumptions about things like return on investments, inflation in the future and how long members were expected to live. These assumptions were agreed by the trustees, the company and the actuary, and are detailed in the following section on page 29.

Step 2: determining the funding level

The actuary compared the technical provisions in the ZPensionBuilder and ESEExec sections with the value of the assets in the relevant section of the fund. The result of this comparison is called the “funding level”. For valuation purposes the SLP is included as an asset of ZPensionBuilder, resulting in the fund being worth more than the value of the benefits earned so far, so there was a “surplus”. If the reverse applied, there would have been a “deficit”. The ESEExec section was also in surplus as at 30 June 2016.

A surplus or deficit does not necessarily mean that there is too much or too little cash 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 ESEExec sections may have different funding outcomes: for example, one could be in surplus and the other in deficit.

Step 3: agreeing the contribution rate

When the funding level was known, the trustees and the company considered the future funding requirements of the scheme. In light of the valuation showing a surplus for both sections the trustees agreed with the employer that no deficit reduction contributions were required at the current time,

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

although the employer will continue to contribute towards the expenses of the Scheme.

The funding committee worked through the valuation process with the actuary in a series of workshops. The product of these workshops was a recommendation to the trustee board, from which the valuation assumptions were finalised, producing final results. These results were then presented to the company. The whole process was 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 report.

Actuarial method and assumptions used in the valuation as at 30 June 2016⁸

The method and actuarial assumptions used for the valuation of the scheme at 30 June 2016 are set out in the scheme's Statement of Funding Principles. The method and significant assumptions were derived as follows:

Method

The actuarial method used is the Projected Unit Method.

Inflation and pension increases

By looking at the cost of investing in Government bonds with payments linked to inflation compared to the cost of investing in Government bonds not linked to inflation, it is possible to arrive at a figure for the average market view of future Retail Prices Index (RPI) inflation. This is then compared to the latest Treasury targets for inflation in the UK, when deriving the assumption to use. Supply and demand factors for such assets may also be taken into account.

An assumption for Consumer Prices Index (CPI) inflation is set having regard to the likely long-term difference between RPI and CPI.

The assumed rate of pension increases is set taking into account the inflation assumption and also any limit or floor on the rate of increase.

Discount rate

The discount rate is normally determined by the trustees taking into account professional advice in relation to market indicators available at the valuation date, the long-term strategic asset allocation, the liability profile of the scheme, and the perceived strength of the employer covenant.

The return on Government bonds is taken as a suitable market index yield. As a proportion of the scheme's

funds are invested in assets such as equities which would be expected to outperform Government bonds over the long term, an allowance is made for this in the discount rate. The allowance is determined by the trustees based on information provided by their professional advisers. The revised investment strategy agreed during the year (described on page 34) was factored into the discount rate used for the valuation as at 30 June 2016. The discount rate is then used to convert expected future cashflows into and out of the scheme into a single present value, which is referred to as "discounted" to the effective date of a valuation.

Mortality

"Mortality" means the age at which people are predicted, on average, to die. The rates of mortality assumed are based on reports published by the Continuous Mortality Investigation Bureau most relevant to the membership of the scheme, with allowance for expected future improvements in life expectancy.

This assumption is adjusted in the light of evidence relating to the actual mortality experience of the scheme and may also take account of the industry in which the members work, or the distribution of pension payment amounts.

Retirement

An allowance is made for a certain proportion of active members in the ES and AD Tiers to retire before reaching age 60.

Cash commutation

An allowance is made for a proportion of members to exchange part of their pension for a lump sum at retirement. The trustees takes advice from the scheme actuary as to the terms available for members to exchange pension for a lump sum.

Dependant details

Assumptions regarding the proportion of members with a dependant at death and the age difference between males and females is set taking into account advice from the scheme actuary and the experience of the scheme.

Expenses

A contribution is paid by the company to cover an allowance for standard administrative expenses and other professional fees the trustees incur in running the scheme and for the annual Pension Protection Fund levy.

⁸ Provided by Barnett Waddingham LLP

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The key assumptions used as at 30 June 2016 were as follows:

Key Financial Assumptions/Data as at 30 June 2016	ZPen Section	ES Exec Section
Duration	20 years	14 years
Pre and post-retirement discount rate	3.06%pa tapering to 3.34%pa after 7 years	2.52%pa
Price inflation – RPI	3.04%pa	2.70%pa
Price inflation – CPI	2.24%pa	1.90%pa
Salary inflation	2.00%pa	n/a
Pension increases: <ul style="list-style-type: none"> – RPI with a maximum of 5% – RPI with a minimum of 3% and a maximum of 5% – RPI with a minimum of 3% and a maximum of 7.5% – CPI with a maximum of 3% 	2.93%pa 3.50%pa 3.60%pa 1.92%pa	n/a 3.39%pa n/a 1.67%pa
Mortality Table	100% PNMA00 for males 120% PNFA00 for females with tapering to 100% between ages 95 and 105	85% PNMA00 for males 85% PNFA00 for females tapering to 100% between ages 95 and 105

ZPensionBuilder

The asset backed contribution arrangement which was put in place for the ZPensionBuilder section of the scheme following the previous valuation (30 June 2013) has continued to operate as expected. This involved the establishment of a Scottish Limited Partnership (SLP) which houses an asset that generates income of £60m a year.

This was valued at £860m at 30 June 2017 and is included in the total audited value of the assets for the ZPensionBuilder section of £7,348m.

Using the method and assumptions agreed by the trustees, the ZPensionBuilder section of the scheme had assets sufficient to cover 102% of its technical provisions as at 30 June 2017. This included the SLP as an asset and corresponded to a surplus of £135m.

The trustees have determined the level of the technical provisions having taken into account a review from PricewaterhouseCoopers LLP as to the strength of the company structure supporting the scheme and the ongoing SLP arrangement.

In light of the results of the valuation, the trustees have agreed with the employer that no deficit reduction contributions are required, which has been included in the schedule of contributions dated 27 June 2017.

An amount of £4.4m will be paid by the employer each year to cover the expenses of running the ZPen section and the PPF levy.

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ZPensionBuilder

Prudent Basis	30-Jun-15 (£m)	30-Jun-16 (£m)	30-Jun-17 (£m)
Assets (excluding AVCs/APCs)	5,559	6,395	6,488
Amount needed to provide benefits	6,586	6,984	7,213
(Shortfall)	(1027)	(589)	(725)
Funding level excluding SLP	84%	92%	90%
Asset backed contribution (SLP)	782	893	860
(Shortfall) / Surplus incl SLP	(245)	304	135
Funding level including SLP	96%	104%	102%

Zurich Financial Services UK Pension Scheme

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ESExec section

The ES Executives' section of the Scheme had assets sufficient to cover 104% of its technical provisions as at 30 June 2017, corresponding to a surplus of £6.8m.

The audited asset value for the ES Executives Section of the Scheme was £196m.

In light of the results of the valuation, the trustees have agreed with the employer that no deficit contributions are required from the employer, which has been included in a schedule of contributions dated 27 June 2017.

An amount of £32,000 will be paid by the employer each year to cover running expenses.

The next valuation should be carried out with an effective date no later than 30 June 2019. A copy of the full report on the valuation at 30 June 2016 is available on the website www.zpen.info.

By law, the statements from the scheme actuary on pages 69 to 71 must be included in this annual report.

Prudent Basis	30-Jun-15 (£m)	30-Jun-16 (£m)	30-Jun-17 (£m)
Assets	170.9	192.3	196.6
Amount needed to provide benefits	180.7	190.7	189.8
(Shortfall) / Surplus	(9.8)	1.6	6.8
Funding level	95%	101%	104%

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 2016 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 27 June 2017.

Signature: 

Date: 27 June 2017

Name: Mark A J Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

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

Employer: Barnett Waddingham LLP

Investment management

Investment strategy and principles

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. When considering investment strategy the committee will look at actively and passively managed options. Actively managed means we expect the managers to outperform the market index 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.

ZPensionBuilder equity review

During the year the funding committee carried out a review of the equity allocation for ZPensionBuilder. The main objective was to analyse and potentially improve its investment philosophy and processes.

Areas reviewed included equity sub-allocation, tactical asset allocation (TAA), consideration of actively vs passively managed portfolios and updating investment guidelines.

As a result of this review the decision was made to decrease UK and Global Emerging market exposure by 10% and 5% respectively and increase allocation into the Global Small Caps & US portfolios by 10% and 5% respectively. The TAA benchmark weights to regions were reduced while still allowing Columbia Threadneedle (CT) to deviate from regional benchmarks by over/under-weighting specific regions. The committee agreed to maintain active management across all regions after consideration of the benefits and potential drawbacks of that decision.

Liability Driven Investment (LDI) manager implementation

Following the long-term investment strategy review completion in 2016, the funding committee appointed a Liability Driven Investment (LDI) manager. This process resulted in Insight Investment being appointed on 26 April 2017. In May 2017 assets of £2.6bn transitioned from CT to Insight Investment, the mandate restructuring period ended on 31 October 2017.

ESEExec Investment Strategy

In recent months the funding committee has discussed the inflation exposure in the ESEExec section of the scheme and a revised SAA (Strategic Asset Allocation) was presented to the Board. It was proposed to increase fixed interest gilts allocation from 25% to 33% and reduce index linked gilts from 27% to 19% which will result in the hedging ratios being near to the desired 100%.

The proposed revised SAA was approved by the trustees in June 2018 and following consultation with the UKISA Board, as the principal employer, this was implemented by CT at the beginning of July 2018.

Statement of Investment Principles (SIP)

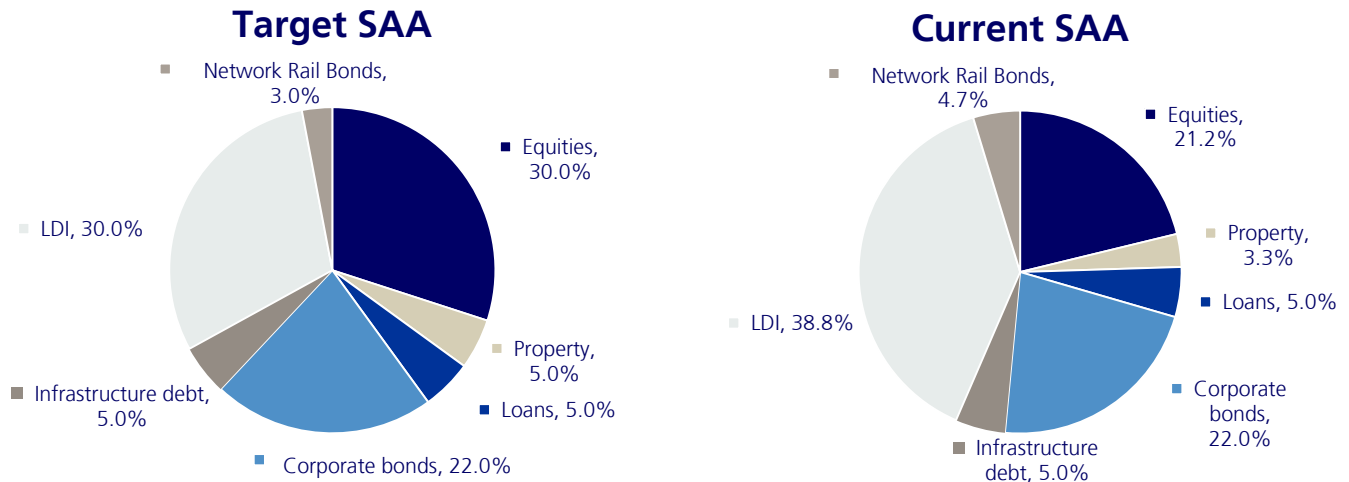
The SIP has been updated to reflect the changes in investment strategy made during the year.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

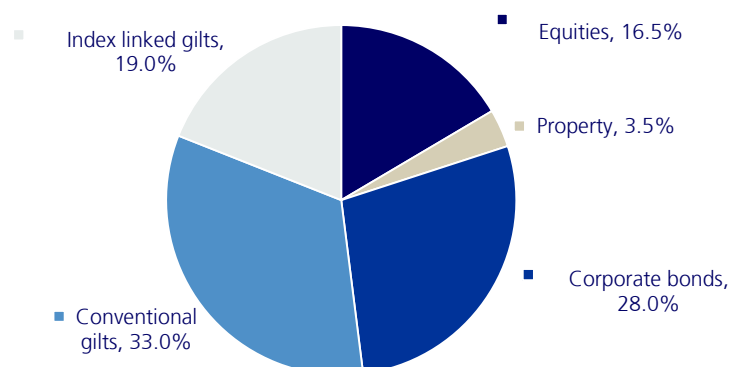
The graphs below show the strategic asset allocation (SAA) as at 30 June 2018.

ZPensionBuilder



The funding committee reviewed the ZPensionBuilder long-term investment strategy alongside the triennial valuation process. The review identified that the most significant risks faced by the scheme were interest and inflation rate risks. The funding committee proposed changing the strategic asset allocation (SAA) to reduce these risks. They suggested amending the allocation over a period of up to six years (from 2017) to avoid locking-in very low rates at a specific point in time.

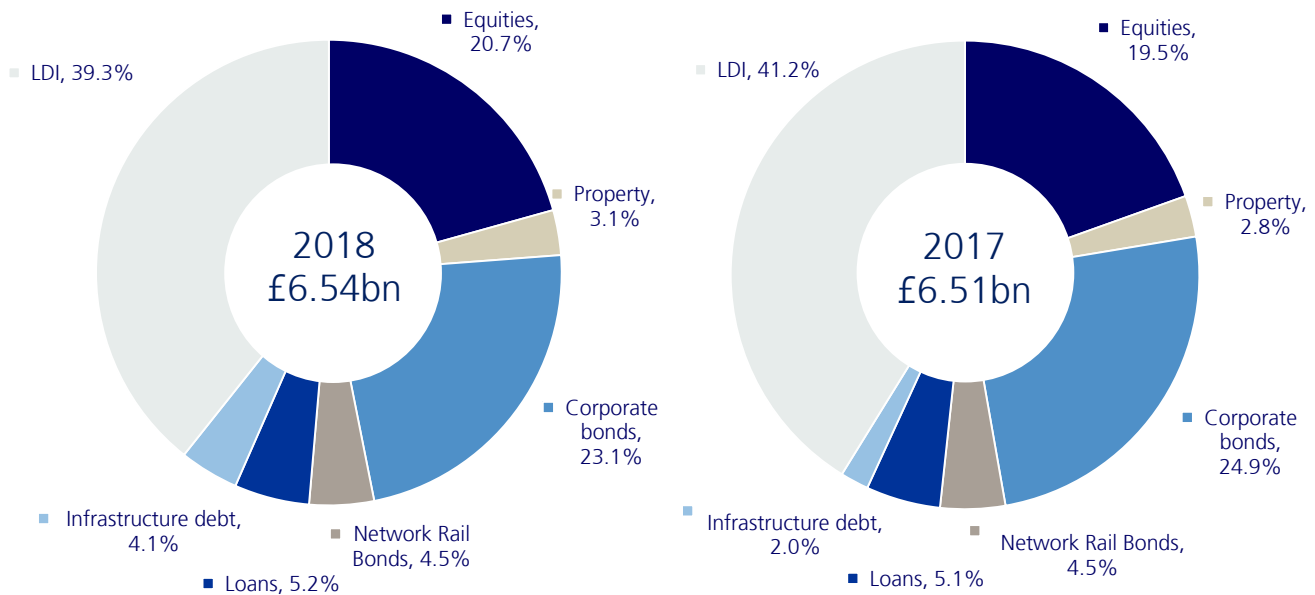
ESExec SAA



Zurich Financial Services UK Pension Scheme

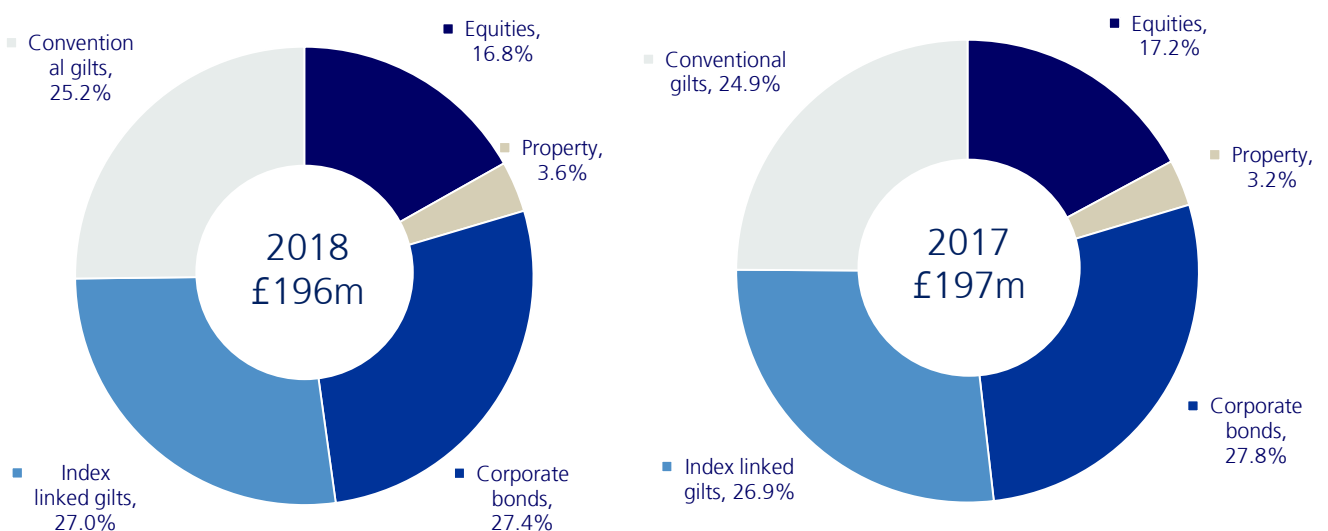
Annual report for the year ended 30 June 2018

The actual distribution of investments for ZPensionBuilder at 30 June 2018 compared with 30 June 2017 is shown below.



As at 30 June 2018 the loan fund and approximately 50% of the corporate bond fund are managed by M&G Investment Management, the infrastructure allocation is managed by Macquarie Infrastructure Debt Investment Solutions and the LDI mandate is managed by Insight Investment. The rest of the investments are managed by Columbia Threadneedle.

The actual distribution of investments for ESExec at 30 June 2018 compared with 30 June 2017 is shown below.



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

Management and custody of investments

The trustees have delegated management of investments to professional investment managers listed on [page 7](#). These managers, which are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objective and policies set out in the Statement of Investment Principles (SIP) are followed.

The agreements 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. The trustees have less influence over the underlying investments within pooled investment vehicles held by the scheme but review the managers' policies and statements of compliance in respect of these matters.

The trustees have appointed the Northern Trust Company to act as custodian for the scheme investments, other than:

- Pooled investment vehicles, where the manager makes its own arrangements for custody of underlying investments;
- Additional Voluntary Contributions and other investments which are in the form of insurance policies, where the master policy documents are held by the trustees.

The investments held with Northern Trust are held in a designated nominee account 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.

Northern Trust consistently ranks as one of the strongest global financial institutions in terms of financial strength and stability. As at 30 June 2018,

Northern Trust had one of the highest assigned credit ratings when compared to other US-based banking institutions.

Interest in Scottish Limited Partnership

As detailed on [page 56](#), 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 2013 funding deficit, it is not considered as part of the asset allocation or the investment performance information and is therefore not included in the charts on [page 35](#).

Infrastructure Debt

In March 2016 the trustees agreed an investment into infrastructure debt. Infrastructure is the physical systems of a nation such as transportation, communication, sewage, water, electricity systems, prisons, schools and hospitals. These investments are long-term loans which finance infrastructure development and match the pension liabilities well.

The infrastructure debt portfolio has steadily increased over the last years as investment opportunities have arisen.

The scheme has made five investments in the year. These include investments into rail, offshore wind, social housing and gas distribution.

As at 30 June 2018, the scheme had ten investments in infrastructure debt valued at £263m (2017-£120m).

Liability Driven Investments

The trustees approved changes to the long term strategy in December 2016. Assets transitioned from Columbia Threadneedle to Insight Investment in May 2017. Hedging ratios on a funding basis are increasing according to plan and are monitored by the scheme on a regular basis.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

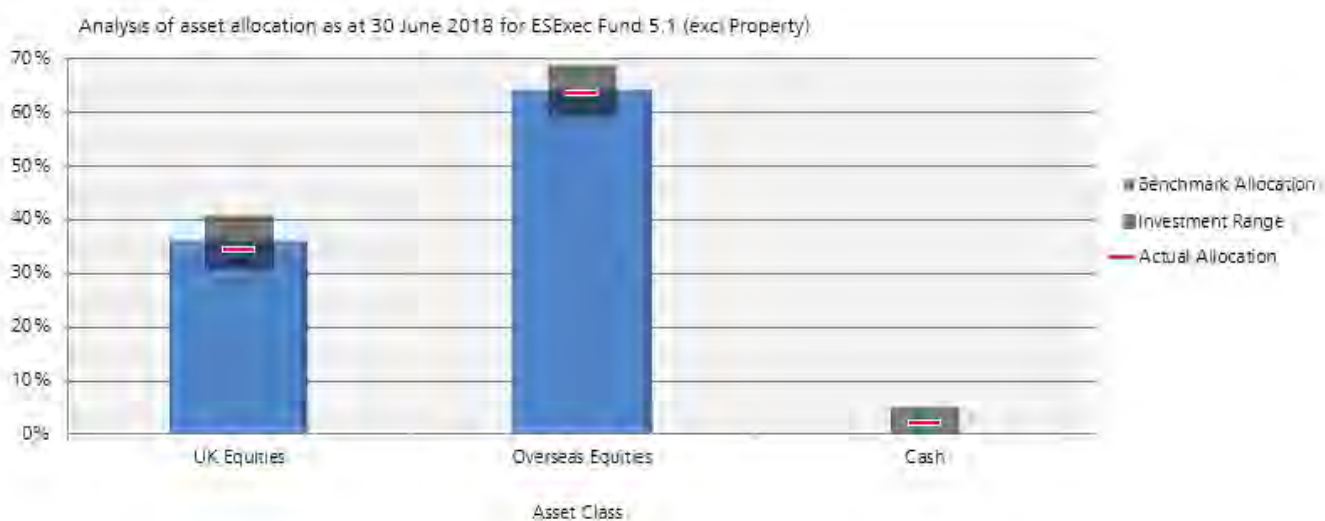
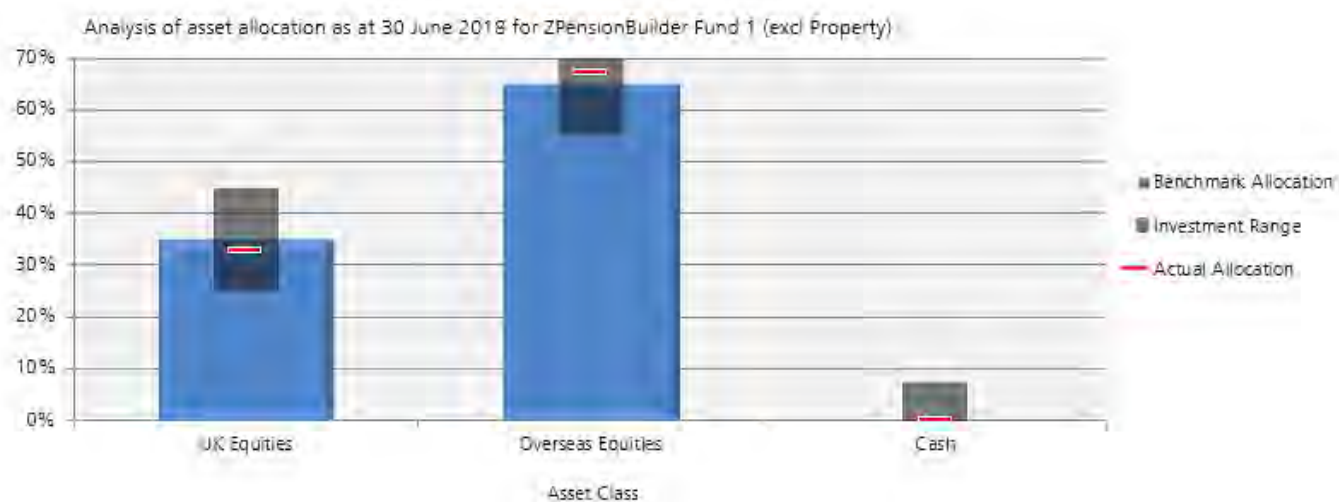
Investment performance

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. This accommodates 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 40 to 43](#).

The trustees have considered the nature, disposition, marketability, security and valuation of the scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investment. The trustees have also considered whether the asset allocation is in accordance with the SIP. More details about investments are given in the notes to the financial statements.



Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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. You can read more about the investment options in the Statement regarding DC governance on pages 18 to 23.

ZCashBuilder performance for the year ended 30 June 2018

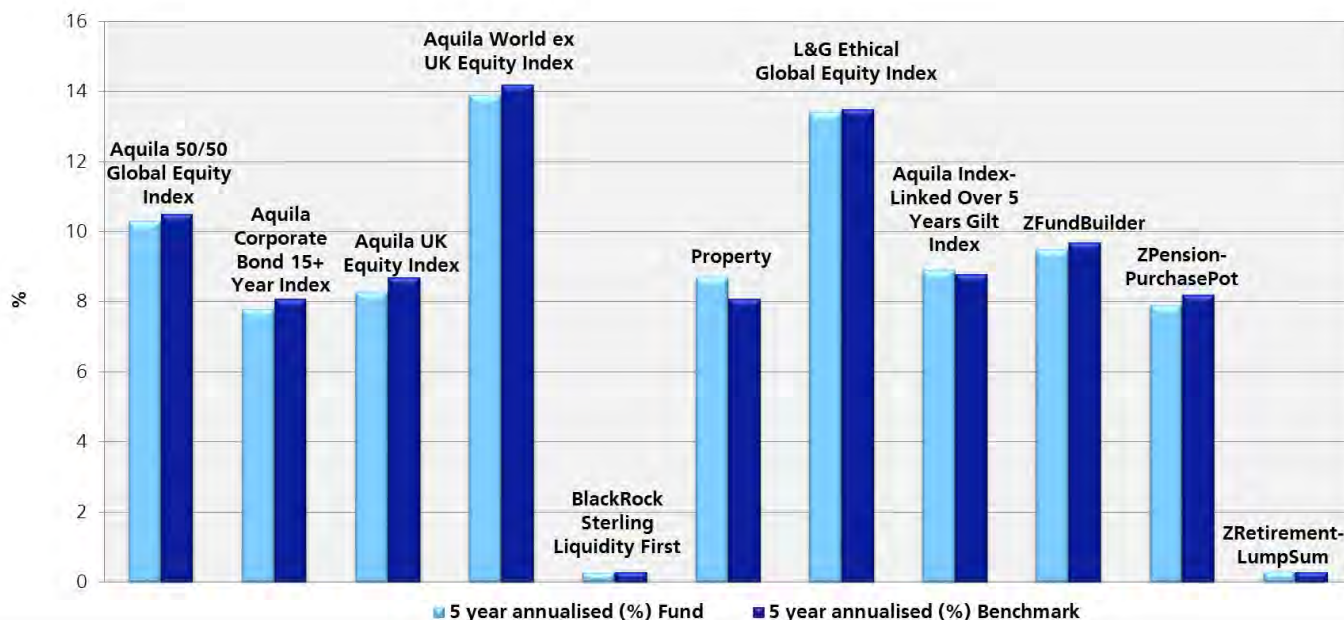
The year to 30 June 2018 saw mixed performance across the board. With majority of funds being broadly

within the benchmark we saw consistent underperformance in the ZFlexibleIncomePot fund and Zurich Mixed Investments. This is as a result of the market volatility due to trade-wars and other macro concerns. The committee will continue to monitor the performance of these funds before deciding on any necessary remedial action.

Performance over a one, three and five year period is shown on [pages 38 to 39](#).

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

ZCashBuilder performance for the five years ended 30 June 2018

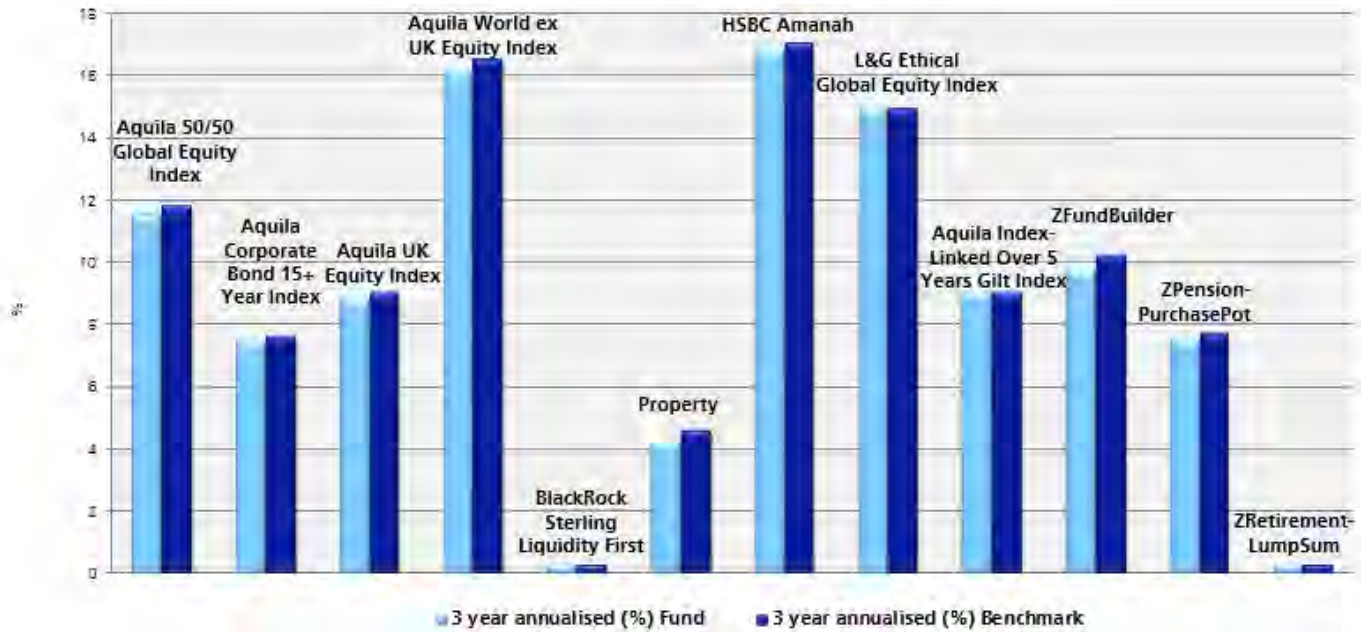


3 and 5 year data is not available for the ZFlexibleIncomePot fund as it was launched in Q1 2016.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

ZCashBuilder performance for the three years ended 30 June 2018



Source: Zurich Assurance Ltd

ZCashBuilder performance for one year ended 30 June 2018



Members make their investment selections online at www.zpen.info.

Source: Zurich Assurance Ltd

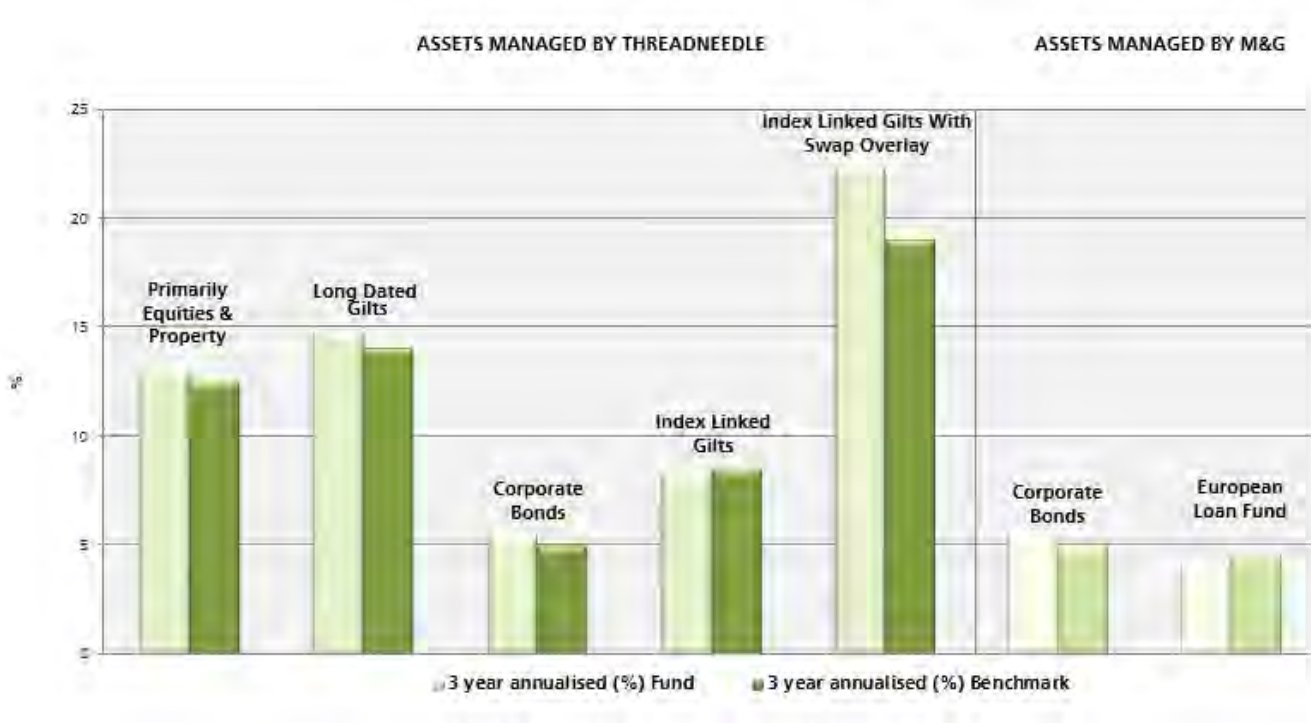
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

ZPensionBuilder performance for the five years ended 30 June 2018



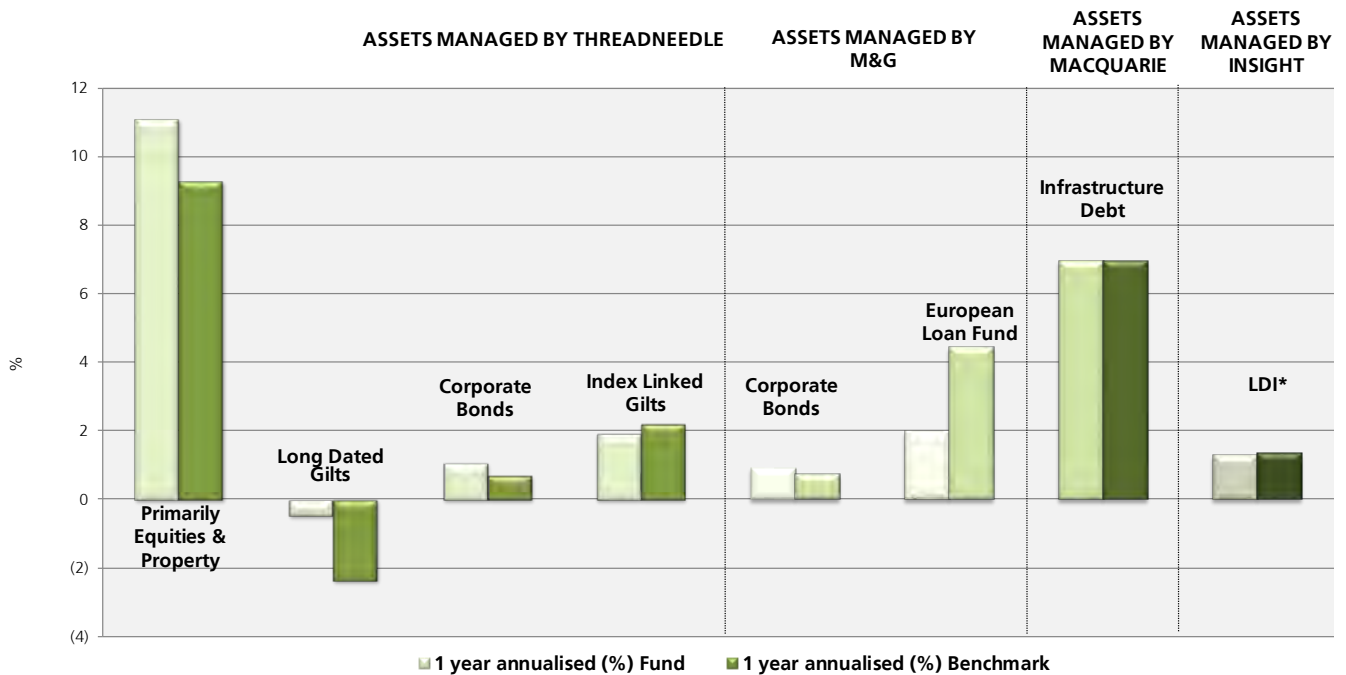
ZPensionBuilder performance for the three years ended 30 June 2018



Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

ZPensionBuilder performance for one year ended 30 June 2018



*Performance shown is as at 31 October 2017 as at the end of the restructuring period

Long Dated Gilts and Index Linked Gilts With Swap Overlay were liquidated in Q2 2017.

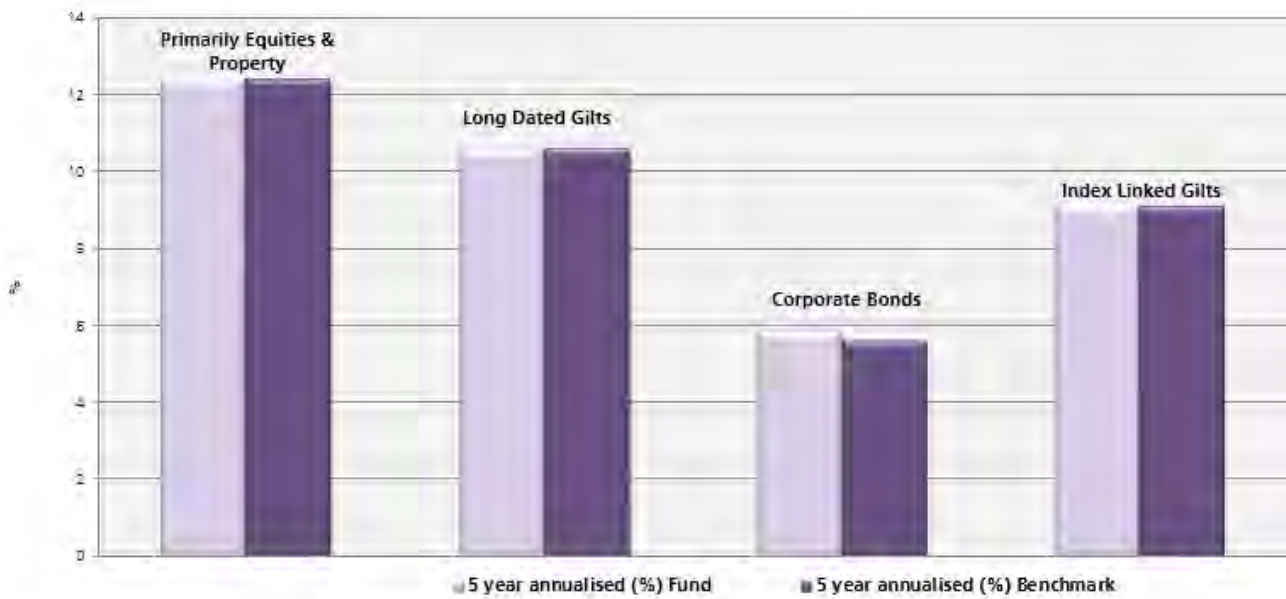
ZPensionBuilder total performance for year ended 30 June 2018



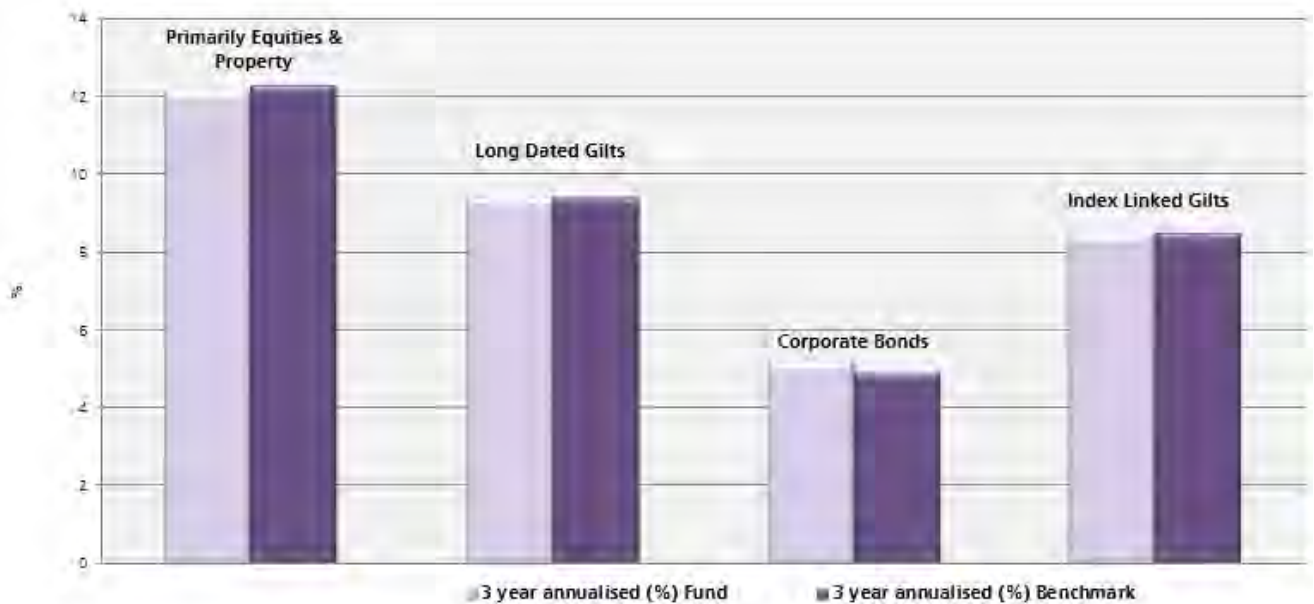
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

ESExec performance for the five years ended 30 June 2018



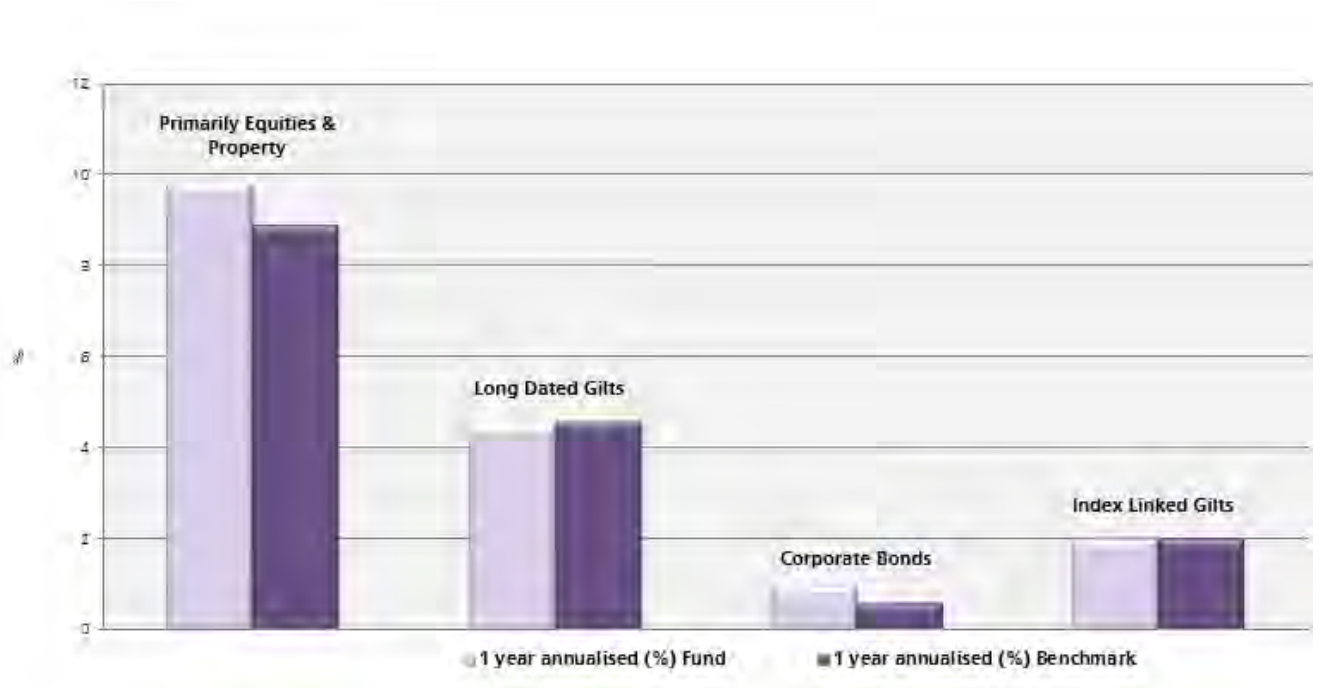
ESExec performance for the three years ended 30 June 2018



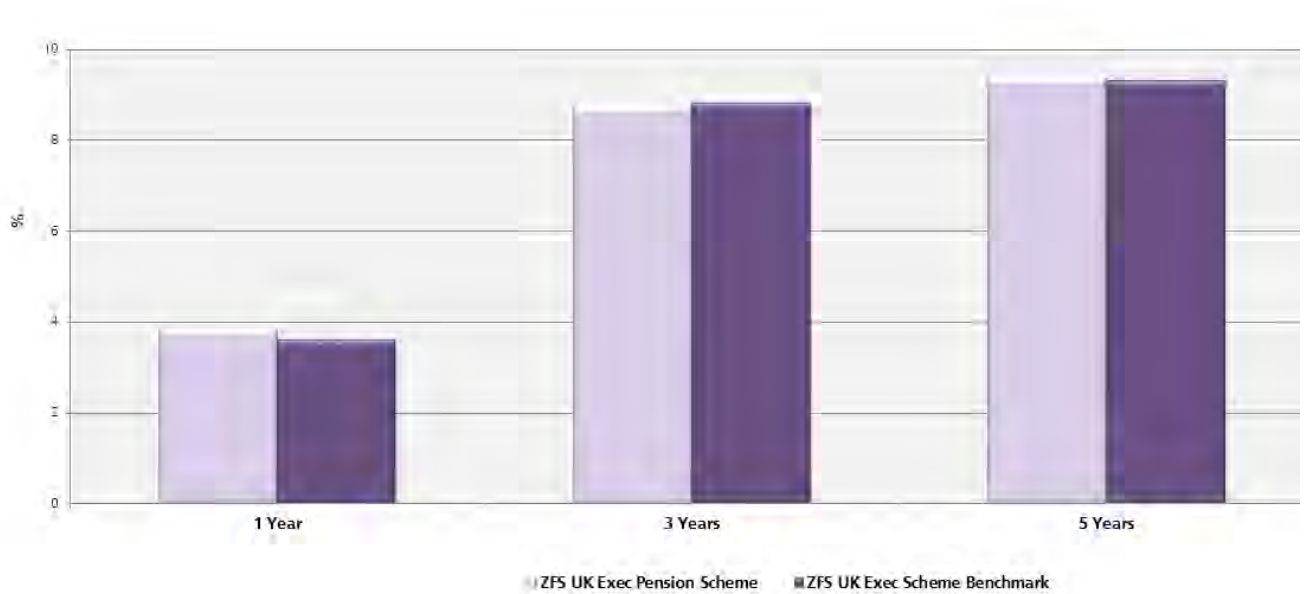
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

ESExec performance for one year ended 30 June 2018



ESExec total performance for year ended 30 June 2018



Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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 trustees receive regular updates on ZPensionBuilder's financial position from the actuary.

The funding committee have been working on a detailed review of the ZCashBuilder fund range, including a full review of the current default strategy. Once this has been finalised we will let you know the outcome. In addition to this we are in the process of setting up a dedicated DC sub-committee of the trustee board to consider DC specific matters which we expect to be in place from early 2019.

The funding committee has begun planning for the next triennial valuation as at 30 June 2019 which will be a key piece of work for them during 2019.

Brexit will continue to be a discussion point, the risks connected with Britain exiting the EU are noted by the funding committee, and they are mindful of the potential impacts for the scheme.

The trustee board approves pages 4 – 43 and are signed on behalf of the trustee board:

Trustee name	David Sims
Signature	
Date	13 November 2018

Statement of investment principles (SIP)

In accordance with section 35 of the Pensions Act 1995 the trustees, after consultation with Zurich Financial Services (UKISA) Limited, investment managers and advisers, have drawn up a SIP 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 trustees recently approved a new investment strategy for the ESExec section in June 2018 and the SIP has been updated to reflect the changes. The changes continue to reduce the schemes exposure to interest and inflation rate risks by amending the strategic asset allocation. The scheme remained in accordance with the previous SIP up until the change, and continues to do so with the current SIP.

The latest SIP dated 12 June 2018 is available on www.zpen.info or on pages 72-86.

The signing of the trustees' report also confirms the trustees' approval of the disclosures on pages 15 to 16.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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

Report on the audit of the financial statements

Opinion

In our opinion, Zurich Financial Services UK Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 30 June 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Annual report and financial statements, which comprise: the statement of net assets available for benefits as at 30 June 2018; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the trustee for the financial statements

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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 201

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

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at:

www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

Date 13 November 2018

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

Financial statements

Fund account for the year ended 30 June 2018

Amount in £'000	Note	2018				2017			
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions	3	13,924	42,272	32	56,228	9,533	45,279	32	54,844
Employee contributions	3	-	2,421	-	2,421	-	4,416	-	4,416
Total contributions		13,924	44,693	32	58,649	9,533	49,695	32	59,260
Transfers from other plans	4	2,275	4,173	-	6,448	192	7,912	-	8,104
Other income	5	1,401	-	-	1,401	1,193	-	-	1,193
		17,600	48,866	32	66,498	10,918	57,607	32	68,557
Benefits	6	(154,902)	(6,067)	(8,704)	(169,673)	(155,187)	(8,514)	(8,071)	(171,772)
Payments to and on account of leavers	7	-	(156)	-	(156)	-	(294)	-	(294)
Transfers to other plans	8	(245,362)	(13,078)	-	(258,440)	(140,998)	(8,972)	-	(149,970)
Other payments	9	(1,634)	-	-	(1,634)	(1,634)	-	-	(1,634)
Administrative expenses	10	(3,351)	-	(11)	(3,362)	(4,686)	-	(49)	(4,735)
		(405,249)	(19,301)	(8,715)	(433,265)	(302,505)	(17,780)	(8,120)	(328,405)
Net (withdrawals)/ additions from dealings with members		(387,649)	29,565	(8,683)	(366,767)	(291,587)	39,827	(8,088)	(259,848)
Net returns on investments									
Investment income	11	221,039	1	2,224	223,264	228,593	1	1,955	230,549
Change in market value of investments	12	162,589	17,669	6,109	186,367	188,431	32,853	10,608	231,892
Investment management expenses	13	(8,635)	-	(285)	(8,920)	(7,825)	-	(472)	(8,297)
		374,993	17,670	8,048	400,711	409,199	32,854	12,091	454,144
Net (decrease)/ increase in the fund		(12,656)	47,235	(635)	33,944	117,612	72,681	4,003	194,296
Opening net assets		7,405,968	255,229	196,347	7,857,544	7,288,356	182,548	192,344	7,663,248
Closing net assets		7,393,312	302,464	195,712	7,891,488	7,405,968	255,229	196,347	7,857,544

The notes on pages 49 to 66 form part of these financial statements.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

Financial statements

Statement of net assets available for benefits as at 30 June 2018

Amount in £'000	Note	2018							2017
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Investment assets									
Equities	12	1,307,314	-	-	1,307,314	1,218,937	-	-	1,218,937
Bonds	12	4,919,989	-	101,313	5,021,302	4,466,005	-	101,263	4,567,268
Pooled investment vehicles	15	589,236	290,013	93,094	972,343	574,930	245,248	94,339	914,517
Derivatives	16	-	-	-	-	137,218	-	-	137,218
Interest in SLP		845,000	-	-	845,000	860,000	-	-	860,000
AVC investments	12	-	8,787	-	8,787	-	9,955	-	9,955
Other investment balances	19	180,379	-	1,564	181,943	158,983	-	1,281	160,264
		7,841,918	298,800	195,971	8,336,689	7,416,073	255,203	196,883	7,868,159
Investment liabilities									
Derivatives	16	(4,740)	-	-	(4,740)	(4,298)	-	-	(4,298)
Other investment balances	19	(466,297)	-	-	(466,297)	(64,535)	-	(270)	(64,805)
		(471,037)	-	-	(471,037)	(68,833)	-	(270)	(69,103)
Net investment assets									
		7,370,881	298,800	195,971	7,865,652	7,347,240	255,203	196,613	7,799,056
Current assets	24	35,147	4,704	64	39,915	68,851	420	48	69,319
Current liabilities	25	(12,716)	(1,040)	(323)	(14,079)	(10,123)	(394)	(314)	(10,831)
Total net assets available for benefits									
		7,393,312	302,464	195,712	7,891,488	7,405,968	255,229	196,347	7,857,544

The financial statements summarise the transactions of the scheme and deal with the net assets available for benefits at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the funding benefits in ZPensionBuilder & ESExec section on pages 26 to 31 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on [pages 49 to 66](#) form part of these financial statements.

The financial statements on [pages 47 to 66](#) were approved by the trustees on 13 November 2018 and are signed on their behalf by:

Trustee name David Sims

Signature 

Date 13 November 2018

Financial statements

Notes to the financial statements

1. General information

The scheme was established to provide retirement benefits to employees. The address of the scheme's principal office is Compass House, Endsleigh Park, Shurdington, Cheltenham, Gloucestershire, GL51 4UE. The registered address for the scheme remains as The Grange, Bishop's Cleeve Cheltenham, Gloucestershire, GL52 8XX.

The scheme has a defined benefit ("ZPB") section which is no longer open to new members and as of 31 December 2015 closed to future accrual, and a defined contribution ("ZCB") section which is open to new members and is used as an auto-enrolment scheme by the participating employers.

The scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the employers and employees are normally eligible for tax relief and income and capital gains earned by the scheme receive preferential tax treatment.

2. Basis of preparation

The individual 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, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP").

Accounting policies

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

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

a) Investment valuation and classification

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the price provided by the manager at or before the year end.
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the trustees. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- With profits insurance policies (including those held as AVC investments) are reported at the policy value provided by

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Notes to the financial statements (continued)

the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

- Unitised insurance policies are valued on the same basis as pooled investment vehicles with similar characteristics.
- The trustee's interest in the Scottish Limited Partnership (SLP) has been valued by the trustees, having consulted with an independent pricing agent (Barnett Waddingham LLP), at fair value. The fair value is calculated by using a discounted cash flow model based on the expected present value of future cash flows, arising over the partnership arrangement.
- The infrastructure debt investments have been valued by the investment manager based on the net present value of the future cash flows. The method used is the mark-to-market model (MTM). Investments are only recognised once payment has been made. Any delayed drawdowns are shown as loan commitments.

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 bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds. Other interest on cash and short-term deposits and income from other investments is accounted for on an accruals basis. Accrued income is excluded from the market value of investments.

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

Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income.

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. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

Investment income includes withholding taxes. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.

Income arising from annuity policies is accounted for on an accruals basis and included in investment income and the pensions paid included in pension payments.

c) 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.

d) Contributions

Normal contributions from both the employer and members are accounted for on an accruals basis in the payroll period to which they relate. In the case of member contributions this is when deducted from pay.

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.

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

Employers' deficit funding contributions 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.

Other contributions made by the employer to reimburse costs and levies payable by the trustees are accounted for on the same basis as the corresponding expense.

e) Benefits

Pensions in payment, including pensions funded by annuity contracts, are accounted for in the period to which they relate.

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. Refunds and opt-outs are accounted for when the trustees are notified of the member's decision to leave the scheme.

Where the trustees agree or are required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

f) 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.

g) 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.

3. Contributions

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions								
Normal	-	42,272	-	42,272	-	45,279	-	45,279
Other contributions	5,000	-	-	5,000	-	-	-	-
Augmentations	2,890	-	-	2,890	3,499	-	-	3,499
Group life premium	1,634	-	-	1,634	1,634	-	-	1,634
Expense contributions	4,400	-	32	4,432	4,400	-	32	4,432
	13,924	42,272	32	56,228	9,533	45,279	32	54,844
Employee contributions								
Additional voluntary contributions	-	2,421	-	2,421	-	4,416	-	4,416
	-	2,421	-	2,421	-	4,416	-	4,416
Total	13,924	44,693	32	58,649	9,533	49,695	32	59,260

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

Expense contributions relate to an annual contribution of £4.4m to cover scheme expenses including the PPF Levy, as required by the schedule.

Other contributions of £32k are also paid to the ES Exec section of the scheme to cover expenses.

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Other contributions relate to £5m paid to the Scheme by Zurich Employment Services Limited in April 2018. The agreed payment schedule runs until January 2026 to ensure that Openwork's liabilities are mitigated up until cessation as an employer.

4. Transfers from other plans

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers in from other plans	2,275	4,173	-	6,448	192	7,912	-	8,104
	2,275	4,173	-	6,448	192	7,912	-	8,104

Transfers in to ZPensionBuilder are received from individuals within the Zurich group of companies worldwide.

Transfers in to ZCashBuilder are individual transfers from other schemes.

5. Other income

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Claims on term insurance policies	1,401	-	-	1,401	1,193	-	-	1,193
	1,401	-	-	1,401	1,193	-	-	1,193

The Scheme has insurance with Zurich Assurance Limited to cover death in service benefits.

6. Benefits

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Pensions	(135,213)	-	(8,291)	(143,504)	(128,462)	-	(8,071)	(136,533)
Commutation of pensions and lump sum retirement benefits	(17,640)	(6,067)	(413)	(24,120)	(22,524)	(8,502)	-	(31,026)
Lump sum death benefits	(1,387)	-	-	(1,387)	(1,821)	(12)	-	(1,833)
Annual allowance exceeded	(662)	-	-	(662)	(2,380)	-	-	(2,380)
	(154,902)	(6,067)	(8,704)	(169,673)	(155,187)	(8,514)	(8,071)	(171,772)

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

7. Payments to and on account of leavers

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Purchase of annuities on retirement	-	(156)	-	(156)	-	(294)	-	(294)
	-	(156)	-	(156)	-	(294)	-	(294)

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8. Transfers to other plans

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers out to other schemes	(245,362)	(13,078)	-	(258,440)	(140,998)	(8,972)	-	(149,970)
	(245,362)	(13,078)	-	(258,440)	(140,998)	(8,972)	-	(149,970)

9. Other payments

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Premiums on term insurance policies	(1,634)	-	-	(1,634)	(1,634)	-	-	(1,634)
	(1,634)	-	-	(1,634)	(1,634)	-	-	(1,634)

From 1 January 2016 the life insurance premium is being re-imbursed to the scheme by the company.

The invoice was paid after year end and has been accrued.

10. Administrative expenses

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

Amount in £'000	2018			2017				
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Trustee Training	(11)	-	-	(11)	(10)	-	-	(10)
Trustee Fees	(122)	-	-	(122)	(138)	-	-	(138)
Auditor fees	(144)	-	-	(144)	(94)	-	-	(94)
Systems costs	(478)	-	-	(478)	(541)	-	-	(541)
Actuarial Fees	(288)	-	-	(288)	(681)	-	(39)	(720)
Payroll & Admin costs	(275)	-	(2)	(277)	(288)	-	(2)	(290)
Legal fees	(358)	-	-	(358)	(215)	-	-	(215)
Staff costs & Overheads	(1,510)	-	(1)	(1,511)	(1,254)	-	(1)	(1,255)
Industry Fees & PPF	(156)	-	(8)	(164)	(1,458)	-	(7)	(1,465)
Internal communication	(9)	-	-	(9)	(7)	-	-	(7)
	(3,351)	-	(11)	(3,362)	(4,686)	-	(49)	(4,735)

11. Investment income

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Dividends from equities	29,982	-	-	29,982	30,243	-	-	30,243
Income from bonds	127,402	-	1,450	128,852	124,286	-	1,559	125,845
Net (payments)/from swaps	1,061	-	-	1,061	11,049	-	-	11,049
Annuity income	631	-	32	663	618	-	31	649
Interest on cash deposits	1,197	1	-	1,198	640	1	-	641
Income from SLP	60,000	-	-	60,000	60,000	-	-	60,000
Net (payments) from repurchase agreements	(1,630)	-	-	(1,630)	-	-	-	-
Other investment income	2,396	-	742	3,138	1,757	-	365	2,122
	221,039	1	2,224	223,264	228,593	1	1,955	230,549

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12. Reconciliation of net investments

ZPensionBuilder

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
Amount in £'000					
Equities	1,218,937	583,278	(602,745)	107,844	1,307,314
Bonds	4,466,005	2,367,898	(1,955,631)	41,717	4,919,989
Derivatives	132,920	20,300	(170,968)	13,008	(4,740)
Interest in SLP	860,000	-	-	(15,000)	845,000
Pooled investment vehicles	574,930	49,653	(51,926)	16,579	589,236
ZPensionBuilder net investments	7,252,792	3,021,129	(2,781,270)	164,148	7,656,799
Cash and cash equivalents	94,448	-	-	(1,559)	(285,918)
ZPensionBuilder net investments	7,347,240			162,589	7,370,881

ZCashBuilder

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
Amount in £'000					
Post 2007 ZCashBuilder Investments	245,248	45,101	(17,440)	17,104	290,013
AVC Investments	9,955	9	(1,742)	565	8,787
ZCashBuilder net investments	255,203	45,110	(19,182)	17,669	298,800

ESExec

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
Amount in £'000					
Bonds	101,263	10,646	(12,519)	1,923	101,313
Pooled investment vehicles	94,339	4,412	(9,843)	4,186	93,094
ESExec net investments	195,602	15,058	(22,362)	6,109	194,407
Cash and cash equivalents	1,011				1,564
ESExec net investments	196,613			6,109	195,971

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13. Investment management expenses

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Administration	(38)	-	-	(38)	(64)	-	-	(64)
Management	(6,544)	-	(281)	(6,825)	(6,420)	-	(248)	(6,668)
Custody	(315)	-	12	(303)	(292)	-	(247)	(539)
Performance measurement	(45)	-	(11)	(56)	(45)	-	(11)	(56)
Performance fees	(441)	-	(5)	(446)	71	-	36	107
Other advisory fees	(1,252)	-	-	(1,252)	(1,075)	-	(2)	(1,077)
Total	(8,635)	-	(285)	(8,920)	(7,825)	-	(472)	(8,297)

14. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 12. Direct transaction costs incurred are analysed as follows;

ZPensionBuilder Amount in £'000	2018		2017	
	Equities	Total	Equities	Total
Futures	(527)	(527)	(730)	(730)
Commissions	(869)	(869)	(1,416)	(1,416)
Total	(1,396)	(1,396)	(2,146)	(2,146)

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the trustees to quantify such indirect transaction costs.

15. Pooled investment vehicles

Amount in £'000	2018				2017			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Pooled Investment Vehicles								
Threadneedle Pensions Ltd investments								
Managed Funds - property	204,277	-	7,029	211,306	184,771	-	6,355	191,126
Threadneedle Investment Funds								
Managed funds - other	44,232	-	86,065	130,297	56,010	-	87,984	143,994
M&G Funds								
European Loan Fund	340,727	-	-	340,727	334,149	-	-	334,149
Bonds	-	2,868	-	2,868	-	2,730	-	2,730
Cash	-	12,259	-	12,259	-	11,784	-	11,784
Diversified growth	-	238,046	-	238,046	-	198,234	-	198,234
Equity	-	33,305	-	33,305	-	29,570	-	29,570
Property	-	3,124	-	3,124	-	2,554	-	2,554
Shariah	-	411	-	411	-	376	-	376
Total	589,236	290,013	93,094	972,343	574,930	245,248	94,339	914,517

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16. Derivatives

ZPensionBuilder Amount in £'000	2018			2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Exchange traded						
Futures	-	(4,686)	(4,686)	-	-	-
Over-the-counter contracts						
Forward foreign currency	-	(54)	(54)	140	(248)	(108)
Swaps	-	-	-	137,078	(4,050)	133,028
Total	-	(4,740)	(4,740)	137,218	(4,298)	132,920

Objectives and policies for holding derivatives

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

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.

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

Forward foreign currency

Type Amount in £'000	Expires within	Currency		Fair value	
		Currency bought	Currency sold	Asset	Liability
Sell GBP for EUR (1 contract)	3 months	€ 13	£ (12)	-	(0.02)
Sell EUR for GBP (3 contracts)	3 months	£ 2,826	€ (3,211)	-	(18.31)
Sell USD for GBP (2 contracts)	3 months	£ 10,599	\$ (14,084)	-	(35.00)
Sell GBP for SEK (1 contract)	1 month	889 kr	£ (76)	-	(0.25)
Sell GBP for USD (1 contract)	1 month	\$ 151	£ (115)	-	(0.46)
Sell JPY for USD (2 contracts)	1 month	£ 74	¥ (8,188)	0.23	-
Total				0.23	(54.04)

Futures contracts

Type Amount in £'000	Expires within	Economic exposure	Fair value	
			Asset	Liability
FUT SEP 18 LIF LONG GILT	Less than one year	(325,248)	-	(4,686)
Total		(325,248)	-	(4,686)

17. Interest in Scottish Limited Partnership

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 asset backed contribution (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

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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. An independent pricing agent (Barnett Waddingham LLP), appointed by the General Partner Company, 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 amounted to £615 million. Therefore at 30 June 2013 the funding level would have been 100%.

The Scottish Limited Partnership (SLP) was valued by an independent pricing agent (Barnett Waddingham LLP) as at 30 June 2018 as £845m (2017 £860m). This valuation was based on a number of assumptions and economic variables. The most important were:

- Assumed returns on scheme assets
- Volatility of returns on scheme assets
- Gilt yield curve
- Expected inflation
- An illiquidity premium
- Market Conditions
- Default recovery rate

All of the assumptions were applied when determining the fair value.

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.

18. Additional voluntary contribution (AVC) investments

Previously, the scheme made AVC arrangements available whereby members of the defined benefit arrangement were able to pay additional contributions which were invested in with-profits policies, unit linked, supplementary and traditional money purchase on a defined contribution basis. This arrangement was withdrawn in 2007.

From April 2007, members of ZPensionBuilder were allowed to make additional contributions into ZCashBuilder. Currently, members of ZCashBuilder are allowed to pay contributions at a higher rate than required in the scheme rules. These contributions are co-invested with other ZCashBuilder assets for each member and are not separately distinguishable.

AVC assets shown in the financial statements relate to supplementary funds and pre 2007 AVCs.

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19. Cash and cash equivalents

Amount in £'000	2018			2017				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Investment assets								
Cash-sterling	51,734	-	1,149	52,883	48,146	-	644	48,790
Cash-foreign currency	27,750	-	-	27,750	44,802	-	-	44,802
Variation margin	10,448	-	-	10,448	-	-	-	-
Income receivable	35,870	-	415	36,285	37,642	-	401	38,043
Income tax recoverable	2,148	-	-	2,148	1,759	-	-	1,759
Balances due from brokers	51,839	-	-	51,839	25,494	-	236	25,730
Obligation to return collateral	590	-	-	590	1,140	-	-	1,140
	180,379	-	1,564	181,943	158,983	-	1,281	160,264
Investment liabilities								
Balances due to brokers	(52,878)	-	-	(52,878)	(64,535)	-	(270)	(64,805)
Repurchase agreements	(413,419)	-	-	(413,419)	-	-	-	-
	(466,297)	-	-	(466,297)	(64,535)	-	(270)	(64,805)
	(285,918)	-	1,564	(284,354)	94,448	-	1,011	95,459

20. Defined contribution assets

ZCashBuilder section investments purchased by the scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the trustees. The scheme administrator allocates investment units to members. The trustees may hold investment units representing the value of employer contributions that have been retained by the scheme that relate to members leaving the scheme prior to vesting.

ZCashBuilder investment assets can be allocated to members or not, and therefore available to the trustees to apply as specified in the scheme rules, as follows:

Amount in £'000	2018	2017
	Total	Total
Not allocated to members	2,373	2,406
Allocated to members	296,427	252,797
	298,800	255,203

21. Fair value of investments

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

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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

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The scheme's investments have been included at fair value within these categories as follows:

Category	1	2	3	2018 Total
Amount in £'000				
ZPensionBuilder section				
Direct investments				
Equities and convertibles	1,302,963	-	4,351	1,307,314
Bonds	4,656,826	-	263,163	4,919,989
Derivatives	-	(4,740)	-	(4,740)
Interest in SLP	-	-	845,000	845,000
Pooled Investment Vehicles	44,232	340,727	204,277	589,236
Cash and other net balances	105,912	(391,830)	-	(285,918)
ESExec section				
Bonds	101,313	-	-	101,313
Pooled Investment Vehicles	-	-	93,094	93,094
Cash and other net investment balances	929	635	-	1,564
ZCash-Builder section				
Pooled investments	-	298,800	-	298,800
	6,212,175	243,592	1,409,885	7,865,652

The Interest in Scottish Limited Partnership (SLP) was independently priced by Barnett Waddingham as at 30 June. The valuation was based on a number of assumptions and economic variables. More details are shown in Note 17.

The bonds shown in category 3 relate to infrastructure debt. The debt has been priced using a Mark To Market Model which relies on financial assumptions. The significant assumptions relate to interest and inflation rates which are based on market information.

The valuations of both assets are sensitive to reasonably possible alternative assumptions.

Amount in £'000	1	2	3	2017 Total
ZPensionBuilder section				
Direct investments				
Equities and convertibles	1,211,061	1,810	6,066	1,218,937
Bonds	4,345,131	-	120,874	4,466,005
Derivatives	-	132,920	-	132,920
Interest in SLP	-	-	860,000	860,000
Pooled Investment Vehicles	37,345	352,814	184,771	574,930
Cash and cash equivalents	94,448	-	-	94,448
ESExec section				
Bonds	101,263	-	-	101,263
Pooled Investment Vehicles	-	-	94,339	94,339
Cash and cash equivalents	1,011	-	-	1,011
ZCashBuilder section				
Pooled investments	-	255,203	-	255,203
	5,790,259	742,747	1,266,050	7,799,056

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Notes to the financial statements (continued)

22. Investment risks

Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

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

Market risk: this comprises currency risk, interest rate risk and other price risk.

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

The trustees determine their investment strategy after taking advice from a professional investment adviser. The scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the scheme's investment managers and monitored by the trustees by regular reviews of the investment portfolio.

Further information on the trustees' approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the scheme.

Investment strategy

The investment objective of the ZPensionBuilder section is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the ZPensionBuilder Section payable under the Trust Deed and Rules as they fall due.

Credit risk

The scheme is subject to credit risk because the scheme directly invests in bonds, infrastructure debt arrangements, European loans, over-the-counter ("OTC") derivatives and has cash balances. The scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the table on the following page, the notes explain how the risk is managed and mitigated for the different classes:

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

Financial statements

Notes to the financial statements (continued)

Amount in £'000	2018	2017
	Total	Total
ZPensionBuilder section		
Bonds	4,919,989	4,466,005
Derivatives	(4,740)	132,920
SLP	845,000	860,000
Pooled Investment Vehicles	589,236	574,930
Cash and other net balances	(285,918)	94,448
Total	6,063,567	6,128,303
ESExec section		
Bonds	101,313	101,263
Pooled Investment Vehicles	93,094	94,339
Cash and other net investment balances	1,564	1,011
Total	6,259,538	6,324,916

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated or at a rating agreed in the Investment Management Agreement.

The trustees consider financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's, the trustees also rely upon the investment manager's internal rating system in some instances. The trustees are currently reviewing investment guidelines for corporate bonds with amendments to be implemented during the next financial year.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC (Over The Counter). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 19). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts.

Credit risk also arises within other investments including the interest in an SLP which is ultimately secured by a guarantee from Zurich Insurance Company Ltd and generates an income of £60m annually. Credit risk is reduced by Zurich Financial Services (UKISA) Limited, the Principal Employer, agreeing to procure that the employers become responsible for continuing payment of contributions of at least £60m per annum payable by 30 June each year (as explained in Note 17).

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager. Pooled investment arrangements used by the scheme comprise unit linked insurance contracts and authorised unit trusts.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicle. This risk is mitigated by only investing in funds which hold at least investment grade credit rated investments.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year end.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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Notes to the financial statements (continued)

Currency risk

The scheme is subject to currency risk because some of the scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The trustees have set a benchmark limit on some portfolios to overseas currency exposure of 15% of the total portfolio value which is achieved through a currency hedging policy utilising forward foreign currency contracts (see note 16). The exposure at the current and previous year-ends was:

Amount in '000	2018 Exposure	2017 Exposure
Australian dollar (AUD)	2,491	2,293
Brazilian real (BRL)	4,463	15,075
British pound sterling (GBP)	6,491,775	6,536,292
Canadian dollar (CAD)	10,450	2,241
Czech koruna (CZK)	239	6,190
Danish krone (DKK)	12,235	10,417
Euro (EUR)	181,051	162,327
Hong Kong dollar (HKD)	57,430	27,341
Indonesian rupiah (IDR)	5,805	10,246
Japanese yen (JPY)	99,711	92,368
Mexican peso (MXN)	4,053	16,544
New Taiwan dollar (TWD)	20,506	25,215
Norwegian krone (NOK)	2,639	2,365
Philippine peso (PHP)	3,263	1,949
Polish zloty (PLN)	4,612	10,961
South African rand (ZAR)	20,074	18,063
South Korean won (KRW)	36,029	25,362
Swedish krona (SEK)	21,551	21,409
Swiss franc (CHF)	13,037	21,752
Thai baht (THB)	7,387	7,952
Turkish lira (TRY)	-	5,935
United States dollar (USD)	375,898	331,048
Total	7,374,699	7,353,345

Interest rate risk

The scheme is subject to interest rate risk because some of the scheme investments are held in bonds, swaps, gilts and an interest in a SLP. The trustee has set a benchmark limit of the total investment in bonds and gilts which can be seen in the Strategic Asset Allocation, in addition to this, the scheme holds interest rate swaps. If interest rates fall, the value of the liability matching assets will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly if interest rates rise the liability matching assets will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

To reduce exposure to interest rate and inflation risk trustees implemented the new investment strategy in 2016 which includes allocation to the Liability Driven Investment.

Financial statements

Notes to the financial statements (continued)

Other price risk

Other price risk arises principally in relation to the scheme's return seeking assets which includes directly held equities, equities held in pooled vehicles, real estate and loans. The scheme has set a target asset allocation to each of these asset classes as can be seen in the strategic asset allocation.

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

Given the nature of the SLP asset, sale to a third party purchaser is unlikely. Whilst this gives rise to illiquidity risk, the trustees consider that the SLP meets the definition of a financial asset as defined by FRS 102 given the security of the future cash flows.

ZCashBuilder section

Investment strategy

The trustees' objective is to make available to members of the scheme an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employer, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). The SIP outlines the investment objectives and strategy for the ZCashBuilder assets of the scheme.

The investment funds offered to members include white labelled funds provided by Zurich Assurance Ltd. These funds are specifically created for this scheme and are invested in other funds available through Zurich Assurance Ltd's platform. The list of white labelled funds and other self-select funds are as follows, some of these funds form part of e-Z plan:

- ZFlexibleIncomePot (White Labelled)
- ZFundBuilder (White Labelled)
- ZPensionPurchasePot (White Labelled)
- ZRetirementLumpSum (White Labelled)
- 50/50 Global Equity Index
- UK Equity Index
- World ex UK Index
- Corporate Bond 15+ Year Index
- Sterling Liquidity
- Property Fund
- Index Linked Over 5 Year Gilt Index
- Zurich Managed Fund
- Zurich HSBC Islamic
- Zurich L&G Ethical Global Equity Index 2 ZP
- Zurich Mixed Investments 2 ZP

The trustees along with the aid of their investment adviser have decided the asset allocation of the above white labelled funds and monitor the performance of the underlying funds. The day to day management of the underlying investments of the funds is the responsibility of the underlying fund managers.

The risks disclosed here relate to the ZCashBuilder section's investments as a whole. Members are able to choose their own investments from the range of funds offered by the trustees and therefore may face a different profile of risks from their individual choices compared with the section as a whole.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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Notes to the financial statements (continued)

Credit risk

ZCashBuilder is subject to direct credit risk in relation to Zurich Assurance Ltd through its holdings in the list of funds on [page 63](#). 2018: £290m (2017: £245m)

Zurich Assurance Ltd is regulated by the Financial Conduct Authority and maintains separate funds for its policyholders.

ZCashBuilder is subject to indirect and market risk arising from the underlying investments held in the funds. Member level risk exposures will be dependent on the funds invested in by members.

ZFundBuilder, the default growth fund where most members will be invested up until five years before their selected retirement age has a 10% allocation to bonds, gilts and cash which therefore limits the credit risk to the majority of the members.

Members can self-select other funds which are more exposed to credit risk, but these tend to be well diversified as they are passively managed against benchmarks.

Market risk

ZCashBuilder is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by the underlying fund managers.

23. Concentration of investments

Investments accounting for more than 5% of the net assets of the scheme were:

Amount in £'000	2018		2017	
	Value	%	Value	%
ZPensionBuilder				
SLP	845,000	10.72%	860,000	10.94%
Total	845,000		860,000	

24. Current assets

Amount in £'000	2018				2017			
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Other debtors	1,634	3,899	-	5,533	3,179	99	-	3,278
Cash balances	33,513	805	64	34,382	65,672	321	48	66,041
	35,147	4,704	64	39,915	68,851	420	48	69,319

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

Financial statements

Notes to the financial statements (continued)

25. Current liabilities

Amount in £'000	2018			2017				
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Unpaid benefits	(1,913)	(1,040)	-	(2,953)	(1,333)	(384)	-	(1,717)
Tax payable	(2,112)	-	(208)	(2,320)	(1,949)	-	(199)	(2,148)
Accrued Expenses	(4,862)	-	(45)	(4,907)	(4,008)	(10)	(57)	(4,075)
Amounts due to employer	(3,829)	-	(70)	(3,899)	(2,833)	-	(58)	(2,891)
	(12,716)	(1,040)	(323)	(14,079)	(10,123)	(394)	(314)	(10,831)

26. Contractual commitments and contingent liabilities

At 30 June 2018 the scheme had undrawn commitments to fund infrastructure debt investments amounting to £63m (2017:£88m). The timing of these commitments is detailed below:

Date	Amount (£m)
03 September 2018	7.1
01 November 2018	3.3
02 January 2019	2.4
27 June 2019	18.3
22 May 2020	4.0
29 June 2020	12.1
24 May 2020	15.9
Total	63.1

There were no other contractual commitments or contingent liabilities as at 30 June 2018.

27. Related party transactions

Related party transactions and balances comprise:

- Contributions accrued under the ZCasBuilder section (note 3) include amounts in respect of four trustees (2017: four) and pensions paid (note 6) in respect of four trustees (2017: five)
- 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 0.26% to 1.19% of the fund value. The change in market value of these investments is net of this charge.
- 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. The total value of these funds at 30 June 2018 was £299m (2017:£255m). Of this total, £290m (2017: £245m) is invested through a Group Investment Only Platform provided by Zurich Assurance Ltd and £5m (2017: £6m) is invested elsewhere within the Zurich Group.
- 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. The company has agreed to make an additional contribution to the scheme to cover this cost since the scheme changes as at 31 December 2015.

Financial statements

Notes to the financial statements (continued)

- 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 2018 are disclosed in note 26, as balances due to Zurich group of companies. At the year-end four trustees were in receipt of a pension from the scheme (2017: five). Pensions are calculated in line with the Trust Deed and Rules.

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

- f) On the 31 July 2014 the scheme received a special contribution from the employer of £697m 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.
- g) Fees and expenses of £122,000 (2017: £138,000) were paid to professional trustees in respect of their services to the scheme and to other trustees as out of pocket expenses.
- h) Other than those items disclosed above and elsewhere in the financial statements, there were no other related party transactions.
- i) All related party transactions were in accordance with the Trust Deed and Rules.
- j) There were minimal indirect investments in the Zurich Group through the pooled investment vehicles. These were held in the ZCashBuilder passive funds- 50/50 Global Equity Index and World Ex Uk Index 0.01% (2017- 0.01%).

28. Employer related investments

The trustees have taken legal advice that their interest in the SLP does not constitute an employer related investment.

The scheme held less than 0.01% (2017-0.01%) employer related investments at the year end. These were held in the ZCashBuilder passive funds- 50/50 Global Equity Index and World Ex Uk Index.

29. Subsequent events

A court case to discuss whether, and how, Guaranteed Minimum Pension ('GMP') should be equalised was heard in July 2018. On 26 October 2018, the High Court decided that trustees are under a duty to equalise for GMPs. A review remains ongoing by the Scheme Actuary to establish any impact on the Scheme. Dependent on the outcome of this review, an additional liability in respect of equalisation may be recognised in the Scheme financial statements. At the date of writing, an initial assessment by the Scheme Actuary is currently underway.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018

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

Statement about contributions

Opinion

In our opinion, the contributions required by the schedules of contributions for the scheme year ended 30 June 2018 as reported in Zurich Financial Services UK Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the scheme actuary on 27 June 2017 and 20 April 2018.

We have examined Zurich Financial Services UK Pension Scheme's summary of contributions for the scheme year ended 30 June 2018 which is set out on the following page.

Basis for opinion

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.

Responsibilities for the statements about contributions

Responsibilities of the trustee in respect of contributions

As explained more fully in the statement of trustee's responsibilities, the scheme's trustee is 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 employers in accordance with relevant requirements.

Auditors' responsibilities in respect of the statement about contributions

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

Use of this report

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



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

Date 13 November 2018

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2018


Summary of Contributions for the year ended 30 June 2018

During the year ended 30 June 2018, the contributions payable to the scheme were as follows:

Amount in £'000				2018
	ZPB	ZCB	ESExec	Total
Contributions required by the schedules of contributions				
Normal contributions	-	42,272	-	42,272
Group life premium	1,634	-	-	1,634
Mitigation payments	5,000	-	-	5,000
Expense contributions	4,400	-	32	4,432
	11,034	42,272	32	53,338
Augmentations	2,890	-	-	2,890
Additional voluntary	-	2,421	-	2,421
Total	13,924	44,693	32	58,649

The actuary's certificates confirming the adequacy of the contribution rate is shown on the following pages.

The summary of contributions on this page was approved by the trustees on 13 November 2018 and is signed on their behalf by:

Trustee name	David Sims
Signature	
Date	13 November 2018

Actuarial certification of schedule of contributions

ZPensionBuilder actuarial certificate 27 June 2017

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 2016, to be met for the period for which the schedule is expected to be in force.

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 27 June 2017.

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: 27 June 2017

Name: Mark A J Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

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

Employer: Barnett Waddingham LLP

Actuarial certification of schedule of contributions (continued)

ZPensionBuilder actuarial certificate 20 April 2018

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 could have been expected, on 30 June 2016, to be met for the period for which the schedule is expected to be in force.

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 27 June 2017.

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:

20 April 2018

Name:

Mark A J Howard

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

St James's House
St James's Square
Cheltenham
GL50 3PR

Employer:

Barnett Waddingham LLP

Actuarial certification of schedule of contributions (continued)

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 2016, to be met for the period for which the schedule is expected to be in force.

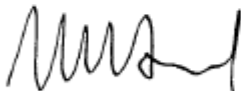
I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

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 27 June 2017.

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:

27 June 2017

Name:

Mark A J Howard

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

St James's House
St James's Square
Cheltenham
GL50 3PR

Employer:

Barnett Waddingham LLP

Statement of Investment Principles

The Zurich Financial Services UK Pension Scheme

This Statement of Investment Principles is the statement that applies to the investment arrangements supporting the ZPensionBuilder defined benefit liabilities and the ZCashBuilder arrangement. The Statement contains the following Sections and Appendices.

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1. Introduction

- 1.1. This statement is made by Zurich Financial Services UK Pension Trustee Limited (“the Trustee”) the sole trustee of the Zurich Financial Services UK Pension Scheme (“the Scheme”) for the purposes of and in accordance with section 35 of the Pensions Act 1995 as amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378) (“the Investment Regulations”). The statement is intended to describe the general approach of the Trustee to investment matters as they impact on the Scheme. As such, the statement may require amendment as general investment conditions alter and as the liabilities of the Scheme change over time.
- 1.2. The Scheme’s assets are held in trust by the Trustee, whose investment powers are set out in the Scheme's governing Trust Deed. The content of this statement does not conflict with those powers.
- 1.3. The scheme (ZPen) has three sections; two defined benefit sections (ZPensionBuilder and ES Executives section) and a defined contribution section (ZCashBuilder).
- 1.4. This document has been drafted in the light of the Myners' Principles (attached as Appendix 1) and specifically Myners' recommendations relating to the content of statements of investment principles.

2. ZPensionBuilder & ES Executives Section

2.1. Investment Objectives

- 2.1.1. The Trustee considers the following to constitute its overall objectives of the two defined benefit sections, ZPensionBuilder and ES Executives section:
- a) to invest in assets of appropriate quality and liquidity which meet, together with contributions from the employers, the cost of benefits which the Scheme provides, as set out in the Trust Deed and Rules and
 - b) over the long term to equal or exceed the real, i.e. after adjusting for the effects of inflation, investment return assumed in the actuarial valuation of the liabilities of the Scheme from time to time and
 - c) (For the ZPensionBuilder section only) to manage the funding volatility caused by movements in assets relative to the liabilities with respect to changes in interest rates and inflation and the maturity of the Scheme.
 - d) any other objective that the Trustee may, from time to time, consider appropriate.

2.2. Choosing investments

- 2.2.1. The Trustee takes the overall strategic investment decisions. The Trustee recognises that implementing an investment strategy requires specialist knowledge and understanding.
- 2.2.2. It has appointed a sub-committee to act on behalf of the Trustee and to advise the Trustee on investment matters not delegated to the sub-committee. The terms of reference including the delegated powers for the sub-committee are attached in appendix 2.
- 2.2.3. The Trustee has a service agreement in place with Zurich Insurance Company which covers Analytical and Advisory Services which are provided in line with the established Zurich Insurance Group's investment management standards.
- 2.2.4. In addition, the Trustee has appointed an authorised investment adviser ("the Adviser"), who advises on the suitability of certain investments having regard to the nature of the Scheme's liabilities and the requirements set out in the Investment Regulations. The Trustee is advised by the Adviser that such advice is not necessary when straightforward, day to day decisions on particular investments of a kind and amount already agreed as being within the investment guidelines are made by the investment managers ("the Managers"). However, where issues of a more substantial nature arise (for example, the proportion of the assets to be held in a currency other than sterling) then such advice is sought and confirmed in writing.
- 2.2.5. The Trustee from time to time also receives advice from other appropriately qualified experts as to the suitability of investments. The Trustee considers all advice before making its decisions.
- 2.2.6. The Trustee appoints the Managers to carry out all the day-to-day investment decisions relating to the management of the assets and their administration. The selection of particular investments is left to the Managers within the scope of agreed investment guidelines. Managers are only appointed following detailed due diligence.

- 2.2.7. The Managers appointed by the Trustee are given a copy of this statement and informed that the Trustee expects the principles contained in this document to be reflected in the Managers' actions.
- 2.2.8. The Trustee appoints one or more custodians ("the Custodian") to hold the Scheme's assets.

2.3. The kinds of investment to be held

- 2.3.1. Under the terms of the Trust Deed the Trustee is authorised to invest in a wide range of different kinds of investments including, but not limited to:

- Shares in any company and of any class
- Loans to any company, sovereign state or public body
- Land and property at any location
- Infrastructure debt
- Insurance policies
- Collective investment schemes
- Derivatives and repurchase agreements
- Scottish Limited Partnership
- Cash deposits

In any of these asset classes the Trustee may impose constraints on the activity of the Managers. The list includes investments in currencies other than sterling.

Although the Trustee has freedom to invest within the terms of the Trust Deed it may impose restrictions on the proportions held in various kinds of investments. Details of any such restrictions are made known in writing to each Manager and are contained in the relevant investment guidelines.

2.4. The balance between different kinds of investment

- 2.4.1. Having taken advice from the Adviser, the Trustee recognises that the return received from different kinds of investment is achieved in different ways (for example, high income but little opportunity for capital growth as opposed to a low income but substantial opportunity for capital growth).
- 2.4.2. Having taken advice from the Adviser, the Trustee also recognises that the liabilities of the Scheme vary in nature (for example, current pensioners require an immediate income whereas current employees require no immediate pension income but will do so in future).
- 2.4.3. The Trustee seeks to balance the investments held against the current and future needs of the Scheme.
- 2.4.4. The Trustee and the Managers agree from time to time an allocation of the Scheme's assets having regard to the need to diversify investments across different categories of investment and between investments in a particular category taking into account the factors detailed in section 2.9; the Trustee is advised by the Adviser in this regard.

2.5. Risk

- 2.5.1. The Trustee's attitude to risk reflects the nature of the Scheme's liabilities.
- 2.5.2. In terms of the investment strategy the Trustee views risk as the probability that its chosen strategy would result in the objectives not being met. The strategy is designed to maximise the probability of meeting the objectives whilst aiming to control those factors which may result in the objective not being met. The Trustee receives a quarterly risk report detailing a large number of risk metrics to ensure it can effectively monitor and manage the key investment strategy risks facing the Scheme.

In arriving at the investment strategy, the Trustee also considers the following risks:

- Actions by the Managers (manager risk)
- The need to pay benefits in the short-term (cash flow risk)
- The failure of some of the investments (concentration risk)
- Actions by the custodian (custody risk)
- That one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation (credit risk)
- Any other risk as the Trustee deems appropriate
- The need to have sufficient liquidity to cover collateral calls relating to the liability driven investments and currency derivatives (liquidity risk)

2.5.3. Manager risk

In aiming to control Manager risk the focus of the Trustee's attention is on the following aspects:

- the risk of the Managers underperforming the objectives set
- the risks inherent in the particular Manager's philosophy
- the risk of the Managers failing to conduct their business in compliance with regulatory requirements

The first element is monitored on a regular basis through an assessment of the Managers' performance. The second element considers the extent to which the Managers' approach remains appropriate to the Scheme's circumstances. The third is monitored by receiving reports from each Manager confirming that it has not been subject to significant criticism or censure by its regulators.

The Trustee has adopted a passive investment style for some of the assets which minimises the risk from underperformance by the Managers. This approach can also significantly reduce the costs of investment management.

2.5.4. Cash flow risk

Cash flow risk relates to the realisation of investments in order to meet the benefit outgo. If such realisations are made at depressed prices, this may in turn reduce the probability of meeting the overall objectives.

The Trustee and its advisers manage the Scheme's cash flow requirements over the short term in order to minimise the probability that this occurs.

2.5.5. Concentration risk

The failure of any of the investments would jeopardise the Trustee's ability to meet the objectives if it constituted a significant proportion of the assets. In order to reduce this risk the appointed Managers invest, on the Trustee's behalf, in a range of different asset classes and in different securities in each class.

In addition to investments with 3rd party fund managers, the Scheme's assets also include a Scottish Limited Partnership (SLP). At the point of investment this represented circa 13% of the Scheme's assets. The Trustee has taken advice from the adviser on the suitability of the SLP, which addressed a wide range of risks including concentration risk.

2.5.6. Custody risk

The Custodian has a direct written agreement with the Trustee. The Trustee recognises that failure by a Custodian could prejudice the ability of the Scheme to meet its liabilities. The Trustee's auditors produce an annual statement detailing any issues requiring further consideration.

2.5.7 Credit Risk

The Trustee addresses credit risk in a number of ways;

- credit quality limits are outlined in the agreements they have with the Managers
- OTC derivative contracts have collateral arrangements in place
- annual payments are required directly from the principal employer should the SLP fail

2.5.8 Liquidity risk (ZPensionBuilder only)

The Trustee is implemented a liability driven investment (LDI) programme to manage interest rate and inflation risks to which the Scheme is exposed. Collateral will either be received or posted depending on whether the value of the derivative instruments move in favour of the Trustee or the counterparty. The trustee carefully plans and manages its liquidity risk.

The Trustee reviews the liquidity management framework on an on-going basis in collaboration with the Manager to mitigate the risk of the manager having to de-leverage the LDI portfolio.

The Trustee also ensures that sufficient collateral is made available to the Managers for efficient portfolio management.

2.5.9 Risk Monitoring

The Trustee and its advisers monitor the Managers' and Custodian's activity to measure their compliance.

2.6. The expected return from investments

- 2.6.1. When selecting investments of different kinds the Trustee will have regard to the relative investment return that each category is expected to produce, structuring the investments such that they are expected to deliver a return consistent with the Scheme's investment objectives. In this context, the Trustee receives information from both the Adviser and the Managers and, from time to time, other appropriately qualified experts.
- 2.6.2. The Trustee recognises the need when making these comparisons to distinguish between nominal and real returns and to make appropriate allowance for inflation.
- 2.6.3. Having established the investment policy the Managers are expected to follow, the Trustee monitors the performance of the Managers. A consistent failure to achieve adequate performance could result in the Managers being replaced.

2.7. The realisation of investments

- 2.7.1. The Trustee will have regard to the liquidity of a kind of investment before deciding to make an investment of that kind. In particular, they will consider liquidity in the context of the Scheme's likely need for cash in the short and longer term, the income generated from an investment of that kind and the prospects for liquidity at a future date.
- 2.7.2. In the normal course of events the Managers will sell investments from time to time to be replaced by others. The Trustee is concerned that the volume of such turnover is not excessive and the Managers are aware that the expenses involved in turnover can affect performance and that excessive turnover might give rise to an income tax liability if it were to be regarded as trading by HM Revenue & Customs.
- 2.7.3. Ultimately, the investments will all have to be sold by the time the Scheme's life comes to an end. The Trustee is advised by the Scheme Actuary as to the solvency of the Scheme should all the assets be sold immediately. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value as shown in the accounts.

2.8. Ethical investment

- 2.8.1. The Trustee has considered how social, environmental and ethical factors, generally referred to as 'socially responsible investment' (SRI) should be taken into account in the selection, retention and realisation of investments. It considers that it should in all circumstances act in the best financial interests of the beneficiaries and, where this primary consideration is not prejudiced, it has asked the Managers to take account of SRI.
- 2.8.2. Whenever possible the Trustee will prefer a particular investment which they believe to be more socially responsible, as opposed to one that is less socially responsible. For this purpose socially responsible means that the investment seeks to contribute positively rather than negatively to the economy, environment and society in which the investment is made.

2.8.3. The Trustee recognises that the other considerations of this statement and other financial factors may override ethical issues.

2.9. Asset allocation and investment strategy

2.9.1. This asset allocation strategy has been decided on in conjunction with the Adviser, and will be reviewed from time to time as circumstances change, by considering the level of investment risk to which the Trustee is prepared to expose the Scheme. This in turn will depend on a number of factors including:

- a) the Scheme's liability profile;
- b) the funding plan in place;
- c) the sponsor covenant; and
- d) the economic and market background, in particular, the expected return on a wide range of asset classes along with their expected volatility and correlations.

2.10. Performance Measurement

2.10.1. The Trustee has agreed, based on advice from the Adviser and other appropriately qualified experts, the benchmark against which the performance of the Managers is measured.

2.10.2. The Trustee regularly monitors actual performance against the benchmarks set.

2.10.3. The Trustee will review on a regular basis the investment performance of the Scheme's assets together with the continuing suitability of the Managers.

2.11. Corporate governance

2.11.1. Whenever required, the Trustee will seek to exercise their voting rights in the best long term interests of Scheme members. The Trustee has delegated day to day decisions regarding corporate governance, including the exercising of voting rights, to the Managers.

3. ZCashBuilder

3.1. Investment Objectives

3.1.1. The Trustee considers the following to constitute its overall objectives of ZCashBuilder:

- a) to provide an appropriate range of investment choices designed to generate income and capital growth which together with contributions from members and the employer will provide a fund at retirement
- b) to provide a range of funds appropriate for members' attitude to risk and proximity to retirement as members' investment needs and risk appetite change approaching retirement
- c) to provide default options which reduce investment risk as members approach retirement for those members who do not wish to select specific funds
- d) to provide funds which are aligned to how members are able to take their benefits which are consistent with the pension flexibilities enabled by the 'freedom of choice' regulations
- e) to provide lifestyle strategies offering members the potential to target exclusively, or a combination of, drawdown, annuity purchase and cash withdrawal at retirement.

3.2. Choosing investments

3.2.1. The Trustee appoints a fund administrator to carry out all the day to day functions relating to the management of ZCashBuilder fund and its administration.

3.2.2. Whilst the Trustee is closely involved in the wider issues relating to the investment funds made available to members, the Trustee is not responsible for selecting which funds a member should invest in from the range available.

3.3. The kinds of investment to be held

3.3.1. Having taken advice from the Adviser, the Trustee has made available a range of funds through Zurich Assurance Ltd in which members can invest. From time to time funds may be added, removed or amended as considered necessary by the Trustee.

3.3.2. Within the investment options, a number of lifestyle strategies are offered (e-Z plan). The Trustee provides two default options within this, one for members with ZPensionBuilder benefits and another for members with ZCashBuilder benefits only.

3.3.3. The structure of the funds in e-Z plan allows the Trustee to accommodate changes in the underlying funds without undue disruption.

3.4. Risk

3.4.1. In terms of the ZCashBuilder investment choices the Trustee views risk as the probability that its chosen funds would result in the objectives not being met. The fund choices and lifestyle options are designed to maximise the probability of meeting the objectives whilst controlling those factors which may result in the objective not being met.

In arriving at the investment fund choices and designing e-Z plan, the Trustee has considered a number of risks including the following:

- Actions by the underlying investment managers (manager risk)
- The risk that investment returns over members' working lives are not in line with inflation (inflation risk)
- The risk that market movements just prior to a member's retirement substantially reduce their fund available to buy an annuity / drawdown product or retirement lump sum (investment risk).

The Trustee also considers credit risk in relation to Zurich Assurance Ltd through its holdings in the Schemes funds and also as platform provider. Zurich Assurance Limited is regulated by the Financial Conduct Authority and is required by the Prudential Regulation Authority to maintain adequate financial resources to ensure that it can meet its liabilities as they fall due.

3.5. Investment options

3.5.1. Recognising the constraints detailed in the sections above and having taken advice from the Adviser, the Trustee has chosen a number of asset classes as self-select funds for members of the ZCashBuilder section and these are detailed in appendix 5.

3.5.2. These asset classes have been decided upon in conjunction with the Adviser, by considering the level of investment risk to which members may be prepared to take and with reference to the relative returns available on equities, gilts, corporate bonds, cash etc. and the likely volatility of those returns. The asset classes available to members will be reviewed from time to time, in view of changes to market conditions and the Scheme's membership profile.

3.5.3. There are four component funds in e-Z plan each designed to achieve a different objective as shown in appendix 5. The Trustee will review the underlying investments in each of the component funds and may change them from time to time.

4. Compliance with this Statement

- 4.1. The Managers for the ZPensionBuilder, ES Executives and ZCashBuilder sections will provide the Trustee from time to time with a trading statement showing the investment or disinvestment of all monies and, not less than quarterly, a valuation statement showing the number and type of units credited to the Scheme and their current value.
- 4.2. The Managers will provide the Trustee with regular reports giving a summary of investment activity since the last report and a review of the performance of the Scheme's assets.
- 4.3. A representative of the Managers will be available to report in person to the Trustee at reasonable intervals.

5. Amendments

- 5.1. The Trustee will review these principles, having consulted the Adviser and the Scheme Actuary at least every three years following an actuarial valuation and without delay after any significant change in investment policy. Changes should only be made after due and proper consideration of the circumstances. This is the seventh such revision.
- 5.2. Before making or revising this statement the Trustee has obtained and considered written advice to ensure that its contents are appropriate to the circumstances of the Scheme. The Trustee has also consulted the principal employer, Zurich Financial Services (UKISA) Limited ("the Employer") as to the contents of this statement.

6. Appendices

- 6.1. All appendices form an integral part of this Statement of Investment Principles. The appendices may be amended from time to time by the Trustee or the investment sub-committee, as appropriate. Any such update will automatically become part of the then in force Statement of Investment Principles.

7. Availability

- 7.1. A copy of this statement will be made available to the Employer, the Managers, the Scheme Actuary and the Scheme Auditor. A copy will be provided to Scheme members upon request.



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Signed on behalf of Zurich Financial Services UK Pension Trustee Limited

12 June 2018

APPENDIX 1: MYNER'S PRINCIPLES AS AT 12 JUNE 2018

Myners's principles for investment governance

(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.

(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.

(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.

(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.

(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.

(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.

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APPENDIX 2: TERMS OF REFERENCE FOR THE INVESTMENT COMMITTEE

Attached is a copy of the terms of reference for the investment sub-committee, a section of the Trustee's Funding committee, as at 12 June 2018.



Terms of Reference -
Investment Sub-Com



Policy Document 1 -
SAA limits and monito



Policy Document 2 -
Bond downgrade.pdf

APPENDIX 3: STRATEGIC ASSET ALLOCATION AND HEDGING RATIO TARGETS (ZPensionBuilder) – The below table indicates the long-term target of the Scheme, which will be implemented over a period of up to six years from the middle of 2017

Asset Allocation	%
Equities	30.00%
Real Estate	5.00%
Loans	5.00%
Credit (incl. private debt)	30.00%
Liability Driven Investment	30.00%
	100.00%
Hedging Ratio	%
Interest rate hedging ration (funding basis)	80.00%
Inflation hedging ration (funding basis)	60.00%

APPENDIX 4: STRATEGIC ASSET ALLOCATION (ES Executive)

Asset Allocation	%
Equities	16.50%
Index Linked Gilts	19.00%
Fixed Interest Gilts	33.00%
Corporate Bonds	28.00%
Real Estate	3.50%
	100.00%

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APPENDIX 5: ZCASHBUILDER INVESTMENT CHOICES AS AT 12 JUNE 2018

e-Z Plan blended funds

ZFundBuilder

Asset class	%	Fund
UK Equities	38.00%	Aquilla UK Equity Tracker
North American Equities	12.25%	Aquilla US Equity Tracker
Europe (ex UK) Equities	12.25%	TAM European
Far East Equities	11.00%	50% TAM Japan, 50% TAM Asia
Emerging Markets Equities	2.50%	JPM Emerging Markets Equity
Property	14.00%	TAM Property fund
Gilts	2.00%	Aquila Over 15Y Gilts Tracker
Cash	2.00%	TAM Deposit & Treasury
Corporate bonds	6.00%	Aquila Corporate Bond Over 15Y Tracker
	100.00%	

ZPensionPurchasePot

Asset class	%	Fund
Corporate bonds	90.00%	Aquila Corporate Bond 15+ year index
UK Gilts	10.00%	Aquila Over 15 years UK Gilts
	100.00%	

ZRetirementLumpSum

Asset class	%	Fund
Cash	100.00%	Zurich Deposit & Treasury fund
	100.00%	

ZFlexibleIncomePot

Asset class	%	Fund
Diversified	100.00%	Zurich Flexible Retirement Fund
	100.00%	

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Component Fund	Objective
ZFundBuilder	To achieve investment growth, aiming to deliver a real return relative to inflation over the longer term.
ZPensionPurchasePot	To invest in assets appropriate to support an annuity at retirement.
ZRetirementLumpSum	To invest in assets appropriate to provide a lump sum at retirement.
ZFlexibleIncomePot	To invest in assets appropriate to support drawdown at retirement.

The switching out of ZFundBuilder into ZPensionPurchasePot, ZFlexibleIncomePot and ZRetirementLumpSum will take place automatically in regular intervals over a period of **5** years leading up to the member's chosen retirement age.

Self-select funds

Aquila 50/50 Global Equity Index
Aquila UK Equity Index
Aquila World ex UK Equity Index
Aquila Corporate Bond 15+ year Index
BlackRock Sterling Liquidity
TAM Property Fund
ZFundBuilder
Zurich Mixed Investments
Zurich Managed
L&G Ethical Global Equity Index
Zurich HSBC Amanah