

Zurich Financial Services UK Pension Scheme

**Annual report and financial statements for
the year ended 30 June 2019**

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

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Welcome to the 2019 annual report and financial statements. Our main focus this year has been maintaining a rigorous approach to good scheme governance in line with increasing requirements set out by The Pensions Regulator.

A significant number of these new requirements relate to DC pensions and our new DC Committee is now up and running to provide greater focus on ZCashBuilder and the legacy AVCs. We have also undertaken a significant amount of preparatory work for the 30 June 2019 actuarial valuation and the ZPen team is working through the details of the High Court judgment in the Lloyds Banking Group case around equalising guaranteed minimum pensions.

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 interest to you depending on the benefits you have in the scheme.

For members with DC benefits

Dedicated DC Committee

In June 2019, the trustees set up a DC Committee to provide more focus and attention on ZCashBuilder and the legacy AVC arrangements within the scheme. The Committee is made up of representatives from the Trustee board and from the company, chosen for their experience and expertise. It is being supported by a dedicated DC Manager who joined the ZPen team in April 2019. You can read more about the DC Committee and its objectives on [page 32](#).

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 in ZCashBuilder and the legacy AVC arrangements provides value when compared with the costs and charges. Our investment adviser, Hymans Robertson, provided benchmarking information gathered from other pension schemes to support our review.

Overall, the trustees concluded that ZCashBuilder provides value for members, which was further improved following the reduction in charges by 5.5bps (basis points) which came into effect on 1 January 2019. The trustees also assessed each legacy AVC provider separately and you can read more about our value for members assessment in the Chair's statement on [page 38](#).

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 an effective date of 30 June 2016. The annual update at 30 June 2018 showed that the estimated funding level of the ZPensionBuilder section had reduced slightly since the valuation on 30 June 2016. The main reason for this change was an increase in long-term inflation expectations and a fall in corporate bond spreads which decreased the discount rate leading to higher liabilities. This effect was partially offset by positive investment experience.

In contrast, the funding level of the ES Executives' section had improved since the valuation on 30 June 2016. This was largely because the increase in long-term inflation expectations was more than offset by the positive investment experience. Work is currently underway on the valuation as at 30 June 2019 and, once it is complete, we will report the results in the Trustee newsletter.

Investment

Our investment strategy is kept under constant review and aims to find a balance between controlling risk and seeking returns with growth assets. In 2017 we agreed to use Liability Driven Investment (LDI) as a way of reducing our exposure to interest rate changes and inflation.

In June 2019 the trustees formalised their responsible investment strategy. The trustees believe that incorporating environmental, social and governance (ESG) factors into investment decisions improves long term risk adjusted returns. The trustees continue to work closely with their advisers and investment managers to build on the work undertaken in this area over the last few years.

Further detail on the scheme's investment activity is provided on [page 23](#).

Scheme actuary

During the scheme year, Mark Howard resigned his position as Scheme Actuary. Mark retired from Barnett Waddingham in May 2019 but ceased to be Scheme Actuary from the end of November 2018. The trustees appointed Susanna Morran, also from Barnett Waddingham, to take over from Mark with effect from 4 December 2018.

For all members

Changes to the board

On 24 September 2018, Amy Brettell, Head of Market and Customer Insight, was appointed as a company-nominated director on the Trustee board, filling the

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vacancy left by Cecile Fresneau in the previous scheme year. On 30 April 2019, Alan Wood retired from being a member-nominated director after over 25 years on the Trustee board. Following a member-nominated director selection process, Neil Evans, former UK Life CFO, was appointed with effect from 1 August 2019 for a three-year term.

Trustee knowledge and understanding

During the year, we have continued our focus on ensuring we meet The Pensions Regulator's expectations of how a well-run scheme should be managed. Part of this is ensuring that the trustees have enough knowledge and understanding to be able to carry out their function as a trustee. Each year we set aside at least one day for training and development. This year we received training on integrated risk management, the new DB funding code, DC considerations, Trustee board diversity, and company accounting considerations. 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)

19 November 2019

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 9](#)) 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 2019 there was a vacancy for a member nominated trustee. Following a nomination and selection process this was filled by Neil Evans from 1 August 2019.

ZPen Trustee board at 30 June 2019



- Company nominated
- Member nominated
- Independent trustee
- Vacancy (member nominated)

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 (or sooner if a vacancy arises), employee and pensioner members are asked to put themselves forward if they would like to be a member nominated trustee. These applications are reviewed by the UK Head of Pensions and Benefits and the relevant consultation body if the applicant is an employee member. 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 2019 following the retirement of Alan Wood and Neil Evans was appointed for a three year term from 1 August 2019.

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Trustees



David Sims
Trustee Chair
Former CEO Zurich
Europe Life



BESTrustees
Represented by
Clive Gilchrist

Trustee Executive,
BESTrustees



Christian Jochum
Head of Strategy
Development, Investment
Management, Zurich



Graham Mearns
Former Risk Manager,
Openwork



Amy Brettell
Head of Market and
Customer Insight, Zurich

*Appointed
24 September 2018*



Simon Clifford
Global Head of Life
Technical Excellence,
Zurich



Tom McKenna
Engineer Surveyor,
Zurich



Gillian Mitchell
Senior Pensions Advisor,
Zurich



Tim Culling
Former Head of Customer
Care, Global Life, Zurich



Neil Evans
Former Chief Financial
Officer, UK Life, Zurich

*Appointed
1 August 2019*



Alan Wood
National Officer,
Community

*Resigned
30 April 2019*

- Company Nominated
- Member nominated
- Independent

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Emma Skuse
Head of UK Pensions & Benefits



UK Pensions & Benefits Team

Contacts

For general information and individual benefit enquiries:

David Lidbury, Customer Services Manager
UK Pensions & Benefits
Zurich
Compass House
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Shurdington Road
Cheltenham
Glos, GL51 4UE

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

Further details on how to contact us are on [page 15](#).

To contact the trustees:

Claire Calo, Scheme Secretary
UK Pensions & Benefits
Zurich
Compass House
Endsleigh Park
Shurdington Road
Cheltenham
Glos, GL51 4UE

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

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Trustees' advisers

Investment managers

ZCashBuilder:



On 3 April 2018, Zurich's corporate savings business was sold to Lloyds Banking Group (the funds remained insured by Zurich Assurance Ltd until the Part VII transfer took effect on 1 July 2019).

ZPensionBuilder

M & G Investments Insight Investment



Macquarie



ZPensionBuilder & ES Exec

Threadneedle Asset Management Ltd (Previously Threadneedle Pensions Ltd)



Custodian & investment performance

ZPensionBuilder & ES Exec

The Northern Trust Company



Investment advisers

Hymans Robertson



Investment analysts

Zurich Insurance Company, Investment Management



Bankers

Lloyds Bank plc

The Royal Bank of Scotland plc

Scheme actuary

Mark Howard FIA¹, Barnett Waddingham LLP
(until 30/11/2018)

Susanna Morran FIA, Barnett Waddingham LLP
(from 04/12/2018)



Independent auditors and independent covenant advisers

PricewaterhouseCoopers LLP



Solicitors

Simmons & Simmons LLP



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 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.

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 an 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 ES Executives' sections

If the Trustee board has a conflict between the interests of the ZPen section and the interests of the ES Executives' section, a committee can be formed to consider the matter from the ES Exec point of view.

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) and Financial Reporting Standard (FRS) 102

⁴ Pensions Acts 1995 and 2004

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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, who has set out their expectations for trustee knowledge and understanding 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.

Full details of how the trustees have complied with these requirements are set out in the Chair's Statement on page 9.

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.

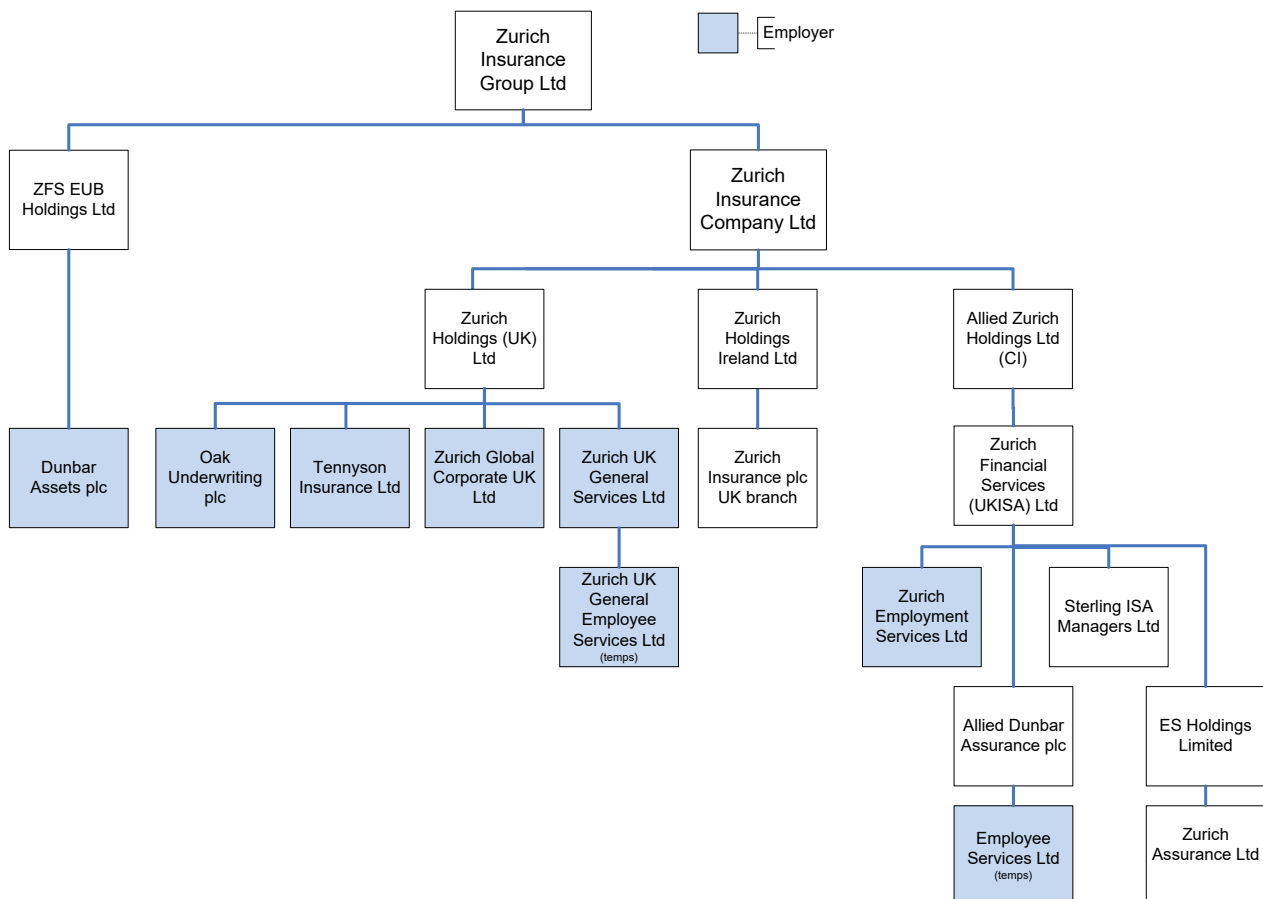
Zurich Financial Services (UKISA) Limited appoints all of the Trustee company directors, although the appointment or removal of the independent director requires the consent of the golden shareholder.

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.

Participating employers

There have been no changes to participating employers during the scheme year.



⁵ Pensions Act 2004

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.

Meeting attendance this scheme year

Trustee board

Quarterly board meetings, risk day, additional meetings and trustee training

Trustee	Q1	Q2	Q3	Q4	Risk Day	Training
David Sims	Attended	Attended	Attended	Attended	Attended	Attended
Amy Brettell ⁶	Attended	Attended	Attended	Did not attend	Did not attend	Attendance not required
Simon Clifford	Attended	Attended	Attended	Attended	Attended	Attendance not required
Tim Culling	Attended	Attended	Attended	Attended	Attended	Attendance not required
BESTrustees ⁷	Attended	Attended	Attended	Attended	Attended	Attendance not required
Christian Jochum	Attended	Attended	Attended	Attended	Attended	Attendance not required
Tom McKenna	Attended	Attended	Attended	Attended	Attended	Attendance not required
Graham Mearns	Attended	Attended	Attended	Attended	Attended	Attendance not required
Gillian Mitchell	Attended	Attended	Attended	Attended	Attended	Attendance not required
Alan Wood	Attended	Attended	Attended	Attended	Attended	Attendance not required

Funding committee & DC committee

Committee	Q1	Q2	Q3	Q4
Funding Committee	Attended	Attended	Attended	Attended
DC Committee	Attendance not required	Attendance not required	Attendance not required	Attendance not required

Key

Attended

did not attend

attendance not required

This chart shows the number of meetings attended/not attended by each trustee

Changes made in the scheme year

Deed of Amendment: A Deed of Amendment was executed on 27 March 2019 to give members affected by the Zurich Cap the option for it to increase annually on 6 April rather than 1 April.

Part VII transfer: During the scheme year the ZCashBuilder funds were provided by Zurich. The fund provider changed to Scottish Widows from 1 July 2019 following the sale of the majority of Zurich's workplace pensions and savings business to Scottish Widows. As a result of moving to Scottish Widows, there was no change to the nature or investment objectives of the funds in which members' are invested, the fund range that is available or the fund charges. In addition, the value of members' investments did not change as a result of the transfer.

Isle of Man Pension Freedom Scheme (IoM PFS): From 1 July 2019, new employees in the Isle of Man will no longer join ZPen. Instead they will join the new IoM PFS. Current members of ZPen in the Isle of Man will have the option to leave ZPen and join the IoM PFS for future pensionable service if they so elect.

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 transfer value) into another pension arrangement. During the scheme year all cash equivalent transfer 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.

⁶ Shortly after being appointed Amy commenced a six month sabbatical.

⁷ BESTrustees have been represented by Clive Gilchrist and Catherine Redmond

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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 tier pension. There were no discretionary increases during the scheme year.

Category	Date	Increase
ZPensionBuilder (ZPB)		
ZPB (former ES tier)	1 July 2018	3.4%
	1 July 2019	3.0%
ZPB (former Tier 2000 tier)	1 July 2018	3.4%
	1 July 2019	3.0%
ZPB (former ZI tier)	1 October 2018	3.4%
ZPB (former AD tier)	1 January 2019	3.2%
ZPB (former AD IOM tier)	1 January 2019	4.9%
Legacy tiers		
ES tier	1 July 2018	3.4%
	1 July 2019	3.0%
Tier 2000	1 July 2018	3.4%
	1 July 2019	3.0%
ES Exec	1 July 2018	3.4%
	1 July 2019	3.0%
ZI tier	1 October 2018	3.4%
AD tier	1 January 2019	3.2%
AD Isle of Man	1 January 2019	4.9%

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.

The ZCashBuilder arrangement includes indirect investments in the Zurich Group through the pooled investment vehicles; Aquila 50/50 Global Equity Index and Aquila World ex-UK index. The arrangement held less than 0.01% of Zurich Group shares through these passive funds.

Scheme running costs

A budget for scheme expenses is agreed by the trustees on an annual basis and actual spend against budget is monitored throughout the year. The budget includes costs for ZPensionBuilder, ES Exec and ZCashBuilder sections.

Financial statements

The financial statements for the year are set out on [pages 47 to 68](#) and scheme membership details are on [page 14](#).

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

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 Trustee 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 financial statements have been prepared in accordance with the relevant 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 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.

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

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); to promote, and to improve understanding of the good administration of work-based pension schemes; to maximise employer compliance with automatic enrolment duties; and to minimise any adverse impact on the sustainable growth of an employer.

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 15 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](#).

ESG: Clarifying and strengthening trustees' investment duties

Pension schemes with more than 100 members are now required to disclose the risks of their investments, including the ones arising from environmental, social and governance (ESG) considerations. The new rules, published by the Department of Work & Pensions came into effect on 1 October 2019 and require trustees to state their policies in the Statement of Investment Principles.

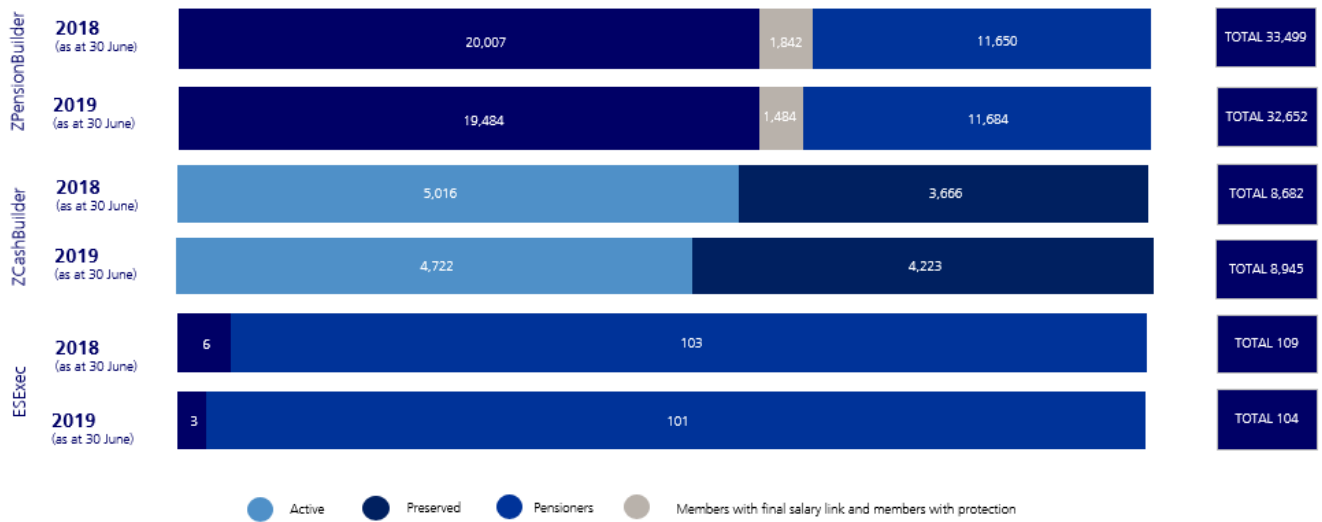
The trustees have recently formalised their responsible investment strategy in the Statement of Investment Principles in line with these requirements. Further details on these policies and procedures can be found on [page 80](#).

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Membership details

The change in membership of the scheme is given below



Included within ZPensionBuilder pensioners are 1,477 (2018: 1,359) dependant members and 489 (2018: 494) annuitants.

Included within ES Exec pensioners are 16 (2018: 19) dependant members and 9 (2018: 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).

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.

We've listened to your feedback and are pleased to confirm that Pension Healthcheck 121 appointments for the over fifties are now available to book with Faye Willetts.

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.vouchedfor.co.uk

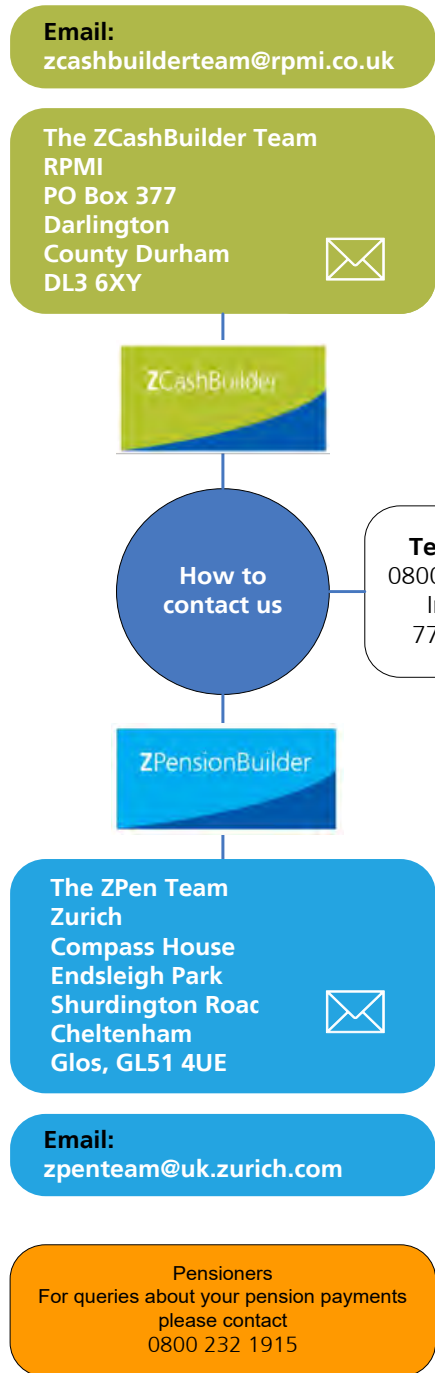
Regional pensions support team



Faye Willetts



Rich Cypher



Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

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 around 3,500 members have used the website to set up their own retirement benefits.

Online facilities for ZCashBuilder

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

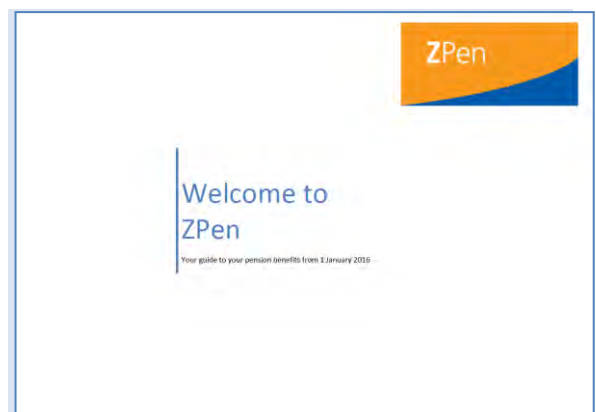
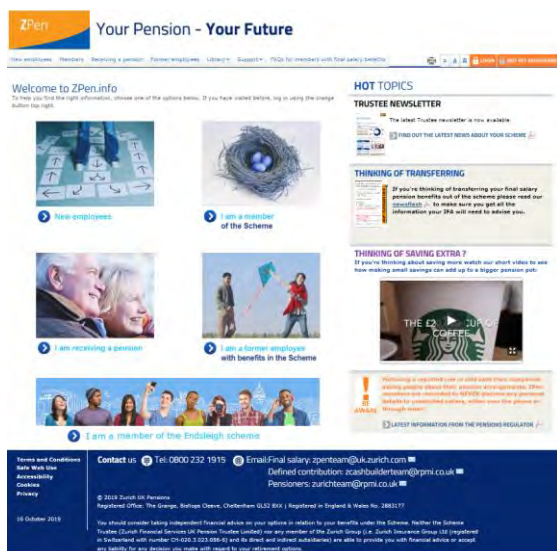
website so they can see their pension payslips on line.

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



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 actual investment returns as well as actual annuity rates at retirement, if an annuity is purchased.

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, pensioners have been able to register with the

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Funding benefits in ZPensionBuilder and ES Exec

The trustees are responsible for making sure there is enough money in ZPensionBuilder and ES Executives' sections 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



BESTrustees
Independent Trustee
represented by
Clive Gilchrist



Christian Jochum
Company nominated Trustee



Gillian Mitchell
Company nominated Trustee

Funding committee: Company members



David Ford
Head of Structural Actions:
ZIC



Andy Jackson
Head of Capital & Liquidity
Management: ZIC



Tim Grant
UK Financial Controller
Appointed 24 September 2018



Brian Olvany
Head of Private Debt: ZIC

Paul Sutton, Group Head of Total Rewards resigned on 30 September 2018

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Advisers

Investment advisers

Hymans Robertson



Investment analysts

Zurich Insurance Company, Investment Management



Scheme actuary

Susanna Morran, FIA
Barnett Waddingham LLP



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: reviewing scheme funding
- 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 ES Executives' sections. The purpose of the valuation is to determine the current financial position of the ZPensionBuilder and ES Executives' sections based on all benefits earned to the valuation date. The last valuation was as at 30 June 2016 and the next valuation, due as at 30 June 2019, is underway.

The steps in the valuation process are:

Step 1: determining the value of benefits earned to date

The actuary calculates the value of the benefits earned for all members – the "technical provisions". This includes those who have preserved benefits⁸ and those who have actually retired.

In making these calculations, the actuary uses assumptions about things like return on investments, inflation in the future and how long members are expected to live.

In considering these proposals the trustees also take into account a review from PricewaterhouseCoopers LLP as to the strength of the company structure supporting the scheme and the ongoing Scottish Limited Partnership (SLP) arrangement. They also consider the investment of the scheme's assets, both now and into the future.

The assumptions are agreed by the trustees, the company and the actuary.

Step 2: determining the funding level

The actuary compares the technical provisions in the ZPensionBuilder and ES Executives' 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. If the fund is worth more than the value of the benefits there is a "surplus". If the reverse applies, there is a "deficit".

A surplus or deficit does not necessarily mean that the asset value is too big or too small compared to future payments. The valuation is essentially a snapshot in time taking account of the various factors described above. The long term position will depend on whether the assumptions made are borne out in practice. The ZPensionBuilder and ES Executives' sections may have different funding outcomes: for example, one could be in surplus and the other in deficit.

⁸ Members have preserved benefits if they have left the company but have not yet reached retirement age.

Step 3: agreeing a recovery plan

If there is a shortfall against the technical provisions, the trustees and the company agree a level of contributions needed to make good this deficit.

The funding committee works through the valuation process with the actuary in a series of workshops. The product of these workshops is a recommendation to the Trustee board, from which the valuation assumptions are finalised, producing final results. These results are presented to the company. Between valuations, the committee reviews the funding position quarterly and makes recommendations to the Trustee board in respect of the annual actuarial report.

Valuation as at 30 June 2016 – method and assumptions⁹

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 have also been 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.

Using an average inflation assumption, taking into account the period in which the payments are to be made results in a different inflation assumption between the ZPen and ES Exec sections.

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 is 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" relates to the probabilities and proportions of members expected to die or survive at future ages. 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 take advice from the scheme actuary as to the terms available for members to exchange pension for a lump sum.

Dependant details

To predict likely future dependant's benefit payments, 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.

⁹ Provided by Barnett Waddingham LLP

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

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

Key Financial Assumptions/Data as at 30 June 2016	ZPen Section	ES Executives' 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:		
– RPI with a maximum of 5%	2.93%pa	n/a
– RPI with a minimum of 3% and a maximum of 5%	3.50%pa	3.39%pa
– RPI with a minimum of 3% and a maximum of 7.5%	3.60%pa	n/a
– CPI with a maximum of 3%	1.92%pa	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 section

Valuation as at 30 June 2016

Using the method and assumptions agreed by the trustees, the ZPensionBuilder section had assets sufficient to cover 104% of its technical provisions as at 30 June 2016 (corresponding to a surplus of £304m). Consequently the trustees agreed with the company that no deficit reduction contributions were required at the current time, although the employer will continue to contribute an amount of £4.4m per annum towards the expenses of running the ZPen section and the PPF levy.

Annual Actuarial Report

A full scheme valuation is conducted every three years. In the intervening years the Trustee board obtain an annual funding update. A summary of the funding position as at the 30 June 2016 full valuation, and the 30 June 2017 and 30 June 2018 annual updates is shown on the next page.

For the annual actuarial reports, the financial assumptions tend to be updated in line with market conditions whereas the demographic assumptions will be rolled forward and updated at the next full valuation as at 30 June 2019.

Asset backed contribution (SLP)

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

This was valued at £880m at 30 June 2019 and is included in the total audited value of the assets for the ZPensionBuilder section of £7,729m.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

ZPensionBuilder

Prudent Basis	30-Jun-16 (£m)	30-Jun-17 (£m)	30-Jun-18 (£m)
Assets (excluding AVCs/APCs)	6,395	6,546	6,548
Amount needed to provide benefits (Shortfall)	6,984 (589)	7,213 (667)	7,177 (629)
Funding level excluding SLP	92%	91%	91%
Asset backed contribution (SLP) (Shortfall) / Surplus incl SLP	893 304	860 193	845 216
Funding level including SLP	104%	103%	103%

ES Executives' section

Valuation as at 30 June 2016

Using the method and assumptions agreed by the trustees, the ES Executives' section had assets sufficient to cover 101% of its technical provisions as at 30 June 2016 (corresponding to a surplus of £1.6m). The trustees agreed with the company that no deficit reduction contributions were

required at the current time, although the employer will contribute an amount of £32k per annum towards the expenses of running the ES Executives' section.

Prudent Basis	30-Jun-16 (£m)	30-Jun-17 (£m)	30-Jun-18 (£m)
Assets	192.3	196.3	195.8
Amount needed to provide benefits (Shortfall) / Surplus	190.7 1.6	189.8 6.5	186.2 9.6
Funding level	101%	103%	105%

By law, the statements from the scheme actuary on pages 71 to 73 must be included in this annual report.

A copy of the full report on the valuation at 30 June 2016 is available on the website www.zpen.info. The next valuation as at 30 June 2019 is underway.

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 for the ZPensionBuilder & ES Exec sections

Investment strategy and principles

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. The investment strategy aims to achieve this 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 ES Exec separately but applies the same principles to both sections.

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 and ES Exec. The committee also managed the investment strategy of ZCashBuilder until the DC committee was formed in June 2019. For more information on the DC committee please see [page 32](#).

Responsible investment

As a long term investor, the trustees believe that incorporating environmental, social and governance (ESG) factors into investment decisions improves long term risk adjusted returns. As a result, the trustees have been integrating ESG factors at various steps in its investment process for many years, and has been working very closely with its advisors and investment managers.

In June 2019 the trustees further agreed that the scheme should be an active responsible investor. The trustees agreed on five responsible investment principles:

- We believe that incorporating ESG factors into investment decisions improves long term risk-adjusted returns
- We are an active owner – we vote proxies and engage, where appropriate
- We take a pragmatic approach to responsible investments – we focus on what matters most

- We note Zurich Group's strategy and will leverage its global resources where it makes sense
- We will evolve our responsible investment approach over time – and acknowledge that we will never be done

The scheme has already made good progress in this area over the last few years with its engagement activities, in respect of investments, and the positive environmental impact from the investment in renewable energy projects and utilities through the infrastructure debt portfolio. The trustees are cognisant of the risks of climate change and aim to understand the potential impact that climate risk factors may have on the scheme's future investment returns. The trustees have therefore restricted investment in companies deriving material revenues from the mining of, or generation of energy from, thermal coal.

ZPensionBuilder equity review

The funding committee has now completed a review of the equity allocation for ZPensionBuilder. Areas reviewed included the regional equity allocation, consideration of actively vs passively managed portfolios and updating investment guidelines. Following this review, the scheme decreased its UK and Global Emerging market exposure by 10% and 5% respectively and increased its allocation into the Global Small Caps & US portfolios by 10% and 5% respectively. The objective was to better diversify the scheme's equity exposure. In addition, the scheme has strengthened but simplified its investment guidelines with Columbia Threadneedle, the scheme's equity manager.

Infrastructure debt

During 2016 the trustees agreed to a 5% target allocation to infrastructure debt and appointed Macquarie Infrastructure Debt Investment Solutions (MIDIS). Over the three years MIDIS have been reviewing investment opportunities in order to deploy the scheme's assets. As at 30 June 2019 the scheme has now fully committed its original allocation target. The scheme has investment in thirteen different assets, which cover a variety of different sectors, ranging from wind farms to social housing projects.

Statement of Investment Principles (SIP)

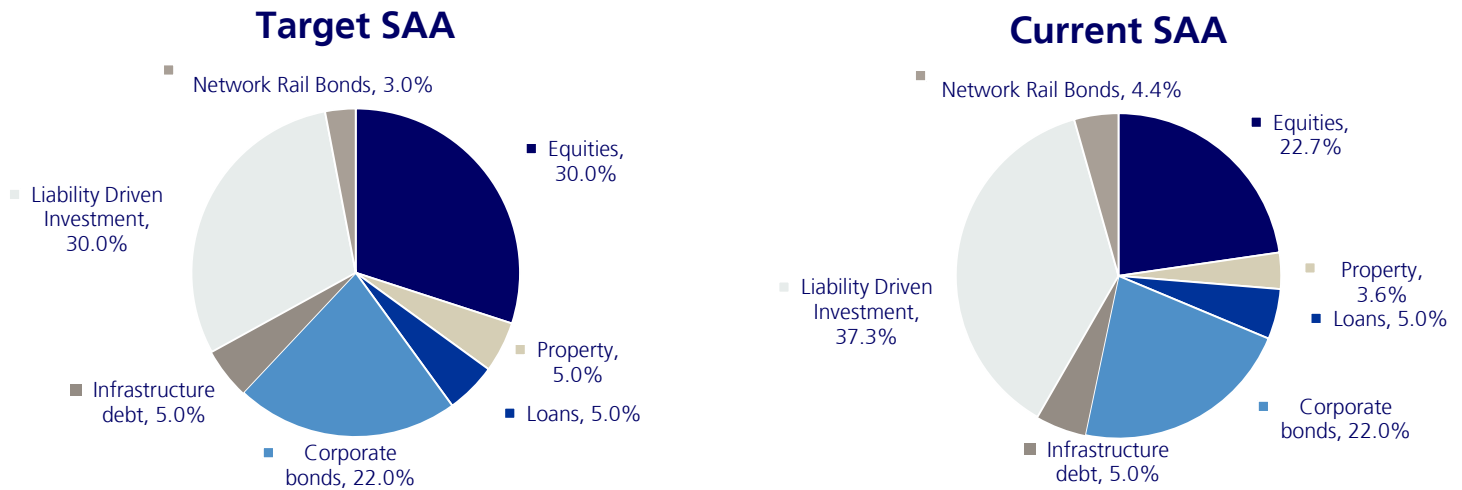
The scheme has formalised the responsible investment strategy in the Statement of Investment Principles in line with the Department of Work and Pensions (DWP) regulations that came into effect on 1 October 2019. The latest SIP is available on www.zpen.info or on [pages 74-89](#).

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

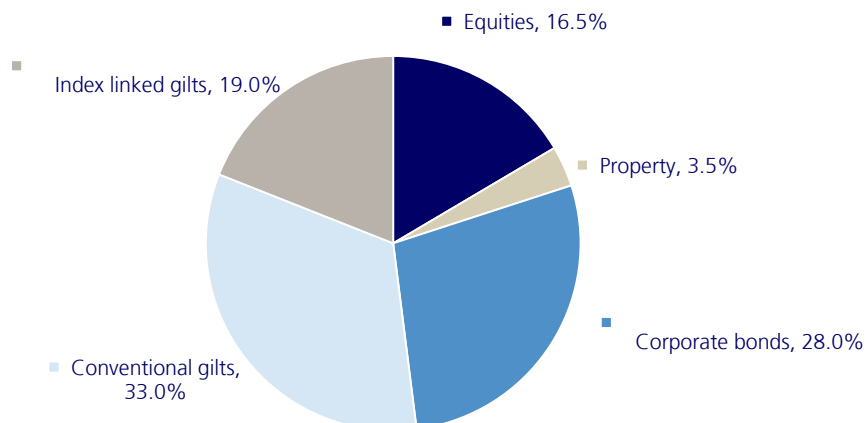
The graphs below show the strategic asset allocation (SAA) as at 30 June 2019.

ZPensionBuilder



The funding committee reviewed the ZPensionBuilder long-term investment strategy alongside the 2016 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 recommended amending the allocation over a period of up to six years (from 2017). As it stands, the Target SAA is due to be met in 2023.

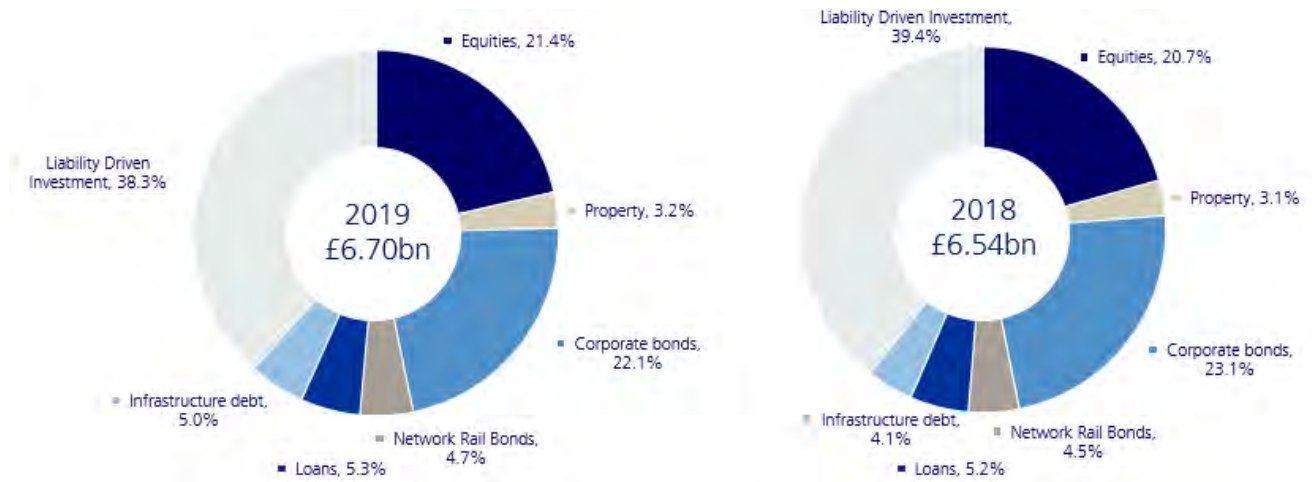
ESExec SAA



Zurich Financial Services UK Pension Scheme

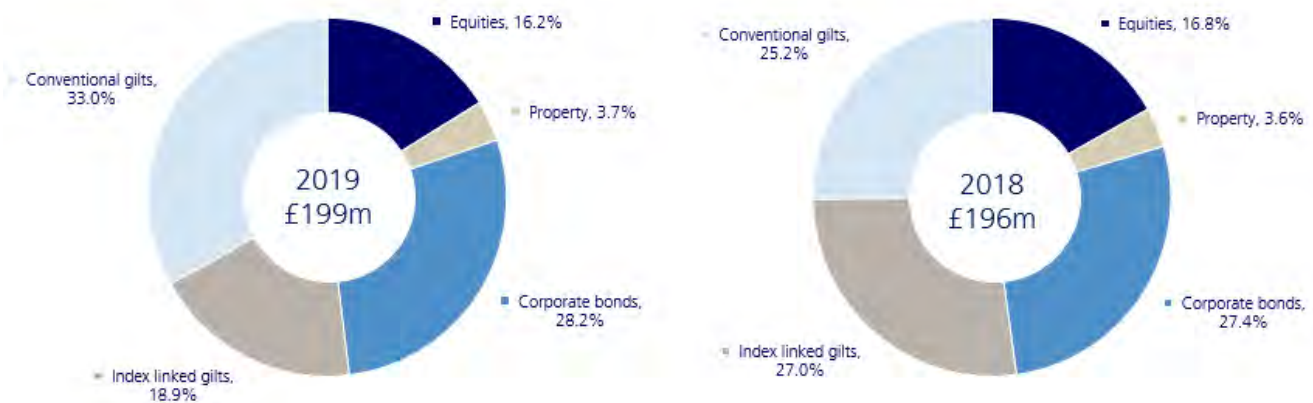
Annual report for the year ended 30 June 2019

The actual distribution of investments for ZPensionBuilder at 30 June 2019 compared with 30 June 2018 is shown below.



As at 30 June 2019 the Loans fund and approximately 50% of the corporate bonds 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 the ES Executives' section at 30 June 2019 compared with 30 June 2018 is shown below.



All the investments for the ES Exec section are managed by Columbia Threadneedle.

The change in asset allocation is due to a new investment strategy implemented in June 2018. The schemes exposure to interest and inflation rate risks were reduced by decreasing the allocation of index linked gilts and increasing the allocation of conventional gilts.

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 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 environmental, social and governance 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 Trustee.

The investments held with Northern Trust are held in a designated nominee account in the name of the trustees 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.

Interest in Scottish Limited Partnership

As detailed on [page 58](#), 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 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 25](#).

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 three investments in the year. These include investments into sewage works, offshore wind and rolling stock.

As at 30 June 2019, the scheme had thirteen investments in infrastructure debt totalling £326m (2018- £263m).

Liability Driven Investments (LDI)

The trustees approved changes to the long term strategy in December 2016. The strategy aims to address the most significant risks faced by the scheme, interest and inflation rate risks. The funding committee proposed changing the strategic asset allocation to reduce these risks and appointed a specialised LDI manager, Insight Investments. Assets transitioned from Columbia Threadneedle to Insight Investment in May 2017. By increasing the schemes hedging ratios for interest and inflation rates, it will reduce its exposure to these risks whilst providing more exposure to growth assets. 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 2019

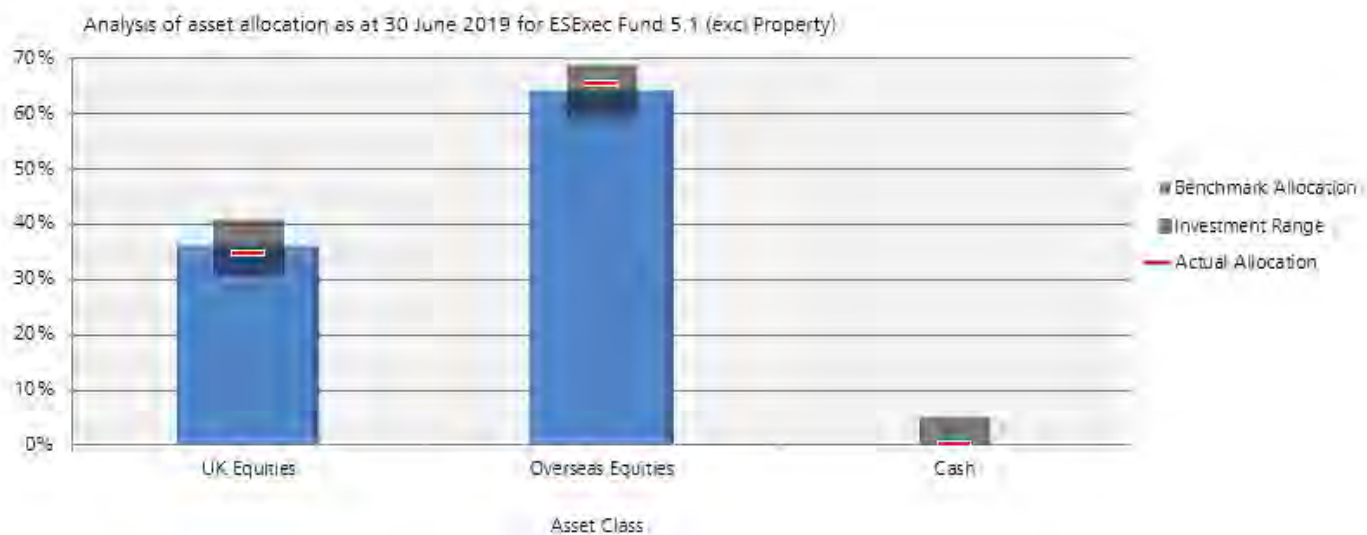
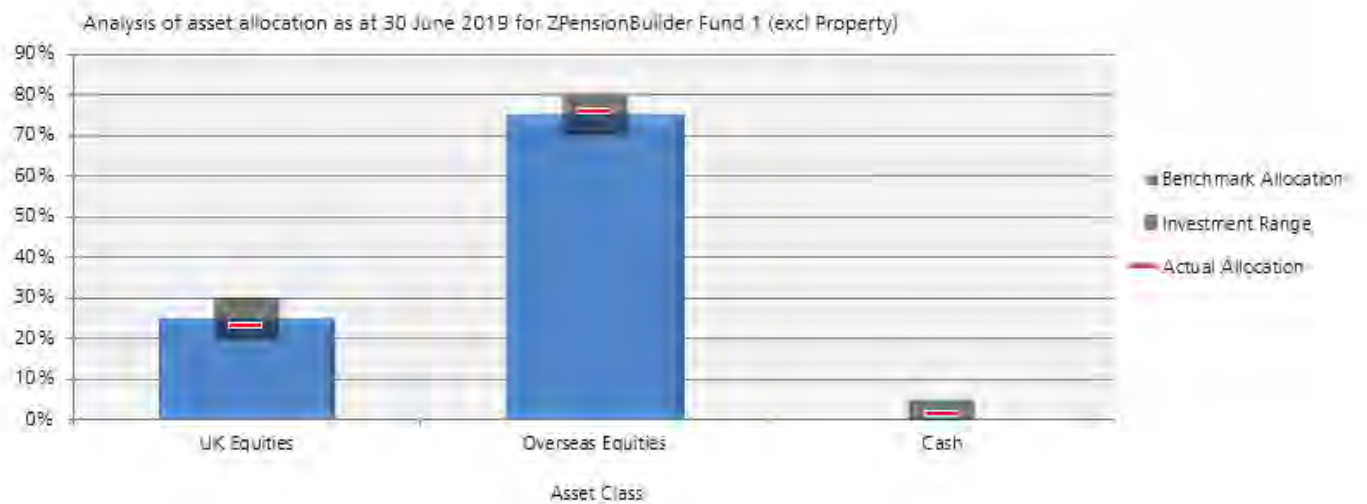
Investment performance

In the actively managed portfolios, the trustees set a benchmark asset allocation. Performance targets are set based on the benchmark allocations and manager performance is compared against this and then allow the investment manager discretion to manage investments within ranges around these benchmarks. This discretion 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 ES Executives' 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 28 to 31](#).

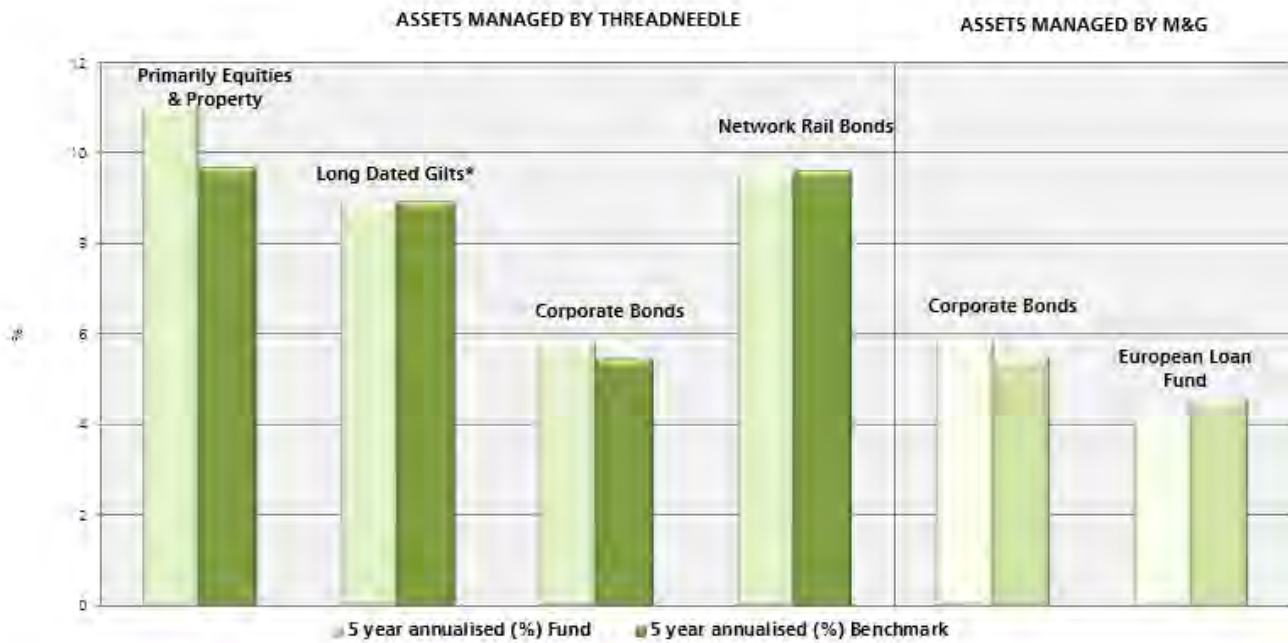
The trustees have considered the nature, disposition, marketability, security and valuation of the scheme's investments and consider them to be appropriate relative to the reasons for holding each class of Investment, please refer to page 24 for the strategic asset allocation (SAA) agreed by the trustees. The trustees monitor the asset allocation on a quarterly basis to ensure assets are invested within agreed SAA ranges. More details about investments are given in the notes to the financial statements.



Zurich Financial Services UK Pension Scheme

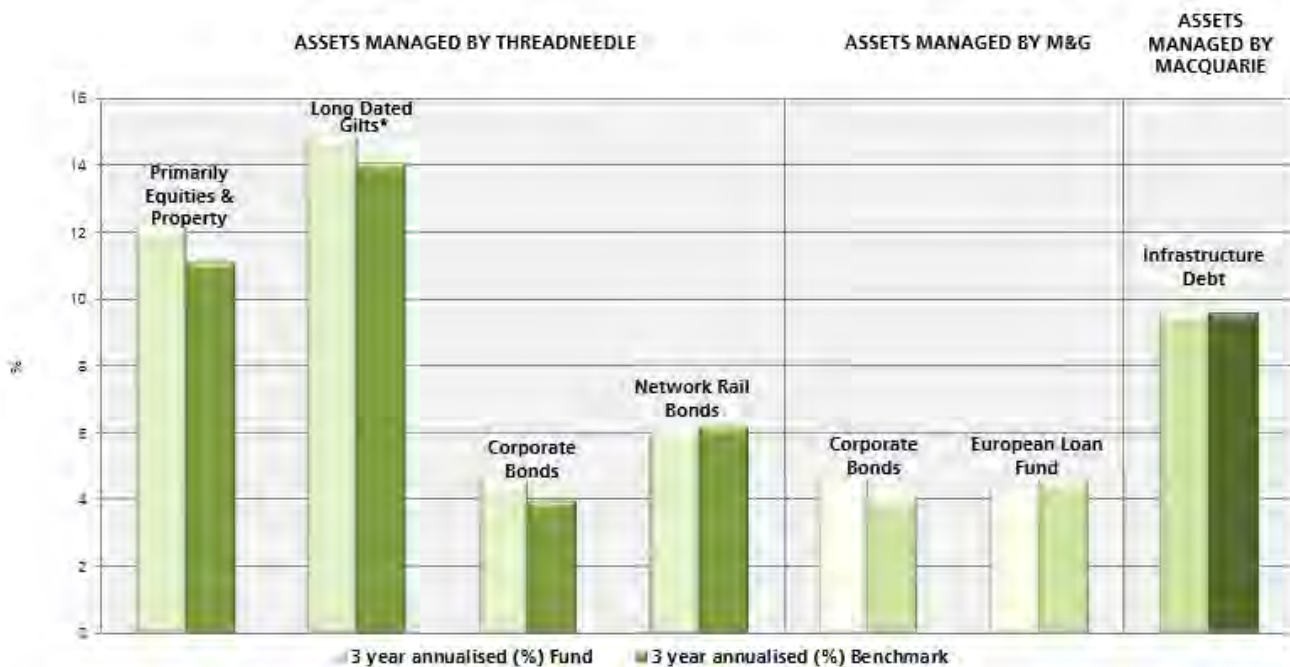
Annual report for the year ended 30 June 2019

ZPensionBuilder performance for the five years ended 30 June 2019



*Long Dated Gilts were liquidated in Q2 2017 and performance shown is as at Q2 2017

ZPensionBuilder performance for the three years ended 30 June 2019



*Long Dated Gilts were liquidated in Q2 2017 and performance shown is as at Q2 2017

ZPensionBuilder & ES Exec performance figures are gross of fees.

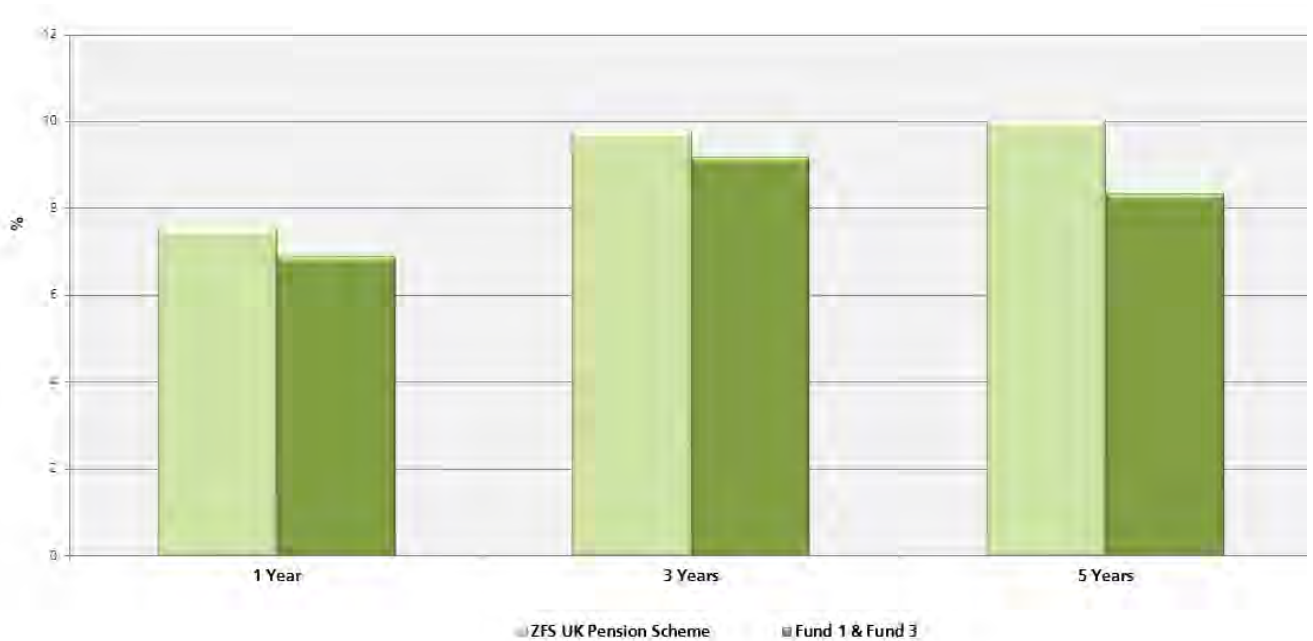
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

ZPensionBuilder performance for one year ended 30 June 2019



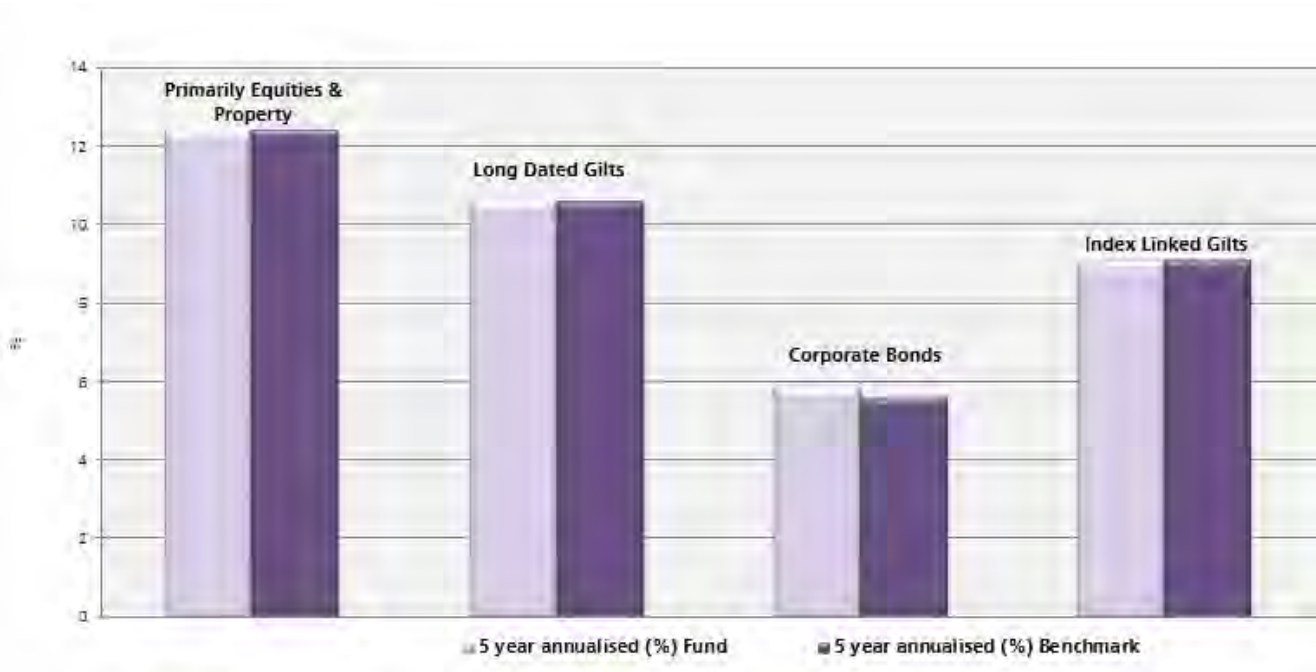
ZPensionBuilder total performance for year ended 30 June 2019



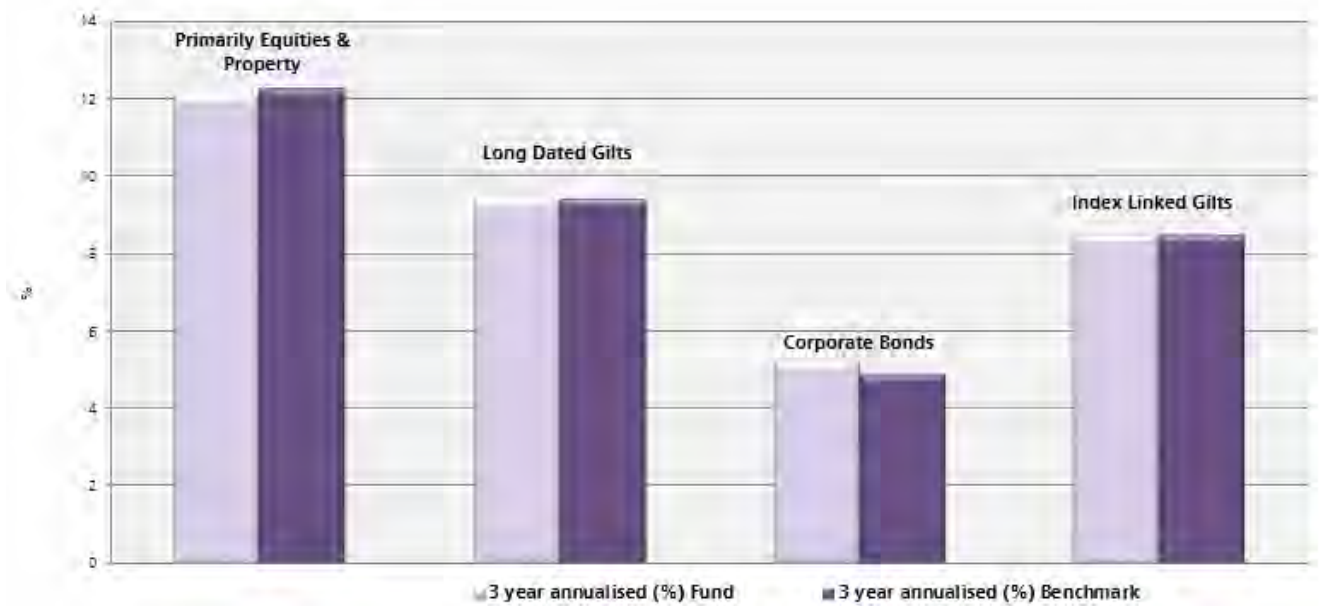
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

ES Exec performance for the five years ended 30 June 2019



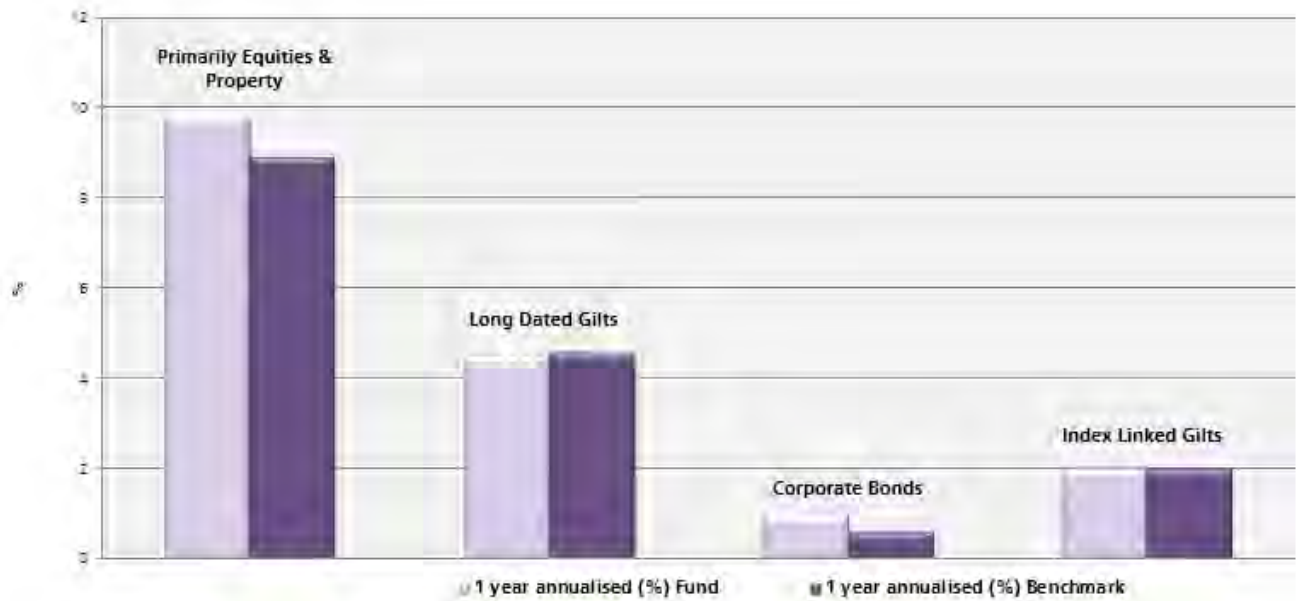
ES Exec performance for the three years ended 30 June 2019



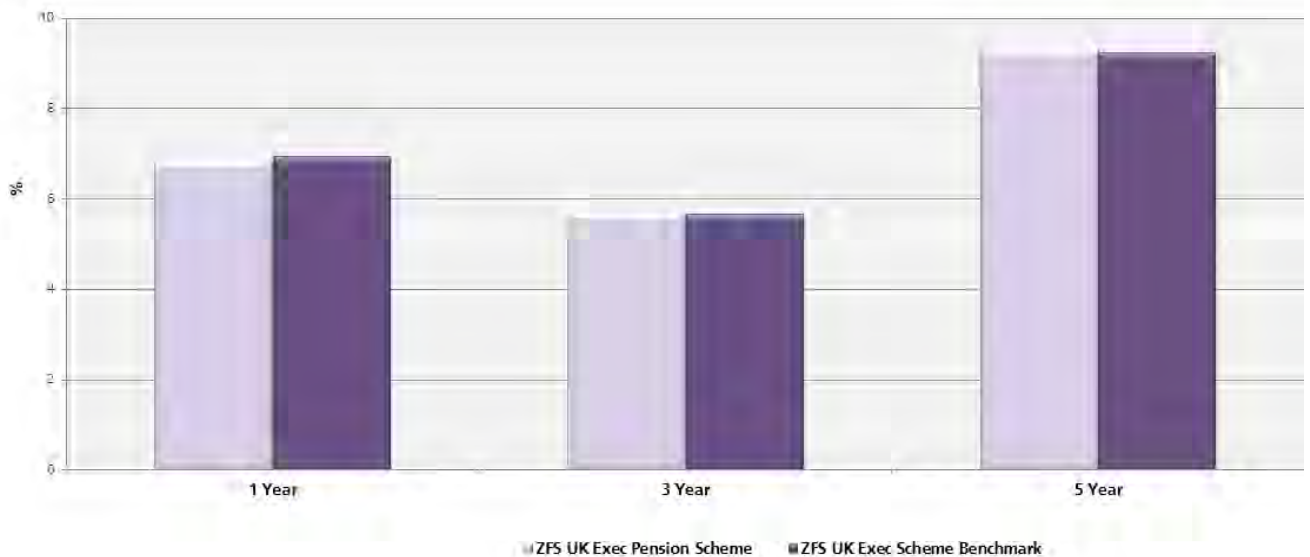
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

ES Exec performance for one year ended 30 June 2019



ES Exec total performance for year ended 30 June 2019



ZCashBuilder

In June 2019 the trustees set up a DC Committee to provide more focus and attention on the ZCashBuilder and legacy AVC arrangements within the scheme in the light of increasing governance requirements from The Pensions Regulator. Until the DC Committee was formed, the Funding Committee oversaw the investment strategy for the ZCashBuilder arrangements.

The Committee is made up of representatives from the Trustee board and from the company, chosen for their experience and expertise. Apart from the Committee members themselves, various other people may attend the meetings, including members of the UK Pensions and Benefits team, as well as external specialist investment advisers.

DC committee members



Tim Culling
Committee chair
Member nominated Trustee



BESTrustees
Independent Trustee
represented by
Catherine Redmond



Amy Brettell
Company nominated Trustee



Kevin Watts
Company representative

Investment advisers

The trustees have two investment advisers, Zurich Investment Management and Hymans Robertson, who work together to develop proposals and advise the trustees on these. The DC Committee has an objective to “create and maintain a framework within ZPen to help members with DC benefits achieve what they consider to be a good outcome when taking their benefits” and their work to achieve this falls into two areas:

On-going governance including:

- Annual Value for Members assessment.
- Annual assessment against The Pension Regulator’s Code of Practice 13
- Preparation of the Chair’s Statement (see page 35)
- Monitoring the investment options including the default lifestyle strategies.
- Monitoring of the legacy AVCs.
- Monitoring the performance of the scheme administrators

Strategic work

- Reviewing the investment options and default strategies to ensure they remain appropriate for the membership
- Setting, and implementing, a strategy for member communications and engagement to improve members’ understanding
- Consideration of the at-retirement options

You can read more about the investment options in the Chair’s Statement on [pages 35 to 43](#).

ZCashBuilder investment performance for the year ended 30 June 2019

The year to 30 June 2019 saw positive performance across the board. With the majority of funds being broadly within the benchmark, the Aquila UK Equity Index fund was the worst performing growth fund over the year amidst continued uncertainty over Brexit.

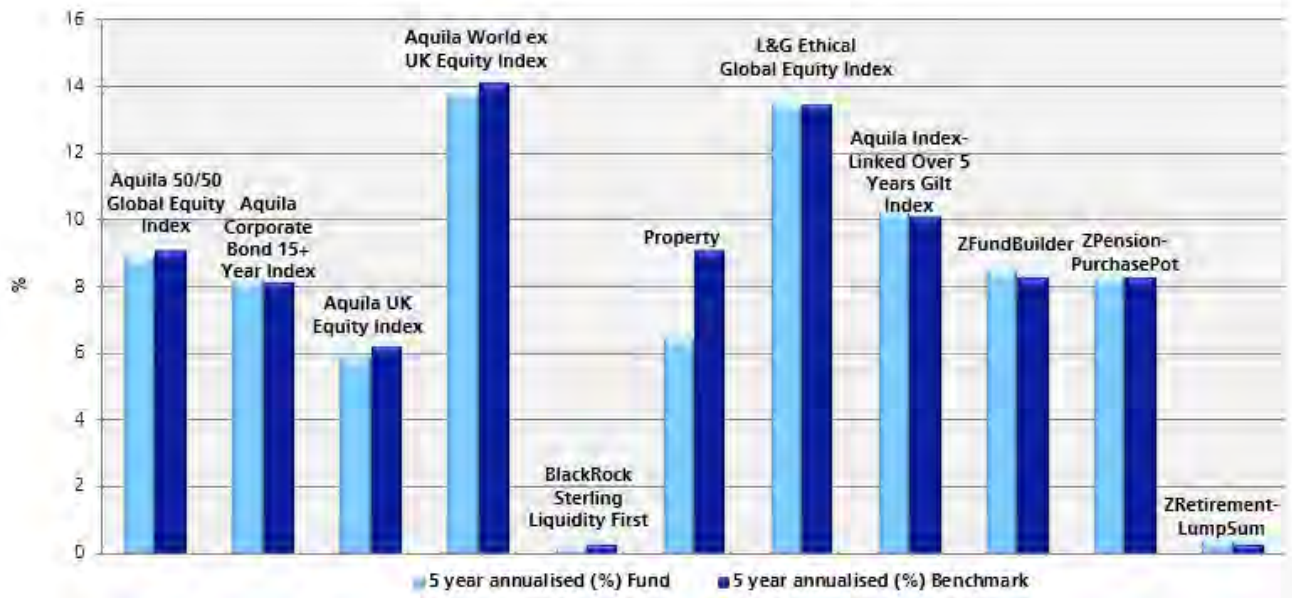
Performance over a one, three and five year period is shown on [pages 33 to 34](#).

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

Zurich Financial Services UK Pension Scheme

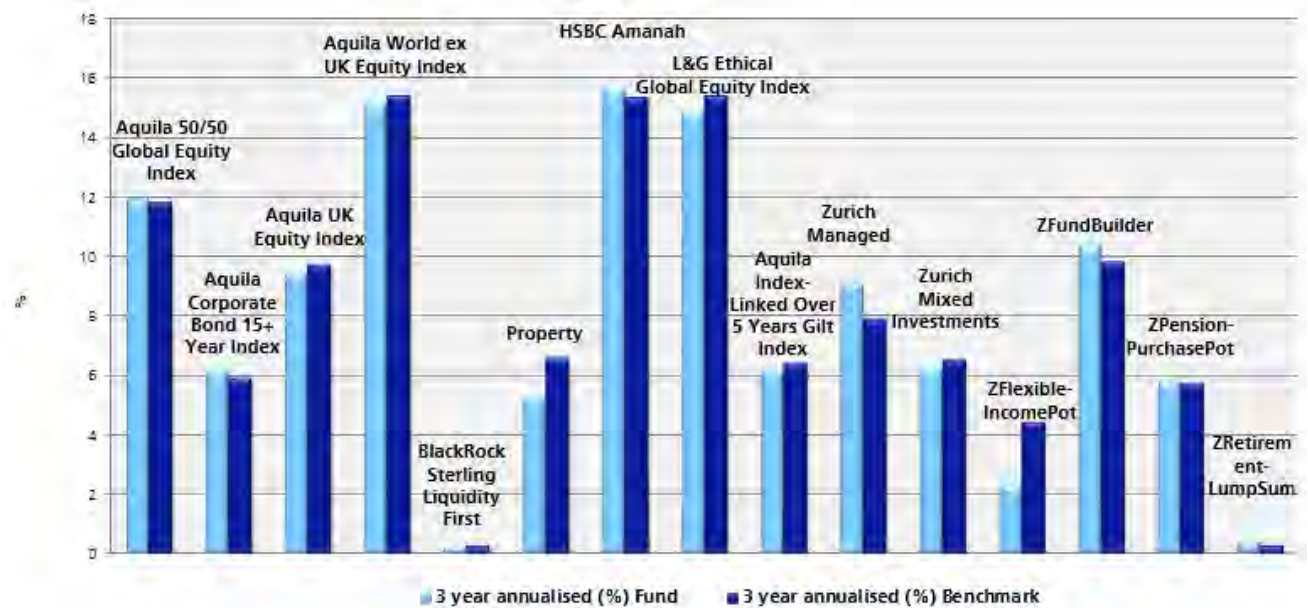
Annual report for the year ended 30 June 2019

ZCashBuilder performance for the five years ended 30 June 2019



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

ZCashBuilder performance for the three years ended 30 June 2019



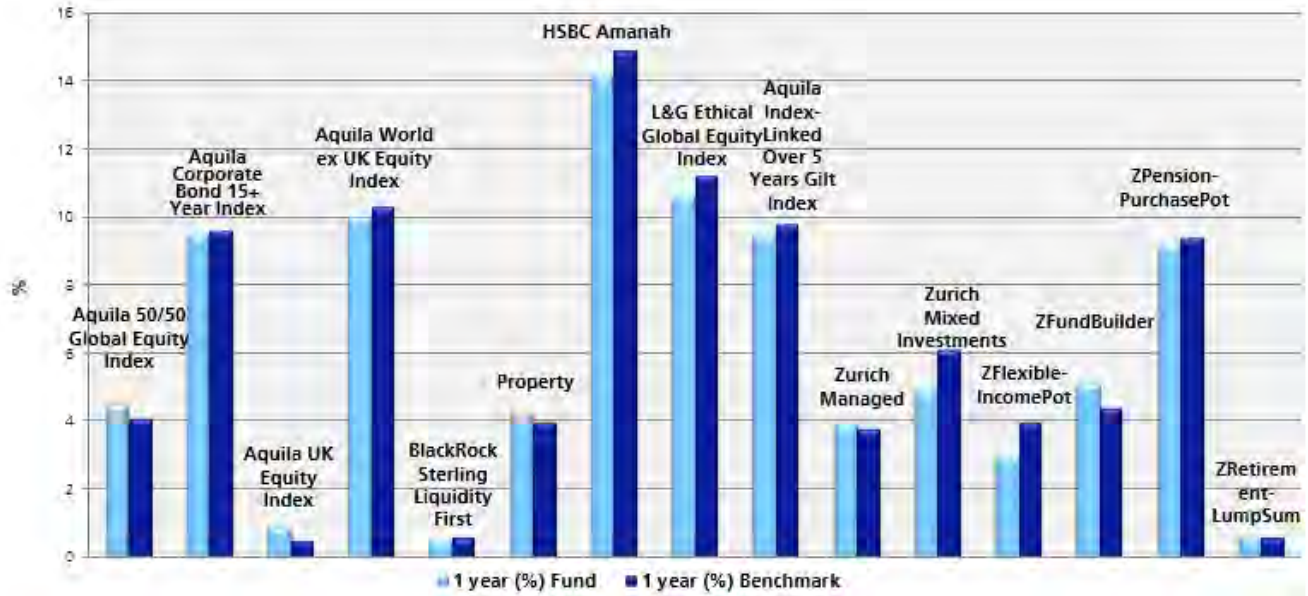
ZCashBuilder performance figures are net of fees.

Source: Scottish Widows Ltd

Zurich Financial Services UK Pension Scheme

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ZCashBuilder performance for one year ended 30 June 2019



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

Source: Scottish Widows Ltd

Zurich Financial Services UK Pension Scheme

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Zurich Financial Services UK Pension Scheme

Chair's Statement regarding DC¹⁰ governance for the year ending 30 June 2019

Summary

This statement is prepared by the Trustee of the Zurich Financial Services UK Pension Scheme (the "scheme") to comply with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. Under these regulations the Trustee board is required to include certain information in this statement.

The statement also sets out the work carried out by the trustees for the 12 months ended 30 June 2019 to assess whether the scheme provides value for members in relation to the charges paid. To do this, the trustees look at a number of different areas as summarised in the table below. More information can be found in the pages that follow.

	Key points:	Rating	Insert link
Default investment arrangements: The trustees are required to review the default investment strategies at least every three years and to monitor performance against its investment aims and objectives.	The funds have performed at or near the benchmark over the year, with the exception of 1 fund which has underperformed. A review was carried out in 2018 which resulted in a reduction in the charges being paid by members. A more detailed investment review will be carried out in 2020 by the DCC ¹¹ .		Default Investments
Core financial transactions: The trustees are required to make sure that core financial transactions (eg investing contributions) are processed promptly and accurately.	The trustees receive regular reports from the administrator and monitors performance against agreed service levels. Based on this the trustees consider that the core financial transactions have been processed promptly and accurately during the scheme year.		Core financial transactions
Value for Members: The trustees are required to assess the extent to which the charges, and as far as possible transaction costs, paid by the members represent value for money.	The trustees carried out an assessment using the methodology set out by The Pension Regulator. This concluded that the scheme provided value for members, with the exception of one legacy AVC ¹² arrangement which is being looked into further.		Value for members
Trustee Knowledge and understanding: The trustees are required to meet certain standards of knowledge and understanding to ensure they are able to properly exercise their duties as trustees.	The trustees take personal responsibility for keeping themselves up to date with relevant developments and believe that this, combined with the use of advisers and the specialist knowledge available within the employer, enables them to properly exercise their duties as trustees.		Trustee knowledge
Governance: The trustees are required to carry out an annual assessment against The Pension Regulator's Code of Practice 13 for the governance of DC schemes.	The trustees carried out an assessment against the Code of Practice 13 which identified that the Scheme meets all the legal requirements and the majority of the expectations set out in the Code and associated Guides.		Governance

CONCLUSION: Taking account of all the factors considered, the trustees believe that the scheme provides value for members and is expected to deliver good outcomes for members at retirement.

¹⁰ Defined Contribution

¹¹ Defined Contribution Committee

¹² Additional Voluntary Contribution

Zurich Financial Services UK Pension Scheme

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DC Chair Statement

Introduction

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) require trustees to prepare an annual statement describing how they have met certain legislative governance standards. This statement has to be made publicly available on a website and included in the scheme’s annual report and accounts. The trustees have taken note of the statutory guidance when preparing this statement.

The scheme provides both DB¹³ and DC¹⁴ benefits. The DC benefits are provided by the section called ZCashBuilder and a number of legacy AVC providers. To assist the Trustee board in meeting the governance requirements around these DC benefits, during the year a DC Committee (DCC) was set up including both Trustee and company nominated representatives. The first meeting was held in June 2019. A specialist DC Manager was also appointed to support the DC Committee.

1 Default arrangements

ZCashBuilder is a qualifying pension scheme for auto-enrolment and is therefore required to have a default investment option. Within ZCashBuilder there are two defaults:

- One for members with ZCashBuilder benefits only (DC only default)
- One for members who joined the scheme before 31 March 2007 and have both final salary and ZCashBuilder benefits (DB+DC default)

Both defaults are lifestyle strategies and use a selected retirement date of the member’s 60th birthday unless changed by the member. The table below sets out how the investments change in each of these lifestyle strategies depending on the time to retirement:

Period to selected retirement date	DC Only default	DB+DC default
More than 5 years	Invested 100% in ZFundBuilder	Invested 100% in ZFundBuilder
5-3 years	Gradually switches into the ZFlexibleIncomePot to reduce the level of risk as retirement approaches.	Gradually switches into the ZFlexibleIncomePot to reduce the level of risk as retirement approaches.
3 – 0 years	A proportion of the assets are switched into the ZRetirementLumpSum	Gradually switches to the ZRetirementLumpSum
At retirement date	25% ZRetirementLumpSum. 75% ZFlexibleIncomePot. This targets 25% tax free cash and 75% drawdown at retirement.	100% ZRetirementLumpSum. This assumes members will take all the ZCB benefits as part (or all) of their tax free cash sum.

The following funds are used within the default lifestyles:

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

¹³ Defined benefit: A pension scheme where you know what the final benefit is going to be according to a given formula, but the company doesn’t know how much it will cost to provide it, e.g., ZPensionBuilder

¹⁴ Defined contribution: A type of money purchase pension scheme where the amount of money going in is fixed according to a given formula (usually a percentage of salary), e.g. ZCashBuilder

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DC Chair Statement

Each of these funds have holdings in underlying pooled funds, which have many different managers. Some of the underlying pooled funds are actively managed and some passively¹⁵. All these funds are measured against specific benchmarks which are built up from the underlying fund benchmarks.

The trustees receive a quarterly report on the performance of each fund. Any repeated underperformance against its benchmark is raised with the relevant fund manager and further action taken if required.

All funds have performed at or near the benchmark over the year, with the exception of the ZFlexibleIncomePot which has underperformed by 0.8% over the year and 1.9% pa over the last 3 years. This has been raised with the fund manager who explained that due to the conservative profile of the fund the manager needs to be heavily exposed to defensive assets (i.e. government bonds). However, in a period of negative real interest rates these instruments do not generate returns equal to or in excess of CPI¹⁶. The trustees noted that this fund is used to offer some downside protection and therefore needs to hold a conservative profile and concluded that this was reasonable.

A high level review of the default investment performance and strategies was carried out on 22 November 2018 with the following outcome:

- The administration charges paid by members reduced from 20.5 bps to 18.5 bps with effect from 1 January 2019
- The investment charges paid by members were reduced by 3.5 bps for each fund in return for a payment of c£66,000 per year from the trustee. This reduction took effect from 1 January 2019.
- In assessing whether the performance of the default strategies is consistent with the aims and objectives it was noted that the growth stage is not currently generating the additional return expected from active managers. Thus the trustees considered a proposal to move to full passive equity allocation as this could significantly reduce the ongoing costs paid by members. However it was agreed a full review should take place before a decision is made on the future asset allocation for the default strategies and given that the DC Committee would be carrying out a full review, any changes now could generate unnecessary transaction costs.

A Statement of the Trustee's Investment Principles is attached which sets out the trustee's policies including in relation to the kind of investments to be held and the balance between them, the ways in which risks are measured and managed and the extent to which social, environmental or ethical considerations are taken into account. The trustees intend to review the Statement of Investment Principles in 2020 following the review of the DC funds.

An investment review, including the default strategies will be carried out in 2020.

2 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 ZCashBuilder and the legacy AVCs are processed promptly and accurately. These transactions are undertaken on the trustee's behalf by the scheme's DC administrator, RPMI and the investment managers. Zurich Assurance Limited was the investment manager until 30 June 2019 and since 1 July 2019 Scottish Widows Limited are the ongoing investment manager.

The trustees reviewed the processes and internal controls implemented by these organisations on engagement and consider them to be suitably designed to enable core financial transactions to be effectively processed. In particular, the trustees noted the high level of automation in the processes to reduce errors and inaccuracies. Checks are carried out RPMI before investment instructions are entered into the automated system for action by Scottish Widows.

¹⁵ Passive managers aim to track the returns of a particular market index eg FTSE All-Share. Active managers aim to outperform the benchmark by market timing and stock selection.

¹⁶ Consumer Prices Index

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DC Chair Statement

The trustees monitor the processing of core financial transactions as follows:

- Specific service level agreements (SLAs) are in place with RPMI relating to a number of processes, including the core financial transactions. These are split into granular detail with each step being assigned an SLA.
- The trustees monitor performance of the administrator using a quarterly report from RPMI setting out the performance levels against each of the SLAs. This report is also reviewed by the scheme management team and any queries raised with RPMI.
- The trustees review an independent assurance report on RPMI's controls. This report is also reviewed by the scheme management team and any queries are raised with RPMI. The latest report stated that the controls tested were operating with sufficient effectiveness to provide reasonable assurance.
- During the year RPMI achieved an overall performance against SLA of 99.4%. In relation to the core financial transactions, 996 were completed with 10 being outside the SLA, giving a performance of 99%. This was reviewed by Hymans Robertson, the trustee's investment advisers, who considered it to be highly effective.
- Where a core financial transaction was completed outside the agreed SLA an explanation was requested from RPMI. If appropriate, RPMI were asked to calculate whether any member had been disadvantaged by the delay and to reimburse any financial loss.
- No complaints were received from members in relation to the processing of core financial transactions during the year.

Based on the above the Trustee board considers that the core financial transactions have been processed promptly and accurately during the scheme year.

3 Value for Members (VfM)

Under the Administration Regulations the Trustee board is required to make an assessment of charges and transaction costs borne by members with DC benefits (ZCashBuilder and the legacy AVCs) and the extent to which those charges and costs represent value for money for members.

The trustees carried out a VfM assessment for the year ending June 2019 using the methodology proposed in The Pension Regulator's Guide to Value for Members which accompanies the DC Code of Practice. This includes the following:

- Separately considering the four key areas of scheme governance and management, investment, administration and communication;
- Services paid for directly by members;
- Broader value received by members where some or all of the costs are paid by the employer;
- What the scheme provides to members in each of the key areas and at what cost;
- An assessment of the performance of the services provided to members and whether it meets member need;
- An evaluation of whether the scheme is providing value for members.

This assessment was carried out for ZCashBuilder and each of the legacy AVC providers.

ZCashBuilder

When mentioning charges in this statement we refer to bps, or basis points, which is the measure used in the investment industry. One basis point is one hundredth of a percent or 0.01% of the fund value. This means that 50 bps = 0.5% and 100 bps = 1%.

At 30 June 2019 there were 8,945 members with benefits in ZCashBuilder and a majority of these members are invested in one of the default arrangements.

The default arrangements attract varying levels of management charge depending on how far the member is from their selected retirement age. The maximum charge that will be levied on the members, if they are invested 100% in the ZFlexibleIncomePot is a charge of 58.5bps comprised of 18.5 bps for administration and 40 bps investment fund management charges. This is below the maximum allowed of 75 bps.

In addition to the default arrangements, members have the following choices:

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DC Chair Statement

- A range of alternative lifestyle strategies enabling members to target multiples of 25% in any of the ZFlexibleIncomePot, ZRetirementLumpSum and ZPensionPurchasePot at retirement. Members will be invested 100% in ZFundBuilder more than 5 years from their selected retirement age.
- A range of self-select funds including ZFundBuilder

The annual charges, including transaction costs, are shown in the table below.

Funds	Admin charge (bps)	Fund charge (bps)	Total member charges (bps)	Transaction cost (bps)
ZFundBuilder*	18.5	34.1	52.6	9.4
ZFlexibleIncomePot*	18.5	36.5	55.00	11.5
ZPensionPurchasePot	18.5	10.9	29.4	-18.7
ZRetirementLumpSum*	Nil	5.6	5.6	0.6
50/50 Global Equity Index	18.5	9.8	28.3	-3.1
UK Equity Index	18.5	9.3	27.8	-3.2
World ex-UK Index	18.5	10	28.5	-1.5
Ethical Global Equity Index	18.5	26.5	45	1.0
Corporate Bond Over 15 Year Index	18.5	9.2	27.7	-20.4
Index-Linked Over 5 Year Gilt Index	18.5	9.4	27.9	3.1
Sterling Liquidity	18.5	9.0	27.5	1.6
Property	18.5	70.0	88.5	17.0
Zurich Managed Fund	18.5	43.6	62.1	18.7
Zurich Mixed Investments Fund	18.5	36.9	55.4	-22.6
Amanah (Sharia)	18.5	36.5	55.0	6.1

*Funds used in the default lifestyle strategies

Funds in bold are used within the range of lifestyle strategies.

Projected charges over time (in today's money):

Charges can have a significant impact on the total fund value over time so below we show some projected fund values for a typical member both before and after the charges.

- For the two default strategies we have used a typical member in terms of age, fund value and salary.
- Not all members are in one of the default strategies, so we are also showing the projected charges for a member who invested in ZFundBuilder for 40 years, as this is the most popular self-select fund.

The first table provides some detail on the typical member used for these projections. The second table sets out the projected fund values both before and after charges until age 60, which is the normal retirement age.

	DC only default	DB+DC default	ZFundBuilder
Starting age (median)	37 yrs	48 yrs	20 yrs
Starting fund value (median)	£13,000	£21,000	£4,900
Starting salary (median)	£32,000	£42,000	£22,500
Future contributions assumed until age 60.	12%	12%	12%
Incorporates lifestyling	YES	YES	NO

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DC Chair Statement

	DC only default		DB+DC default		ZFundBuilder	
	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges
Year 1	£15,387	£15,288	£24,244	£24,100	£6,425	£6,404
Year 3	£25,584	£25,221	£38,099	£37,549	£13,081	£12,944
Year 5	£37,397	£36,592	£54,132	£52,928	£20,814	£20,450
Year 10	£75,445	£72,465	£97,058	£93,268	£45,823	£44,220
Year 15	£129,034	£121,605			£81,205	£76,918
Year 20	£191,898	£177,323			£130,577	£121,315
Year 25					£198,749	£180,987
Year 30					£292,111	£260,541
Year 35					£419,134	£365,904
Year 40					£571,518	£489,119

Notes:

- We have taken account of the statutory guidance when preparing this section of the statement.
- Projected pension pot values take account for the effect of future inflation.
- Values shown are estimates and are not guaranteed.
- The following financial assumptions have been made for all projections:

Inflation is assumed to be 2.50% each year.
Salaries will increase with inflation

Fund	Growth (before taking account of inflation)	Charges
ZFundBuilder	5.68%	0.66%
ZPensionPurchasePot	3.40%	0.36%
ZRetirementLumpSum	1.00%	0.06%
ZFlexibleIncomePot	2.44%	0.67%

Conclusion:

The Trustee board has concluded that ZCashBuilder provides value for members, and has made this assessment in light of the following considerations:

- Members continue to benefit from good governance with a strong Trustee board and the support of a professional in-house pensions team. This has been enhanced this year with the setting up of a DC Committee and the appointment of a specialist DC Manager.
- With effect from 1 January 2019, member charges were reduced by 5.5bps for most members (2bps on administration charges and 3.5bps on investment charges).
- Members benefit from an employer contribution of 12% and a highly effective administration service with very good performance against RPMI's agreed SLAs (above the level recommended by TPR) and a low number of complaints.
- Hymans Robertson, the Trustee's investment adviser, has assessed the default and self-select fund ranges as suitable compared to schemes of a similar size.
- There is close performance monitoring and the majority of funds have performed broadly in line with their benchmarks over the period.

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DC Chair Statement

- Members benefit from a range of communication methods and a good website with modeling tools and substantial information. A new pension administration system and member website is expected in 2020, which will provide members with more online self-service options.
- The provision of the Regional Pensions Support adds to the broader value for members.

Legacy AVCs

At 30 June 2019 approximately 400 members have DC benefits in one of the legacy AVC providers. These legacy AVCs attract varying levels of management charge depending on the provider and fund chosen as set out below. There are no additional administration charges paid by the members. Transaction costs are shown to the latest available date provided by the investment manager.

Provider	Funds	Total AMC (bps)	Transaction costs (bps)
Eagle Star VCPs	With Profits	Nil	1.0
Eagle Star VCPs	Global Select	117	26.1
Eagle Star VCPs	Equity Managed	116	19.6
Eagle Star VCPs	Managed	119	18.7
Eagle Star VCPs	Secure	109	0.8
Threadneedle AVCs	Balanced Pathway	39	10.0
Threadneedle AVCs	Cautious Pathway	26	5.0
Threadneedle AVCs	UK Equity	30	9.0
Threadneedle AVCs	Global Select	42	22.0
Threadneedle AVCs	Aquila Over 15yr Gilt Index fund	15	-3.1
AD Supplementary	Zurich JPM Asia Equity	95	43.0
AD Supplementary	Zurich JPM Balanced	70	45.0
AD Supplementary	Zurich Long Dated Gilt	55	1.5
AD Supplementary	Zurich Managed	56	18.7
AD Supplementary	Zurich Property	83	17.0
AD Supplementary	Zurich Threadneedle American	69	32.3
AD Supplementary	Zurich Threadneedle Asia	72	53.9
AD Supplementary	Zurich Threadneedle European	68	46.0
AD Supplementary	Zurich Threadneedle Global Equity	82	29.4
AD Supplementary	Zurich Threadneedle Japan	67	18.2
AD Supplementary	Zurich JPM UK Specialist Equity	70	30.0
Windsor Life AVCs	Deposit savings account	Nil	Nil
Gresham AVCs	Managed	119	18.7
Gresham AVCs	Equity Managed	116	19.6

Conclusion:

The trustees assessed each provider separately and reached the following conclusions:

- **Eagle Star:** the trustees concluded that these funds represent value for members as whilst the charges are comparatively high, members benefit from guaranteed annuity rates at retirement. It was noted that some of these funds may not represent value for those members who do not take advantage of the guaranteed annuity rates. The trustees plan to communicate with these members. (Approximately 140 members)
- **AD Supplementary scheme:** the trustees concluded that these funds are currently providing value for members who receive some administration services from Zurich (now Scottish Widows) and also benefit from the rigorous investment governance oversight provided by Zurich (now Scottish Widows). (Approximately 50 members)
- **Threadneedle:** the trustees concluded that these funds are currently providing value for members. The trustees will monitor the performance of these funds to ensure they continue to provide value for members. (Approximately 90 members)
- **Gresham:** the trustees concluded that the high charges for these funds are unlikely to represent value for the one member with benefits in these funds. The trustees will write to this member and draw his attention to the charges. (1 member)
- **Windsor Life:** the trustees concluded that these funds are providing value for members, as members are benefiting from a guarantee that their fund will not reduce. Further work is being undertaken to establish exactly what interest rates are being paid by these funds. (Approximately 110 members)

4 Trustee knowledge and understanding (TKU)

The trustees understand the importance of keeping their own knowledge and understanding up to date to ensure they are able to properly exercise their function as trustees. This applies to each trustee as an individual and to the Trustee body as a whole and the following steps are taken to achieve this:

As the only new trustee during the scheme year to 30 June 2019, Amy Brettell fulfilled the Trustee's policy on knowledge and understanding by

- Attending an internal induction course run by senior members of the scheme management team which included scheme specific training.
- Completing The Pension Regulator's Trustee Toolkit within six months.

All of the trustees have put in place arrangements for ensuring they take personal responsibility for keeping themselves up to date with relevant developments:

- All trustees are required to maintain a CPD¹⁷ log with a minimum requirement of completing 15 hours per year. Each trustee has a personal review with the Chair and Head of UK Pensions at least annually. This includes a review of their TKU and specific development areas. 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.
- Professional trustees are subject to additional regulatory requirements to ensure continually high standards are attained, this includes a minimum of 25 hours relevant learning and development. The standards were developed by The Professional Trustee Standards Working Group, the latest standards were published on 26 February 2019.

¹⁷ Continuing Professional Development

Zurich Financial Services UK Pension Scheme

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DC Chair Statement

- All trustees have completed The Pension Regulator's Trustee Toolkit.
- As part of undertaking regular trustee business, the trustees have a working knowledge of the Trust Deed and Rules, the Statement of Investment Principles, the Trustee's policies, the law relating to pensions and trust and the relevant principles relating to funding and investment.
- The Trustee board includes a professional trustee firm that has supported the scheme for some time and is conversant with the scheme specifics and documentation, as well as bringing general pension knowledge and experience. Two individuals are used depending on the knowledge required, eg one attends the Trustee Board and Funding Committee meetings and the other attends the DC Committee meetings.
- The annual Trustee training day was held in May 2019 and this year featured sessions on Diversity and DC considerations, both of which had previously been identified as training needs. In addition, specific training is carried out in advance of any specific projects or new work-streams, for example a session was delivered on DC Governance requirements at the first DC Committee meeting.
- The Trustee is supported by the scheme management team providing technical and governance support and scheme secretarial services.

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

Where required the trustees use advisers and the specialist knowledge available within the employer and believes that this, combined with the scheme management team and their own knowledge and understanding enables them to properly exercise their duties as trustees.

5 Governance

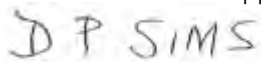
To assist the trustees in meeting the governance requirements for ZCashBuilder and the legacy AVCs, a DC Committee was set up in June 2019 that includes Trustee and company nominated representatives.

- The trustees consider that it is good and sensible practice to review their own effectiveness from time to time. In 2018 the Trustee board completed such a review, which was facilitated by their advisers. To carry out this review, the views of each individual trustee were obtained in a number of areas and a discussion was held where the individual views had differed. The overall conclusion was that the Trustee board is operating effectively.
- There is a dedicated funding committee made up of representatives from the Trustee board and the Company. This committee reports back to the full board regularly on investment and funding matters.
- A dedicated DC committee was set up in 2019 made up of representatives from the Trustee board and the Company. This committee reports back to the full board regularly on matters relating to ZCashBuilder and the legacy AVCs.
- The DC Committee has completed the annual assessment of the scheme's processes and practices against Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes and the accompanying guidance notes. This identified that the Scheme meets all the legal requirements and the majority of the expectations set out in the Code and associated Guides.

6 Conclusion

Taking account of all of the above, the trustees believe that the scheme provides value for members and is expected to deliver good outcomes for members at retirement.

This statement was approved by the trustees on 19 November 2019 and signed on their behalf by:



David Sims

Chair: Zurich Financial Services UK Pension Trustee Ltd

Looking ahead

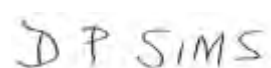
The funding committee continues to monitor the defined benefit investments to ensure that the chosen investment strategy remains appropriate and the trustees receive regular updates on ZPensionBuilder's financial position from the actuary.

The trustees will be reviewing the ZPensionBuilder long-term investment strategy alongside the triennial valuation process.

The DC committee are preparing for 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.

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

The Trustee board approves pages 4 to 44 and are signed on behalf of the Trustee board:

Trustee name	David Sims
Signature	
Date	19 November 2019

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 approved a new responsible investment strategy in June 2019 and the SIP has been updated to reflect the changes. The Trustee intend to further review the content and the format of the SIP during the next scheme year.

The latest SIP dated 10 September 2019 is available on www.zpen.info or on [pages 74-89](#).

The signing of the trustees' report also confirms the trustees' approval of the disclosures on pages 12 to 13.

Zurich Financial Services UK Pension Scheme

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Independent auditors' report to the Trustee and members 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 2019, 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 2019; 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Scheme, its operations, the other organisations on which it depends and the wider economy.

Reporting on other information

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

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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Responsibilities for the financial statements and the audit

Responsibilities of the trustee for the financial statements

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

In the 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 intends to wind up the scheme, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

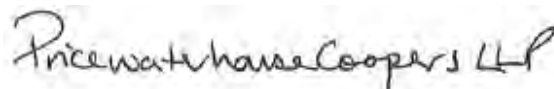
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

Use of this report

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



PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

Date 19 November 2019

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

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Fund account for the year ended 30 June 2019

Amount in £'000	Note	2019			2018				
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions	3	11,947	41,383	32	53,362	13,924	42,272	32	56,228
Employee contributions	3	-	4,126	-	4,126	-	2,421	-	2,421
Total contributions		11,947	45,509	32	57,488	13,924	44,693	32	58,649
Transfers from other plans	4	978	6,261	-	7,239	2,275	4,173	-	6,448
Other income	5	822	-	-	822	1,401	-	-	1,401
		13,747	51,770	32	65,549	17,600	48,866	32	66,498
Benefits	6	(165,886)	(9,268)	(8,493)	(183,647)	(154,902)	(6,067)	(8,704)	(169,673)
Payments to and on account of leavers	7	-	(764)	-	(764)	-	(156)	-	(156)
Transfers to other plans	8	(80,700)	(12,242)	(881)	(93,823)	(245,362)	(13,078)	-	(258,440)
Other payments	9	(1,293)	-	-	(1,293)	(1,634)	-	-	(1,634)
Administrative expenses	10	(5,229)	(1)	(3)	(5,233)	(3,351)	-	(11)	(3,362)
		(253,108)	(22,275)	(9,377)	(284,760)	(405,249)	(19,301)	(8,715)	(433,265)
Net (withdrawals)/ additions from dealings with members		(239,361)	29,495	(9,345)	(219,211)	(387,649)	29,565	(8,683)	(366,767)
Net returns on investments									
Investment income	11	193,080	-	2,129	195,209	221,039	1	2,224	223,264
Change in market value of investments	12	391,254	16,152	11,159	418,565	162,589	17,669	6,109	186,367
Investment management expenses	13	(9,730)	-	(295)	(10,025)	(8,635)	-	(285)	(8,920)
		574,604	16,152	12,993	603,749	374,993	17,670	8,048	400,711
Net increase / (decrease) in the fund		335,243	45,647	3,648	384,538	(12,656)	47,235	(635)	33,944
Opening net assets		7,393,312	302,464	195,712	7,891,488	7,405,968	255,229	196,347	7,857,544
Closing net assets		7,728,555	348,111	199,360	8,276,026	7,393,312	302,464	195,712	7,891,488

The notes on pages 49 to 68 form part of these financial statements.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

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Statement of net assets available for benefits as at 30 June 2019

Amount in £'000	Note	2019							2018
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Investment assets									
Equities	12	1,492,937	-	-	1,492,937	1,307,314	-	-	1,307,314
Bonds	12	5,268,730	-	102,695	5,371,425	4,919,989	-	101,313	5,021,302
Pooled investment vehicles	15	611,508	335,385	95,611	1,042,504	589,236	290,013	93,094	972,343
Derivatives	16	109	-	-	109	-	-	-	-
Interest in SLP	17	880,000	-	-	880,000	845,000	-	-	845,000
AVC investments	12,18	-	8,465	-	8,465	-	8,787	-	8,787
Other investment balances	19	376,068	-	973	377,041	180,379	-	1,564	181,943
		8,629,352	343,850	199,279	9,172,481	7,841,918	298,800	195,971	8,336,689
Investment liabilities									
Derivatives	16	(3,514)	-	-	(3,514)	(4,740)	-	-	(4,740)
Other investment balances	19	(927,799)	-	(290)	(928,089)	(466,297)	-	-	(466,297)
		(931,313)	-	(290)	(931,603)	(471,037)	-	-	(471,037)
Net investment assets									
		7,698,039	343,850	198,989	8,240,878	7,370,881	298,800	195,971	7,865,652
Current assets	24	43,744	4,406	721	48,871	35,147	4,704	64	39,915
Current liabilities	25	(13,228)	(145)	(350)	(13,723)	(12,716)	(1,040)	(323)	(14,079)
Total net assets available for benefits									
		7,728,555	348,111	199,360	8,276,026	7,393,312	302,464	195,712	7,891,488

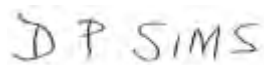
The financial statements summarise the transactions of the scheme and deal with the net assets available for benefits at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme,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

The notes on pages 49 to 68 form part of these financial statements.

The financial statements on pages 49 to 68 were approved by the trustees on 19 November 2019 and are signed on their behalf by:

Trustee name David Sims

Signature



Date 19 November 2019

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"). In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee does not anticipate that the adoption of the revised SORP will have a material impact on the financial statements, however it will require certain additions to or amendments of disclosures in the financial statements

3. 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) 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.

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.

b) Transfers to and from other plans

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.

c) Other income, other payments, administrative expenses, investment management expenses

Other income, other payments, administrative expenses, investment management expenses are accounted for on an accruals basis.

d) 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

Financial statements

Notes to the financial statements (continued)

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.

e) Investment income

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

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.

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 arising from the trustee's interest in the SLP is accounted for on an accruals basis 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.

Income arising from the trustee's interest in the SLP is accounted for on an accruals basis 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.

f) 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

Financial statements

Notes to the financial statements (continued)

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 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 (included in bonds) 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.

4. Critical Accounting estimates and judgements

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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Financial statements

Notes to the financial statements (continued)

3. Contributions

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions								
Normal	-	41,383	-	41,383	-	42,272	-	42,272
Other payments	5,000	-	-	5,000	5,000	-	-	5,000
Augmentations	1,254	-	-	1,254	2,890	-	-	2,890
Group life premium	1,293	-	-	1,293	1,634	-	-	1,634
Expense contributions	4,400	-	32	4,432	4,400	-	32	4,432
	11,947	41,383	32	53,362	13,924	42,272	32	56,228
Employee contributions								
Additional voluntary contributions	-	4,126	-	4,126	-	2,421	-	2,421
	-	4,126	-	4,126	-	2,421	-	2,421
Total	11,947	45,509	32	57,488	13,924	44,693	32	58,649

Employer normal contributions includes £13.3m (2018: £13.2m) 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.

Contributions of £32k are also paid to the ES Executives' section of the scheme to cover expenses.

Other contributions relate to £5m paid to the Scheme by Zurich Employment Services Limited in January 2019. The agreed payment schedule runs until January 2026 and is in respect of Openwork Services Ltd's exit as a participating employer in April 2018.

4. Transfers from other plans

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers in from other plans	978	6,261	-	7,239	2,275	4,173	-	6,448
	978	6,261	-	7,239	2,275	4,173	-	6,448

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

Transfers in to ZCashBuilder are individual transfers from other schemes.

5. Other income

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Claims on term insurance policies	822	-	-	822	1,401	-	-	1,401
	822	-	-	822	1,401	-	-	1,401

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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Financial statements

Notes to the financial statements (continued)

6. Benefits

Amount in £'000	2019			2018		
	ZPB	ZCB	ESExec	ZPB	ZCB	ESExec
Pensions	(142,870)	-	(8,330)	(135,213)	-	(8,291)
Commutation of pensions and lump sum retirement benefits	(20,360)	(9,268)	(163)	(17,640)	(6,067)	(413)
Lump sum death benefits	(1,089)	-	-	(1,387)	-	-
Taxation where lifetime or annual allowance exceeded	(1,567)	-	-	(662)	-	-
	(165,886)	(9,268)	(8,493)	(154,902)	(6,067)	(8,704)

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	2019			2018		
	ZPB	ZCB	ESExec	ZPB	ZCB	ESExec
Purchase of annuities on retirement	-	(764)	-	-	(156)	-
	-	(764)	-	-	(156)	-

8. Transfers to other plans

Amount in £'000	2019			2018		
	ZPB	ZCB	ESExec	ZPB	ZCB	ESExec
Individual transfers out to other schemes	(80,700)	(12,242)	(881)	(245,362)	(13,078)	-
	(80,700)	(12,242)	(881)	(245,362)	(13,078)	-

9. Other payments

Amount in £'000	2019			2018		
	ZPB	ZCB	ESExec	ZPB	ZCB	ESExec
Premiums on term insurance policies	(1,293)	-	-	(1,634)	-	-
	(1,293)	-	-	(1,634)	-	-

The life insurance premium is being re-imbursed to the scheme by the company.

Zurich Financial Services UK Pension Scheme

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Notes to the financial statements (continued)

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	2019			2018				
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Trustee Training	(17)	-	-	(17)	(11)	-	-	(11)
Trustee Fees	(119)	-	-	(119)	(122)	-	-	(122)
Auditor fees	(153)	-	-	(153)	(144)	-	-	(144)
Systems costs	(494)	-	-	(494)	(478)	-	-	(478)
Actuarial Fees	(444)	-	-	(444)	(288)	-	-	(288)
Payroll & Admin costs	(279)	(1)	(1)	(281)	(275)	-	(2)	(277)
Legal fees	(368)	-	-	(368)	(358)	-	-	(358)
Staff costs & Overheads	(1,444)	-	-	(1,444)	(1,510)	-	(1)	(1,511)
Industry Fees & PPF	(1,886)	-	(2)	(1,888)	(156)	-	(8)	(164)
Internal communication	(25)	-	-	(25)	(9)	-	-	(9)
	(5,229)	(1)	(3)	(5,233)	(3,351)	-	(11)	(3,362)

11. Investment income

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Dividends from equities	28,880	-	-	28,880	29,982	-	-	29,982
Income from bonds	102,864	-	1,654	104,518	127,402	-	1,450	128,852
Net receipts /								
(payments) from swaps	404	-	-	404	1,061	-	-	1,061
Annuity income	613	-	32	645	631	-	32	663
Interest on cash deposits	1,059	-	-	1,059	1,197	1	-	1,198
Income from SLP	60,000	-	-	60,000	60,000	-	-	60,000
Net (payments) from								
repurchase agreements	(4,742)	-	-	(4,742)	(1,630)	-	-	(1,630)
Other investment income	4,002	-	443	4,445	2,396	-	742	3,138
	193,080	-	2,129	195,209	221,039	1	2,224	223,264

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Financial statements Notes to the financial statements (continued)

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	1,307,314	858,854	(725,407)	52,176	1,492,937
Bonds	4,919,989	786,572	(744,251)	306,420	5,268,730
Derivatives	(4,740)	22,771	(4,037)	(17,399)	(3,405)
Interest in SLP	845,000	-	-	35,000	880,000
Pooled investment vehicles	589,236	14,860	(7,168)	14,580	611,508
ZPensionBuilder net investments	7,656,799	1,683,057	(1,480,863)	390,777	8,249,770
Cash and cash equivalents	(285,918)			477	(551,731)
ZPensionBuilder net investments	7,370,881			391,254	7,698,039

ZCashBuilder

	Opening Value	Purchases	Sales	Change in market value	Closing value
Amount in £'000					
Post 2007 ZCashBuilder Investments	290,013	49,948	(20,133)	15,557	335,385
AVC Investments	8,787	3	(920)	595	8,465
ZCashBuilder net investments	298,800	49,951	(21,053)	16,152	343,850

ES Exec

	Opening Value	Purchases	Sales	Change in market value	Closing value
Amount in £'000					
Bonds	101,313	24,744	(29,658)	6,296	102,695
Pooled investment vehicles	93,094	1,229	(3,575)	4,863	95,611
ESExec net investments	194,407	25,973	(33,233)	11,159	198,306
Cash and cash equivalents	1,564			-	683
ESExec net investments	195,971			11,159	198,989

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Financial statements

Notes to the financial statements (continued)

13. Investment management expenses

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Administration	(35)	-	-	(35)	(38)	-	-	(38)
Management	(7,695)	-	(264)	(7,959)	(6,544)	-	(281)	(6,825)
Custody	(228)	-	(8)	(236)	(315)	-	12	(303)
Performance measurement	(41)	-	(11)	(52)	(45)	-	(11)	(56)
Performance fees	(209)	-	(5)	(214)	(441)	-	(5)	(446)
Other advisory fees	(1,522)	-	(7)	(1,529)	(1,252)	-	-	(1,252)
Total	(9,730)	-	(295)	(10,025)	(8,635)	-	(285)	(8,920)

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	2019		2018	
	Equities	Total	Equities	Total
Futures	(818)	(818)	(527)	(527)
Commissions	(709)	(709)	(869)	(869)
Total	(1,527)	(1,527)	(1,396)	(1,396)

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	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Pooled Investment Vehicles								
Threadneedle Pensions Ltd investments								
Managed Funds - property	212,304	-	7,308	219,612	204,277	-	7,029	211,306
Threadneedle Investment Funds								
Managed funds - other	44,106	-	88,303	132,409	44,232	-	86,065	130,297
M&G Funds								
European Loan Fund	355,098	-	-	355,098	340,727	-	-	340,727
Bonds	-	3,892	-	3,892	-	2,868	-	2,868
Cash	-	14,400	-	14,400	-	12,259	-	12,259
Diversified growth	-	277,978	-	277,978	-	238,046	-	238,046
Equity	-	35,190	-	35,190	-	33,305	-	33,305
Property	-	3,184	-	3,184	-	3,124	-	3,124
Shariah	-	741	-	741	-	411	-	411
Total	611,508	335,385	95,611	1,042,504	589,236	290,013	93,094	972,343

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16. Derivatives

ZPensionBuilder	2019			2018		
Amount in £'000	Assets	Liabilities	Total	Assets	Liabilities	Total
Exchange traded						
Futures	-	(3,496)	(3,496)	-	(4,686)	(4,686)
Over-the-counter contracts						
Forward foreign currency	109	(18)	91	-	(54)	(54)
Total	109	(3,514)	(3,405)	-	(4,740)	(4,740)

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 scheme's 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:

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Forward foreign currency

Type Amount in £'000	Expires within	Currency bought	Currency sold	Asset	Fair value Liability
Sell GBP for JPY (1 contract)	1 month	1,069,431	(7,800)	-	(0.60)
Sell USD for JPY (1 contract)	1 month	48,800	(453)	-	(0.41)
Sell GBP for USD (4 contracts)	1 month	100,564	(79,018)	-	(2.80)
Sell USD for HUF (1 contract)	1 month	31,843	(112)	0.15	-
Sell USD for ZAR (1 contract)	1 month	16,692	(1,179)	3.35	-
Sell USD for GBP (7 contracts)	1 month	19,847	(25,159)	92.73	-
Sell GBP for EUR (1 contract)	1 month	13,530	(12,115)	-	(7.99)
Sell GBP for DKK (2 contracts)	1 month	13,273	(1,592)	-	(1.03)
Sell USD for SEK (1 contract)	1 month	8,534	(919)	0.73	-
Sell USD for EUR (1 contract)	1 month	8,007	(9,107)	9.06	-
Sell USD for MXN (1 contract)	1 month	4,782	(249)	0.08	-
Sell GBP for NOK (1 contract)	1 month	3,862	(356)	-	(0.50)
Sell GBP for SEK (1 contract)	1 month	3,013	(255)	-	(0.18)
Sell USD for DKK (1 contract)	1 month	2,356	(359)	0.07	-
Sell USD for CHF (1 contract)	1 month	2,090	(2,142)	1.47	-
Sell JPY for USD (2 contracts)	1 month	2,392	(257,940)	-	(1.47)
Sell GBP for CHF (1 contract)	1 month	1,429	(1,152)	-	(1.15)
Sell EUR for USD (1 contract)	1 month	1,416	(1,245)	-	(1.45)
Sell USD for CAD (2 contracts)	1 month	1,144	(874)	1.14	-
Sell USD for PLN (1 contract)	1 month	882	(236)	0.25	-
Sell HUF for USD (1 contract)	1 month	25	(7,028)	-	(0.05)
Total				109.03	(17.63)

Futures contracts

Type Amount in £'000	Expires within	Economic exposure	Fair value Asset	Liability
FUT SEP 19 LIF LONG GILT	one year	(280,275)	-	(3,496)
Total		(280,275)	-	(3,496)

17. Interest in (SLP) 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 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 (Goldman Sachs), 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 2019 as £880m (2018:£845m). This valuation was based on a number of assumptions and economic variables.

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The most important among these are:

1. Assumed returns on scheme assets
2. Volatility of returns on scheme assets
3. Gilt yield curve
4. Expected inflation
5. An illiquidity premium
6. 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.

The trustees have a legal right to dispose of the partnership interest but it is noted that there is unlikely to be a third party purchaser in view of the employer's ability to affect the value of the partnership interest by changing the level of Scheme funding over the life of the partnership. However, in view of the security of the cash flows over the partnership life the trustee consider that the partnership interest meets the definition of a financial asset under FRS 102.

18. 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. Other investment balances

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Investment assets								
Cash-sterling	199,274	-	357	199,631	51,734	-	1,149	52,883
Cash-foreign currency	54,186	-	-	54,186	27,750	-	-	27,750
Variation margin	8,070	-	-	8,070	10,448	-	-	10,448
Income receivable	33,354	-	471	33,825	35,870	-	415	36,285
Income tax recoverable	2,252	-	-	2,252	2,148	-	-	2,148
Balances due from brokers	78,402	-	145	78,547	51,839	-	-	51,839
Collateral	530	-	-	530	590	-	-	590
	376,068	-	973	377,041	180,379	-	1,564	181,943
Investment liabilities								
Balances due to brokers	(128,279)	-	(290)	(128,569)	(52,878)	-	-	(52,878)
Obligation to return collateral	-	-	-	-	-	-	-	-
Repurchase agreements	(799,520)	-	-	(799,520)	(413,419)	-	-	(413,419)
	(927,799)	-	(290)	(928,089)	(466,297)	-	-	(466,297)
	(551,731)	-	683	(551,048)	(285,918)	-	1,564	(284,354)

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	2019	2018
	Total	Total
Not allocated to members	2,375	2,373
Allocated to members	341,475	296,427
	343,850	298,800

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				2019
Amount in £'000	1	2	3	Total
ZPensionBuilder section				
Direct investments				
Equities and convertibles	1,487,109	-	5,828	1,492,937
Bonds	4,965,458	-	303,272	5,268,730
Derivatives	-	(3,405)	-	(3,405)
Interest in SLP	-	-	880,000	880,000
Pooled Investment Vehicles	44,107	355,098	212,303	611,508
Cash and other net balances	253,460	(805,191)	-	(551,731)
ESExec section				
Bonds	102,695	-	-	102,695
Pooled Investment Vehicles	59,983	7,308	28,320	95,611
Cash and other net investment balances	357	326	-	683
ZCash-Builder section				
Pooled investments	-	343,850	-	343,850
	6,913,169	(102,014)	1,429,723	8,240,878

The Interest in the Scottish Limited Partnership (SLP) was independently priced by Barnett Waddingham as at 30 June 2019. 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.

Category				2018
Amount in £'000	1	2	3	Total
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

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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 currency of the Scheme's assets underperforms relative to Sterling.
- **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:

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Amount in £'000	2019	2018
	Total	Total
ZPensionBuilder section		
Bonds	5,268,730	4,919,989
Derivatives	(3,405)	(4,740)
SLP	880,000	845,000
Pooled Investment Vehicles	611,508	589,236
Cash and other net balances	(551,731)	(285,918)
Total	6,205,102	6,063,567
ESExec section		
Bonds	102,695	101,313
Pooled Investment Vehicles	95,611	93,094
Cash and other net investment balances	683	1,564
Total	6,404,091	6,259,538

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 have reviewed investment guidelines for corporate bonds with amendments effective from 1 June 2019.

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.

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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	2019 Exposure	2018 Exposure
Australian dollar (AUD)	1	2,491
Brazilian real (BRL)	14,989	4,463
British pound sterling (GBP)	6,498,838	6,491,775
Canadian dollar (CAD)	14,588	10,450
Czech koruna (CZK)	147	239
Danish krone (DKK)	24,921	12,235
Euro (EUR)	263,658	181,051
Hong Kong dollar (HKD)	43,870	57,430
Hungarian forint (HUF)	1,212	-
Indonesian rupiah (IDR)	18,263	5,805
Japanese yen (JPY)	121,717	99,711
Mexican peso (MXN)	4,462	4,053
New Taiwan dollar (TWD)	12,698	20,506
Norwegian krone (NOK)	4,956	2,639
Philippine peso (PHP)	4,424	3,263
Polish zloty (PLN)	2,470	4,612
South African rand (ZAR)	12,567	20,074
South Korean won (KRW)	17,502	36,029
Swedish krona (SEK)	13,177	21,551
Swiss franc (CHF)	38,442	13,037
Thai baht (THB)	5,801	7,387
United States dollar (USD)	630,563	375,898
Total	7,749,266	7,374,699

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 trustees have set a benchmark limit of the total investment in bonds and gilts which can be seen in the Strategic Asset Allocation. 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 the trustees implemented the new investment strategy in 2016 which includes allocation to the Liability Driven Investment.

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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 (Scottish Widows Ltd from 1 July 2019). These funds are specifically created for this scheme and are invested in other funds available through Scottish Widows' 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.

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Credit risk

ZCashBuilder is subject to direct credit risk in relation to Zurich Assurance Ltd (Scottish Widows Ltd from 1 July 2019) through its holdings in the list of funds on [page 65](#). 2019: £335m (2018: £290m)

Zurich Assurance Ltd and Scottish Widows Ltd are 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	2019		2018	
	Value	%	Value	%
ZPensionBuilder				
SLP	880,000	10.63%	845,000	10.72%
Total	880,000		845,000	

24. Current assets

Amount in £'000	2019				2018			
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Other debtors	1,293	1,155	-	2,448	1,634	3,899	-	5,533
Cash balances	42,451	3,251	721	46,423	33,513	805	64	34,382
	43,744	4,406	721	48,871	35,147	4,704	64	39,915

25. Current liabilities

Amount in £'000	2019				2018			
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Unpaid benefits	(1,274)	(145)	-	(1,419)	(1,913)	(1,040)	-	(2,953)
Tax payable	(2,447)	-	(201)	(2,648)	(2,112)	-	(208)	(2,320)
Accrued expenses	(6,178)	-	(96)	(6,274)	(4,862)	-	(45)	(4,907)
Amounts due to employer	(3,329)	-	(53)	(3,382)	(3,829)	-	(70)	(3,899)
	(13,228)	(145)	(350)	(13,723)	(12,716)	(1,040)	(323)	(14,079)

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26. Contractual commitments and contingent liabilities

At 30 June 2019 the scheme had undrawn commitments to fund infrastructure debt investments amounting to £32m (2018:£63m). The timing of these commitments is detailed below:

Date	Amount (£m)
22-May-20	4.00
29-Jun-20	12.10
24-May-21	15.90
Total	32.00

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. The Trustee is now reviewing, with their advisers, the implication of this ruling on the Scheme and the equalisation of guaranteed minimum pensions between men and women; in the context of the rules of the Scheme and the value of any liability. As soon as this review is finalised and any liability quantified, members will receive further communication and any impact on financial reporting will be considered by the trustees.

27. Related party transactions

Related party transactions and balances comprise:

- a) Contributions accrued under the ZCashBuilder section (note 3) include amounts in respect of three trustees (2018: four) and pensions paid (note 6) in respect of three trustees (2018: four) Another trustee was paid a pension up to April 2019.
- b) 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.
- c) 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 2019 was £343m (2018:£299m). Of this total, £335m (2018: £290m) is invested through a Group Investment Only Platform provided by Zurich Assurance Ltd (Scottish Widows Ltd from 1 July 2019) and £4m (2018: £5m) is invested elsewhere within the Zurich Group.
- d) 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.
- 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 2019 are disclosed in note 25, as balances due to Zurich group of companies.

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.

Financial statements

Notes to the financial statements (continued)

- g) Fees and expenses of £119k (2018: £122k) 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.

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% (2018-0.01%) employer related investments at the year end. These were held indirectly in the Zurich Group through the pooled investment vehicles (ZCashBuilder passive funds - 50/50 Global Equity Index and World Ex UK Index).

29. Subsequent Events

The terms on which the United Kingdom may withdraw from the European Union are not still not clear, and it is difficult for the trustees to evaluate all of the potential implications on the Scheme. The trustees will continue to discuss the likely risks connected with the UK exiting the EU and be mindful of the potential impacts on the scheme. The scheduled exit date has been extended from the 31 October 2019 to 31 January 2020, however, negotiations are still on-going.

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 schedule of contributions for the scheme year ended 30 June 2019 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 2019 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

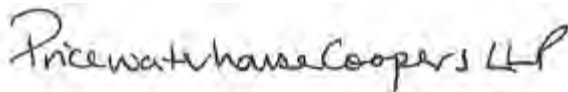
As explained more fully in the statement of trustee's responsibilities, the scheme's trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by employers in accordance 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

19 November 2019

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

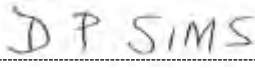
Summary of Contributions for the year ended 30 June 2019

During the year ended 30 June 2019, the contributions payable to the scheme were as follows:

Amount in £'000	2019			2018				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions								
Normal	-	41,383	-	41,383	-	42,272	-	42,272
Other payments	5,000	-	-	5,000	5,000	-	-	5,000
Augmentations	1,254	-	-	1,254	2,890	-	-	2,890
Group life premium	1,293	-	-	1,293	1,634	-	-	1,634
Expense contributions	4,400	-	32	4,432	4,400	-	32	4,432
	11,947	41,383	32	53,362	13,924	42,272	32	56,228
Employee contributions								
Additional voluntary contributions	-	4,126	-	4,126	-	2,421	-	2,421
	-	4,126	-	4,126	-	2,421	-	2,421
Total	11,947	45,509	32	57,488	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 19 November 2019 and is signed on their behalf by:

Trustee name	David Sims
Signature	
Date	19 November 2019

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: 

Name: Mark A J Howard

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

Date: 27 June 2017

Qualification: Fellow of the Institute and Faculty of Actuaries

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 ZPen defined benefit liabilities and 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 has two sections, these are split into three arrangements: ZPen (ZPensionBuilder and ZCashBuilder) and ESExec.
- 1.4. This document has been drafted in the light of the Myners' Principles and specifically Myners' recommendations relating to the content of statements of investment principles.

2. ZPensionBuilder & ES Executives Section

2.1. Investment Objective

- 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) 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; and
 - 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.
- 2.2.3. The Trustee has a service agreement in place with Zurich Insurance Company Ltd which covers Analytical and Advisory Services which are provided in line with the Investment Management standards established by Zurich Insurance Group.
- 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. A copy of this statement is available to the Managers appointed by the Trustee and they are 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 (SLP)
- 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:

Risk	Definition	Controls & Mitigants
Manager risk	The risk that actions by Managers cause underperformance of Scheme assets or failure to comply with regulatory requirements	The performance of the Managers is monitored on a regular basis. The risks inherent in the Manager’s philosophy drive the extent to which the Managers’ approach remains appropriate to the Scheme’s circumstances. All Managers are monitored for compliance with regulatory requirements 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.
Cash flow risk	The need to pay benefits in the short-term	The Trustee and its advisers manage the Scheme’s cash flow requirements over the short term, this is implemented through a combination of income and rebalancing activities.
Concentration risk	The failure of some of the investments that constitute 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 Managers, the Scheme’s assets also include a share in a 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 asset within the SLP, which addressed a wide range of risks including concentration risk.
Custodian risk	Actions by or insolvency of the custodian	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. This annual statement is considered by the Trustee and any necessary actions then required to mitigate risk are undertaken.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

Risk	Definition	Controls & Mitigants
Credit risk	That one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation	The Trustee addresses credit risk in a number of ways: <ul style="list-style-type: none"> • credit quality limits are outlined in the agreements the Trustee has with the Managers • OTC derivative contracts have collateral arrangements in place • annual payments are required directly from the principal employer should the SLP fail
Liquidity risk	The need to have sufficient liquidity to cover collateral calls relating to the liability driven investments and currency derivatives	The Trustee has 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.
ESG (Environmental, social and governance) risk	The need to consider environmental, social and governance factors (including, but not limited to, climate change) which the Trustee considers to be financially material, over the timescale relevant to the funding of Scheme benefits, for which those assets are held	The Trustee recognises there is a possibility that ESG factors are not fully reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations over the long term. This risk mitigant is delegated to Managers and monitored annually as part of the ESG reporting process.
Currency risk	The currency of the Scheme's assets underperforms relative to Sterling	The Trustee and its advisers monitor currency risk on a regular basis. If there is ever a requirement to mitigate currency risk, the Scheme would collaborate with the Managers
Any other risk as the Trustee deems appropriate		

2.5.3 Risk Monitoring

The Trustee and its advisers monitor the Managers' and Custodian's activity to measure their compliance with the investment restrictions applied within the mandates.

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. Responsible investments

- 2.8.1. The Trustee accepts its fiduciary duties as a long term investor and believes that incorporating ESG factors into investment decisions improves long term risk adjusted returns. The Trustee further recognises that ESG factors may, however, be outweighed in appropriate circumstances by other financially material factors.
- 2.8.2. The Trustee always aims to appoint the most suitable manager for each investment mandate (including funds). A stringent, fact-based manager evaluation process is applied. Selection criteria includes the Manager's responsible investment practices and consideration of ESG factors. The Trustee recognises that the Managers are best placed to make the trade-offs between ESG and other financially material factors and therefore these decisions are delegated.
- 2.8.3. The Trustee considers ESG factors at various steps in its investment process. The Trustee also notes the approach taken by the Zurich Group to responsible investment and will both consider and leverage the Group's policies and resources, including any potentially restricted securities, where the Trustee believes it appropriate to do so.
- 2.8.4. Within the Scheme's mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to their individual Managers. The Trustee has discussed the extent to which ESG factors, where relevant to the investment mandate, are integrated into the investment processes of

their Managers and are satisfied that the Managers are following an approach which takes account of all financially material factors (including ESG factors).

- 2.8.5. The Trustee is cognisant of the risks of climate change and aims to understand the potential impact that climate risk factors may have on the Scheme's future investment returns. In considering the expected transition to a low carbon economy, the Trustee has determined that investment in companies that derive material revenues from the mining of, or generation of energy from, thermal coal are exposed to systemic financial risks. The Trustee has therefore explicitly determined to exclude investment, where the scheme directly holds securities (as opposed to a fund), in the equity and debt of such companies within portfolios.
- 2.8.6. In considering non-financially material factors, the Trustee has determined to exclude investment, where the scheme directly holds securities, in the debt and equity of companies involved in the manufacture of UN-sanctioned weapons from investment portfolios. The Trustee has not imposed any other restriction for non-financial reasons but will periodically review its position.
- 2.8.7. Where limitations are applied on investment in accordance with the Trustee's policy as set out above, the Trustee will provide this information to its Managers and require the manager to have regard to this policy.
- 2.8.8. Managers report on voting activity to the Trustee on at least an annual basis. The Trustee will monitor Managers' voting activity and may periodically review Managers voting patterns. The Trustee may also monitor Managers' voting on particular companies or issues affecting more than one company.
- 2.8.9. The Trustee aims to meet with all their Managers on a regular basis. Managers are challenged on the impact of any significant issues including, where appropriate, ESG factors.
- 2.8.10. The Trustee does not have a formal policy of soliciting member views on non-financial matters in their investment decision making but will periodically review its position.

2.9. Asset allocation and investment strategy

- 2.9.1. The 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 Scheme's long term objectives
 - d) the sponsor covenant; and
 - e) 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 each 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, where the scheme directly holds securities, in the best long term interests of Scheme members. The Trustee has adopted a policy of delegating voting decisions on stocks to its Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy which is reviewed by the Trustee every three years or more frequently if there are any material changes.
 - 2.11.2. The Trustee believes it is appropriate for its Managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments for the Scheme in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by their Managers as part of its broader monitoring activity.
-

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 and 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 investment options through an investment platform provider in which members can invest. From time to time investment options 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. The balance between different kinds of investment

- 3.4.1. Having taken advice from the Adviser, the Trustee recognises that the return received from different kinds of investment is achieved in different ways and at different rates (for example, low risk but little opportunity for capital growth as opposed to a high risk but substantial opportunity for capital growth).
- 3.4.2. Having taken advice from the Adviser, the Trustee also recognises that individuals will have differing personal investment requirements and preferences. The Trustee seeks to offer members a diversified range of investment options to meet these requirements. This includes a number of lifestyle strategies which take into account that members close to retirement will generally require more capital protection and assets best matched to their retirement outcome, whereas members a long way from retirement will generally need sufficient exposure to risks to generate investment returns.

3.5. Risk

- 3.5.1. In terms of the ZCashBuilder investment choices the Trustee views one of the key risks 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 other risks including the following:

Risk	Definition	Controls & Mitigants
Manager risk	The risk that actions by Managers cause underperformance of the chosen funds or failure to comply with regulatory requirements	The performance of the funds is monitored on a regular basis. All Managers are monitored for compliance with regulatory requirements 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 funds which minimises the risk from underperformance by the Managers.
Inflation risk	The risk that investment returns over members' working lives are not in line with inflation	The Trustee and its advisers ensure that chosen funds are invested in a diversified range of assets that are likely to grow in real terms.
Investment 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	A cash fund is available both in the lifestyle strategies and self-select fund range to provide capital protection. All lifestyle strategies look to reduce downside risk in the 5 years prior to retirement by switching into lower risk funds.
Credit risk	The failure of the investment platform provider	The Trustee ensures that any selected investment platform provider is regulated by the Financial Conduct Authority and is required, where appropriate, by the Prudential Regulation Authority to maintain adequate financial resources to ensure that it can meet its liabilities as they fall due.

3.6. The expected return from investments

- 3.6.1. When considering the range of investment options made available to members, the Trustee will have regard to the relative investment return that each asset class and fund is expected to produce. In particular, when selecting investments for ZFundBuilder, the Trustees will have regard to the relative investment return of each category and structure the fund such that it is expected to deliver a return consistent with the fund's investment objective
- 3.6.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation.
- 3.6.3. Having established the investment options available to members, the Trustee monitors the performance of the funds within these options. A consistent failure to achieve adequate performance could result in a fund being replaced.

3.7. The realisation of investments

- 3.7.1. In relation to the liquidity of investments, the Trustees policy is to invest in funds that offer daily dealing as far as possible to enable members to readily realise and change their investments.

3.8. Responsible Investment

- 3.8.1. The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant for the long term investment held by the Scheme's members. The Trustee further recognises that ESG factors may, however, be outweighed in appropriate circumstances by other financially material factors.
- 3.8.2. As part of the regular DC fund review, the Trustee include ESG considerations when assessing the default fund and self-select fund choices available to members.
- 3.8.3. In selecting any new funds for the Scheme, where relevant to the fund objectives, the Trustee explicitly considers potential Managers' approaches to responsible investment and the extent to which Managers integrate ESG factors in the investment process as a factor in their decision making.
- 3.8.4. The Trustee recognises that for the passive fund range the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of ESG factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believes the choice of benchmarks will deliver appropriate risk adjusted returns. The Trustee will review the index benchmarks employed for the Scheme on a regular basis.
- 3.8.5. The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers, through the investment platform provider and the monitoring of compliance with agreed policies. The Trustee has adopted a policy of delegating voting decisions on stocks to their Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Managers are expected to exercise the voting

rights attached to individual investments in accordance with their own house policy.

- 3.8.6. Where relevant, the Trustee has reviewed the voting policies of their Managers and determined that these policies are appropriate. On an annual basis, the Trustee will request their Managers, through the investment platform provider, to provide details of any change in their house policy and review the appropriateness of such changes.
- 3.8.7. The Trustee will monitor Managers voting activity periodically, through the investment platform provider and may review Managers voting patterns. The Trustee may also monitor voting on particular companies or issues affecting more than one company.
- 3.8.8. The Trustee engages with its Managers periodically, through the investment platform provider. Managers may be challenged on the impact of any significant issues including, where appropriate, ESG factors.
- 3.8.9. At this time of the last fund review in 2016, the Trustee did not make an explicit allowance for climate change within the development or implementation of its investment strategy. The Trustee may discuss the potential impact of climate risks with its Adviser and the investment platform provider on a periodic basis and will monitor developments in this area.

3.9. Investment options

- 3.9.1. 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 1.
- 3.9.2. These asset classes have been decided upon in conjunction with the Adviser, by considering the level of investment risk 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.
- 3.9.3. There are four component funds in e-Z plan each designed to achieve a different objective as shown in appendix 1. The Trustee will review the underlying investments in each of the component funds may change them from time to time.
- 3.9.4. The Trustee may solicit member views on investment options from time to time, this may include opinions on the number and types of funds made available and ESG considerations.

3.10. Member engagement

- 3.10.1. The Trustee recognises the importance of member engagement in relation to the investment options offered within ZCashBuilder. The DC Committee includes a representative from the UK Employee Consultation Board Member and regular attendance by the Regional Pensions Support Manager.

- 3.10.2. The Trustee promotes member engagement through the Regional Pensions Support programme and the scheme's website, www.zpen.info, giving members access to resources including seminars, newsletters, member guides and hot topics.

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, where applicable, 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 will only be made after due and proper consideration of the circumstances.
- 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 as well as any material change to its investment strategy not explicitly described in 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. 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 is available on the scheme's website www.zpen.info.



Signed on behalf of Zurich Financial Services UK Pension Trustee Limited

10 SEPTEMBER 2019

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2019

APPENDIX 1: ZCASHBUILDER INVESTMENT CHOICES AS AT 10 SEPTEMBER 2019

e-Z Plan blended funds ZPensionPurchasePot

Asset class	%	Fund
Corporate bonds	90.00%	Aquila Corporate Bond Over 15Y
UK Gilts	10.00%	Aquila Over 15Y Gilts
	100.00%	

This fund is automatically rebalanced on a quarterly basis, or if asset allocation is over +/- 5% of the target weight.

ZFundBuilder

Asset class	%	Fund
UK Equities	38.00%	Aquila UK Equity
North American Equities	12.25%	Aquila US Equity
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
Gilts	2.00%	Aquila Over 15Y Gilts
Cash	2.00%	TAM Deposit & Treasury
Corporate bonds	6.00%	Aquila Corporate Bond Over 15Y
	100.00%	

This fund is automatically rebalanced on a quarterly basis, or if asset allocation is over +/- 5% of the target weight.

ZRetirementLumpSum

Asset class	%	Fund
Cash	100.00%	TAM Deposit & Treasury
	100.00%	

ZFlexibleIncomePot

Asset class	%	Fund
Diversified	100.00%	Schroder Flexible Retirement
	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 Over 15Y Index
BlackRock Sterling Liquidity
TAM Property Fund
ZFundBuilder
Zurich Mixed Investments
Zurich Managed
L&G Ethical Global Equity Index
Zurich HSBC Amanah