

Zurich Financial Services UK Pension Scheme

**Annual report and financial statements for
the year ended 30 June 2020**

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

| Contents | Page | Contents | Page |
|--|------|--|------|
| <u>Welcome from the Trustee Chair</u> | 2 | <u>Funding committee</u> | 14 |
| <u>Trustee's report</u> | 3 | <u>Valuing the benefits</u> | 16 |
| <u>How the Scheme is managed</u> | 3 | <u>Actuarial certificate</u> | 18 |
| <u>Trustee</u> | 3 | <u>Investment management</u> | 19 |
| <u>Contacts</u> | 5 | <u>Investment strategy and principles</u> | 19 |
| <u>Scheme structure</u> | 5 | <u>ZPen and ES Executives' distribution of investments</u> | 21 |
| <u>Trustee's advisers</u> | 6 | <u>ZCashBuilder</u> | 28 |
| <u>Conflicts of interest and duty</u> | 7 | <u>DC Committee</u> | 28 |
| <u>The Trustee company</u> | 7 | <u>ZCashBuilder investments</u> | 30 |
| <u>The sponsoring company</u> | 7 | <u>Chair's Statement regarding DC governance</u> | 32 |
| <u>Trustee knowledge and understanding</u> | 8 | <u>Statement of Investment Principles for the default arrangements within ZCashBuilder</u> | 43 |
| <u>Overview of the Scheme year</u> | 8 | <u>Statement of investment principles</u> | 50 |
| <u>Trustee meetings</u> | 8 | <u>Independent auditors' report</u> | 51 |
| <u>Scheme events</u> | 9 | <u>Financial statements</u> | 53 |
| <u>Compliance statement</u> | 10 | <u>Independent auditors' statement about contributions</u> | 76 |
| <u>Statement of trustees' responsibilities</u> | 10 | <u>Summary of contributions payable during the year</u> | 77 |
| <u>The Pension Regulator's Codes of Practice</u> | 11 | <u>Actuarial certification of schedule of contributions</u> | 78 |
| <u>Membership details</u> | 12 | <u>Implementation statement</u> | 80 |
| <u>Customer services</u> | 13 | | |
| <u>Funding defined benefits in the ZPen and ES Executives' sections</u> | 14 | | |

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020



Welcome to the 2020 annual report and financial statements. This has been an extraordinary year and we have faced a number of unusual challenges as a consequence of the COVID-19 situation. However, we have been reassured that our scheme sponsor and our suppliers and

advisers have stood up well to these challenges.

One of the most significant pieces of work we undertake for the DB (defined benefit) arrangements (ZPen and ES Executives' sections) are the triennial valuations. With the most recent valuations having an effective date of 30 June 2019 our Funding Committee has spent the last 15 months engaging in constructive dialogue with the company to enable us to assess its financial ability to support the DB arrangements now and in the future. The valuations were finalised on 17 September 2020 and you can read more about the results on [page 15](#).

As part of an integrated risk management approach, it is important that we consider the valuations in the context of the investment strategies and so we have also reviewed and refined our DB investment strategy. You can read more about this on [page 19](#).

In June 2019 the Trustee formalised the Scheme's responsible investment strategy to reflect the changing regulatory landscape. We are aware 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. In considering the expected transition to a low carbon economy we have determined that investment in companies that derive material revenues from the mining of, or generation of energy from, thermal coal, oil sands extraction and products are exposed to financially material factors. Therefore in 2020 we have further reduced our exposure to this risk by setting tighter restrictions for our investment managers to exclude investments in the equity and debt of such companies within the ZPen DB arrangement.

The Scheme invests in a number of renewable energy projects and utilities through the infrastructure debt portfolio. You can read more about this on [page 22](#). Our DC Committee, which oversees the DC (defined contribution) arrangements (ZCashBuilder and the legacy AVC arrangements), has also been busy carrying out a review of the investment options within ZCashBuilder and ensuring we meet The Pensions Regulator's expectations on good DC scheme governance. You can read more about this, including our assessment of the 'value for members' provided by the DC arrangements, in the Chair's Statement on [page 32](#).

We have made one change to our advisers this Scheme year and appointed Eversheds-Sutherland to be our legal adviser in place of Simmons & Simmons with effect from 18 February 2020.

There have also been a number of changes to the member and company nominated Trustee directors. Following Alan Wood's departure in April 2019, we ran our member nominated Trustee director selection process and appointed Neil Evans with effect from 1 August 2019. Gillian Mitchell and Simon Clifford both resigned as company-nominated Trustee directors with effect from 31 December 2019 and 30 June 2020 respectively and were replaced by Katja Pluto and Liz Ryan with effect from 20 March 2020 and 1 July 2020 respectively.

The term of office for three of our member-nominated Trustee directors expired on 14 August 2020 resulting in the departure of Tom McKenna and Graham Mearns. We ran our member-nominated Trustee director selection process and appointed Tim Culling, Hilary Newton and Deryn Yong for a three-year term with effect from 15 August 2020. We also selected Paul Keaveney as our reserve member director, who could be appointed as a Trustee director if one of the current member-nominated Trustee directors leaves mid-term. Paul replaced Tracey Anderson who was our previous reserve member director (formally known as the trustee-in-waiting).

I would like to thank Alan, Gillian, Simon, Tom and Graham for their commitment and valuable contribution to the Trustee over a number of years and to Tracey for her valuable contribution to the DC Committee.

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 5](#). 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)

8 December 2020

Trustee's report

How the Scheme is managed

The Trustee

The Zurich Financial Services UK Pension Scheme (the "Scheme") is set up under trust, which ensures legal separation of the Scheme's assets from Zurich Insurance Group's assets. In this document, when we refer to company, we mean the group of companies that make up the Zurich Insurance Group. When we refer to the employer, we mean the pension Scheme's sponsoring company and the participating employers (see [page 7](#)).

The Trustee company, Zurich Financial Services UK Pension Trustee Ltd (the "Trustee"), is responsible for managing the trust. The 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. In this report we refer to the directors of the Trustee company as Trustee directors.

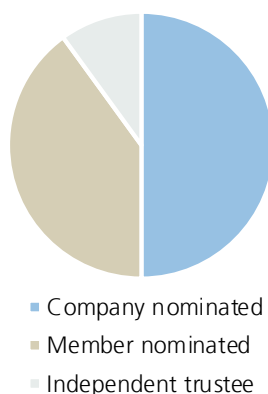
Under the Trustee's constitution there must always be between eight and ten Trustee directors, including:

- four member-nominated Trustee directors; and
- one independent Trustee director.

The remaining Trustee directors are nominated by the company. The Trustee can operate with vacancies, which does happen from time to time when people leave.

The Trustee follows Zurich group governance policies and industry best practice but operates quite independently.

ZPen Trustee directors at 30 June 2020



Terms of office

The member-nominated and independent Trustee directors are typically appointed for three year terms provided that they continue to be eligible. At the end of their term member-nominated Trustee directors can choose to stand for selection again.

Trustee directors nominated by the company do not have fixed terms of office and continue as Trustee directors until they resign, or the company removes them. The Chair is appointed for a fixed period agreed by the company.

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

Selecting member-nominated Trustee directors

The Trustee has a formal process for the nomination and selection of member-nominated Trustee directors. The current process is that when a member-nominated Trustee director's term is due to expire or a vacancy arises, employee and pensioner members are asked to put themselves forward if they would like to be a member-nominated Trustee director. Applications from employee members are submitted via the relevant consultation body who can decide if they want to shortlist nominees.

The Trustee Chair and the Head of UK Pensions and Benefits agree a shortlist of nominees to progress to the selection process to ensure that they have the necessary skills and aptitude to be Trustee directors. This will include a competency based interview with a Trustee selection panel (consisting of the Trustee Chair, Independent Trustee director, the Head of UK Pensions and Benefits and one other Trustee director) and may also include aptitude tests and the consideration of a case study.

The selection process was run in 2019 following the retirement of Alan Wood and resulted in the appointment of Neil Evans for a three year term with effect from 1 August 2019. It was then run again in 2020 as the term of office for the other three member-nominated Trustee directors, Tim Culling, Tom McKenna and Graham Mearns, expired on 14 August 2020. Following interviews taking place "virtually" due to COVID-19, the selection panel decided to re-appoint Tim Culling and appoint Hilary Newton and Derryn Yong as member-nominated Trustee directors for a term of three years with effect from 15 August 2020.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Trustee directors



David Sims (Chair)
Former CEO Zurich Europe Life



Christian Jochum
Head of Strategy Development, Investment Management, Zurich



Amy Brettell
Head of Market and Customer Insight, Zurich



Katja Pluto *Appointed 20 March 2020*
Head of Risk, EMEA, Zurich



Liz Ryan *Appointed 1 July 2020*
Head of Claims Performance and Insights



Simon Clifford *Resigned 30 June 2020*
Global Head of Life Technical Excellence, Zurich



Gillian Mitchell *Resigned 31 December 2019*
Senior Pensions Advisor, Zurich



BESTrustees
represented by Clive Gilchrist
Trustee Executive, BESTrustees



Tim Culling *Re-appointed 15 August 2020*
Former Head of Customer Care, Global Life, Zurich



Neil Evans *Appointed 1 August 2019*
Former Chief Financial Officer, UK Life, Zurich



Hilary Newton *Appointed 15 August 2020*
Product Management and Inforce Manager, Zurich



Derryn Yong *Appointed 15 August 2020*
Plan Delivery Manager, International Markets, Zurich



Tom McKenna *Term expired 14 August 2020*
Engineer Surveyor, Zurich



Graham Mearns *Term expired 14 August 2020*
Former Risk Manager, Openwork



Company-nominated Trustee director



Member-nominated Trustee director



Independent Trustee director

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Contacts

For general information and individual benefit enquiries:

David Lidbury, Customer Services Manager
 ZPen Team
 PO Box 193
 Darlington
 DL1 9FP

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

To contact the Trustee:

Claire Calo, Scheme Secretary
 ZPen Team
 PO Box 193
 Darlington
 DL1 9FP

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

Further details on how to contact us are on [page 13](#).



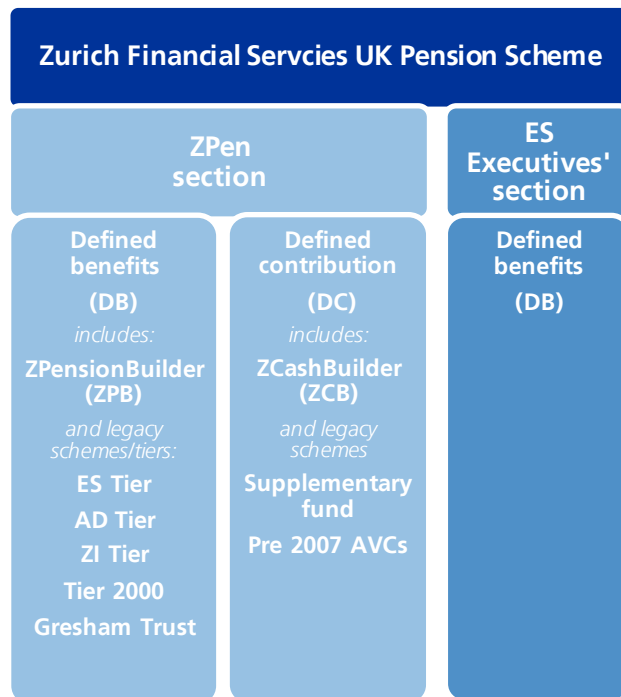
Emma Skuse
 Head of UK Pensions & Benefits



UK Pensions & Benefits Team

Scheme structure

The pension Scheme has two sections: the ZPen section (with its associated sub sections) and the ES Executives' section. The assets in each section are kept completely separate, as you will see in the financial statements. The diagram below provides a basic overview of the Scheme structure.



Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Advisers

Investment Managers

ZCashBuilder
Lloyds Banking Group
(Scottish Widows)

ZPen DB & ES Executives'
Threadneedle Asset
Management Ltd



ZPen DB
M&G Investments Insight Investment Macquarie



Custodian, investment performance & compliance monitoring

ZPen DB & ES Executives'
The Northern Trust Company



Investment advisers

Hymans Roberston



Solicitors

Simmons & Simmons
until 17/02/2020

Eversheds Sutherland
From 18/02/2020



Independent auditors and covenant advisers

PricewaterhouseCoopers LLP



Scheme actuary

Susanna Morran FIA
Barnett Waddingham LLP



Bankers

ZPen DB & ES Executives'
Lloyds Bank plc

ZCashBuilder
The Royal Bank of Scotland plc

Insurance Company

Zurich Assurance Ltd



Investment analysts

Zurich Insurance Company,
Investment Management



Customer Services

ZPen DB & ES Executives'
UK Pensions & Benefits, Zurich



ZCashBuilder & pensioner payroll
RPMI



Trustee company secretary

Zurich Corporate Secretary
(UK) Limited

AVC providers

Zurich
Assurance
Ltd



Scottish
Widows Ltd



ReAssure
Ltd



Threadneedle
Asset
Management
Ltd



Scheme secretary

Claire Calo, Zurich

Conflicts of interest and duty

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

All Trustee directors 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, on becoming a Trustee director, as they arise and annually. For example, a Trustee director 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. The Trustee director must re-state the interest to the Trustee where the business to be transacted at any meeting may give rise to situational conflict relating to the interest. Where a situational conflict is declared, the non-conflicted Trustee directors must determine whether the Trustee director may participate in discussions or decisions of the Trustee or any Trustee Committee in relation to the matter.

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

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

All authorised interests are maintained in a formal register.

If the Trustee 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 Executives’ section’s point of view.

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.

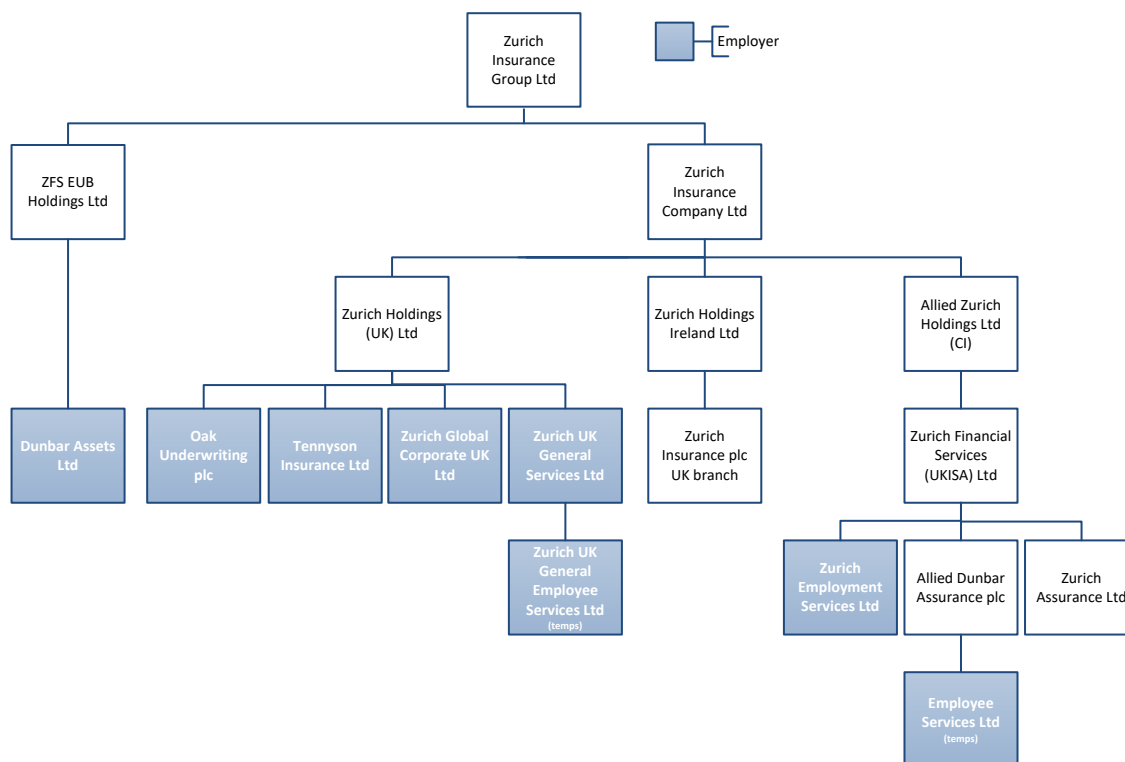
Zurich Financial Services (UKISA) Limited appoints all of the Trustee directors, although the appointment or removal of the independent Trustee director also requires the consent of the golden shareholder.

The sponsoring company

The sponsoring company for the Scheme is Zurich Financial Services (UKISA) Limited (“UKISA”). UKISA is a UK holding company.

Participating employers

Only UK employing companies participate in the Scheme. The chart below shows a simplified structure of the employers within the UK businesses. There have been no changes to participating employers during the Scheme year.



ZCashBuilder: Part VII transfer

During the previous 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 available to members 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 no longer join ZCashBuilder. Instead they join the new IoM PFS. Current members of ZCashBuilder in the Isle of Man will have the option to leave and join the IoM PFS for future pensionable service if they so elect.

COVID-19

On 23 March 2020, in response to the COVID-19 pandemic, the UK Government announced a 'lockdown' with the public advised to stay at home except for key workers. In the weeks leading up to this the UK Pensions & Benefits Team and many of the Trustee's suppliers and advisers had implemented parts of their business continuity plans and moved towards remote working.

In the months that followed The Pensions Regulator (TPR) issued a number of guidance notes for trustees and employers of DB and DC schemes. The Trustee considered each of the key points and noted actions taken.

Included on the TPR guidance was the consideration of any material changes to the employer covenant. Following regular updates from the Company through the Funding Committee and Trustee Board, the Trustee was satisfied that no further action was necessary. The Trustee continues to monitor the employer covenant in light of the COVID-19 pandemic.

The guidance did not highlight any significant issues and the Trustee's suppliers and advisers continued to operate effectively under their business continuity plans.

Further details on the investment market volatility and the suspension of the property funds can be found on [pages 19, 22 and 23](#) respectively.

DB 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.

As permitted by TPR guidance, cash equivalent transfer values were temporarily suspended between 4 April 2020 and 6 May 2020 to allow the Trustee to review the market volatility due to COVID-19.

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 the Scheme year to 30 June 2020. 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 or ES tiers, or the ES Exec section, 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 2019 | 3.0% |
| | 1 July 2020 | 1.5% |
| ZPB (former Tier 2000 tier) | 1 July 2019 | 3.0% |
| | 1 July 2020 | 1.5% |
| ZPB (former ZI tier) | 1 October 2019 | 2.9% |
| ZPB (former AD tier) | 1 January 2020 | 2.2% |
| ZPB (former AD IOM tier) | 1 January 2020 | 2.6% |
| Legacy tiers | | |
| ES tier | 1 July 2019 | 3.0% |
| | 1 July 2020 | 3.0% |
| Tier 2000 | 1 July 2019 | 3.0% |
| | 1 July 2020 | 1.5% |
| ES Exec | 1 July 2019 | 3.0% |
| | 1 July 2020 | 3.0% |
| ZI tier | 1 October 2019 | 2.9% |
| AD tier | 1 January 2020 | 2.2% |
| AD Isle of Man | 1 January 2020 | 2.6% |

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 Scheme assets are invested in less than 0.01% of Zurich Group shares through these passive funds.

Scheme running costs

A budget for Scheme expenses is agreed by the Trustee on an annual basis and actual spend against budget is monitored throughout the year. The budget includes costs for the ZPen and ES Executives' sections. Up to June 2020, the company had agreed to pay £4.4m per annum towards the Scheme expenses. As a result of the triennial valuation a new schedule of contributions was agreed, the contributions have been decreased to £3.7m per annum, applicable from January 2021. The annual Pension Protection Fund levy for the ZPen section is now excluded from the expense allowance, the employer will arrange for the Scheme to be reimbursed from the 2021/22 levy onwards. Further details are on [page 17](#).

Scheme membership

Details of the Scheme membership are on [page 12](#).

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 Trustee knows 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.

Financial statements

The financial statements for the year are set out on [pages 53 to 75](#).

Statement of Trustee responsibilities in respect of the financial statements

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

show a true and fair view of the financial transactions of the 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 financial reporting framework applicable to occupational pension schemes.

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

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

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

Statement of Trustee 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 to the Scheme by or on behalf of employers 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.

Trustee website

The Trustee is also responsible for the maintenance and integrity of the www.zpen.info website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Pensions Regulator – codes of practice

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

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

ESG: Clarifying and strengthening Trustee 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.

Further regulations came into effect on 1 October 2020 which extend some of the disclosure obligations to include details of the Trustee policies in relation to arrangements with their asset manager, and which require further details to be included in the Trustee stewardship policy.

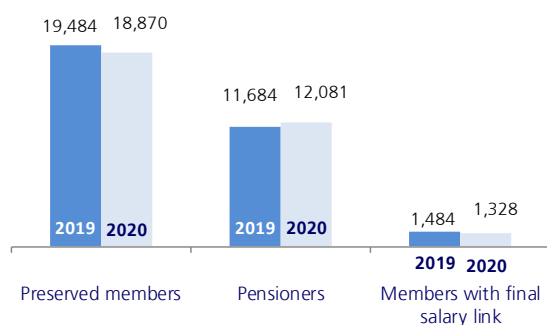
Further to this, from 1 October 2020 the Trustee is required to produce an implementation statement setting out how it has acted on the principles it set out, including how it takes account of the views which, in its opinion, members hold.

The Trustee has formalised the implementation statement in line with these requirements. Further details on these policies and procedures can be found on [page 80](#).

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Membership details

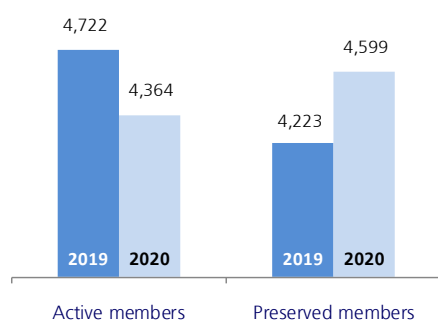


ZPen DB

30 June 2019 30 June 2020

32,652 32,279

| ZPen DB | 30-Jun-19 | 30-Jun-20 |
|--------------------------------|-----------|-----------|
| Membership-Totals | 32,652 | 32,279 |
| Members with final salary link | 1,484 | 1,328 |
| Preserved members | 19,484 | 18,870 |
| Current Pensioners of whom: | 11,684 | 12,081 |
| Pensioners | 10,207 | 10,654 |
| Dependants | 1,477 | 1,427 |

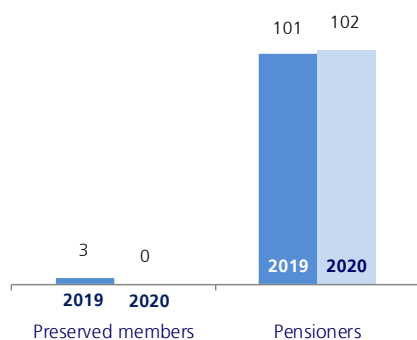


ZPen DC

30 June 2019 30 June 2020

8,945 8,963

| ZPen DC | 30-Jun-19 | 30-Jun-20 |
|-------------------|-----------|-----------|
| Membership-Totals | 8,945 | 8,963 |
| Active members | 4,722 | 4,364 |
| Preserved members | 4,223 | 4,599 |



ES Executives'

30 June 2019 30 June 2020

104 102

| ES Executives' | 30-Jun-19 | 30-Jun-20 |
|-------------------|-----------|-----------|
| Membership-Totals | 104 | 102 |
| Preserved members | 3 | - |
| Pensioners | 85 | 87 |
| Dependants | 16 | 15 |

Included within ZPen DB pensioners are 1,427 (2019: 1,477) dependant members and 495 (2019: 489) annuitants.

Included within ES Executives' pensioners are 15 (2019: 16) dependant members and 7 (2019: 9) annuitants.

Active members who transferred from ZPen DB into ZPen DC 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 i.e. ZPen DB final salary link members are also included in active ZPen DC.)

Customer services

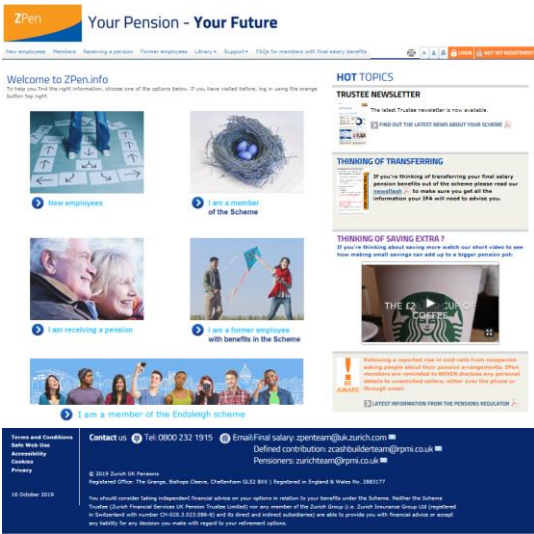
Help for members

We offer members a range of ways of getting in touch and finding out more about their benefits. The first port of call for benefit quotations should always be the secure website: www.zpen.info but if members need to speak to someone directly, the Customer Services teams in Cheltenham and Darlington are available at the end of the telephone or they can write or email with their enquiry.

Our teams are not able to give financial advice. If members need financial advice, they should contact an independent financial adviser (IFA). IFAs can be found at www.vouchedfor.co.uk.

The Scheme online

Both DB members and those with a mixture of DB and DC benefits, can calculate and set up their own benefits online using the self service facilities on the Scheme's secure website www.zpen.info. To date nearly 4,000 members have used the website to set up their own retirement benefits.



to them and from any location where they have internet access. The website is secure: members have individual passwords which they set themselves and no information is saved onto the computer used to access the website. Additional security checks are made before any benefits are paid.

Access to up to date information on line

ZCashBuilder members can run quotes known as statutory money purchase illustrations (SMPI) online 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 can register with the website so they can see their pension payslips on line.

How to contact us

We would encourage you to contact us by email whenever possible:

ZPen DB and ES Executives' members
zpenteam@uk.zurich.com



ZCashBuilder members
zcashbuilderteam@rpmico.uk



Members with pensions in payment
zurichteam@rpmico.uk



ZCashBuilder members are able to view their funds and switch their investments online.

The online facilities are available 24/7 365 days a year, so members can use the website when it is convenient

If you are unable to contact us by email please call us on 0800 232 1915

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Funding benefits in the ZPen and ES Executives' sections

The Trustee is responsible for making sure there is enough money in the ZPen and ES Executives' sections to pay the benefits as they fall due. So, the Trustee needs to:

- understand how much the benefits are likely to cost (the pension Scheme "liabilities"), and
- have sufficient assets, appropriately invested, to ensure that the pension Scheme is in good shape to meet the benefit payments as they arise (the pension Scheme "assets").

The Trustee 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 Trustee 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 Trustee and by a dedicated Funding Committee, which meets at least once a quarter with selected advisers.

Advisers

Investment advisers

Hymans Robertson

HYMANS  ROBERTSON

Investment analysts

Zurich Insurance Company, Investment Management



Scheme actuary

Susanna Morran, FIA
Barnett Waddingham LLP



Funding Committee members



David Sims (Chair)
Former CEO Zurich Europe Life



Christian Jochum
Head of Strategy Development, Investment Management, Zurich



Gillian Mitchell *Until 31 December 2019*
Senior Pensions Advisor, Zurich



BESTrustees
represented by Clive Gilchrist
Trustee Executive, BESTrustees



Neil Evans *From 1 January 2020*
Former Chief Financial Officer, UK Life, Zurich



David Ford
Head of Structural Actions, ZIC



Tim Grant
UK Financial Controller



Andy Jackson
Head of Capital & Liquidity Management, ZIC



Brian Olvany
Head of Private Debt, ZIC



Company nominated Trustee director



Member nominated Trustee director



Independent Trustee director



Company member

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

ZPen Section

Valuation as at 30 June 2019

Using the method and assumptions agreed by the Trustee, the ZPen Section had assets sufficient to cover 101% of its technical provisions as at 30 June 2019 (corresponding to a surplus of £63m). Consequently, the Trustee agreed with the company that no deficit reduction contributions were required at the current time, although the employer will contribute an amount of £3.7m per annum, from 2021, towards the expenses of running the ZPen section. The costs of the PPF levy from 2021 will be met by the Trustee and reimbursed separately by the employer. Previously the estimated cost of the PPF levy was included within the expense contribution.

Annual Actuarial Report

A full Scheme valuation is conducted every three years. In the intervening years the Trustee obtains an annual funding update. A summary of the funding position as at the 30 June 2019 full valuation, and the 30 June 2018 and 30 June 2017 annual updates is shown below. For the annual actuarial reports, the financial assumptions tend to be updated in line with market conditions whereas the demographic assumptions are rolled forward and only updated at each full valuation.

ZPen Section

| Technical provisions basis | 30-Jun-17 (£m) | 30-Jun-18 (£m) | 30-Jun-19 (£m) |
|-----------------------------------|-------------------|-------------------|-------------------|
| Assets (excluding AVCs/APCs) | 6,546 | 6,548 | 6,849 |
| Amount needed to provide benefits | 7,213 | 7,177 | 7,666 |
| (Deficit) | (667) | (629) | (817) |
| Funding level excluding SLP | 91% | 91% | 89% |
| Asset backed contribution (SLP) | 860 | 845 | 880 |
| Surplus incl. SLP | 193 | 216 | 63 |
| Funding level including SLP | 103% | 103% | 101% |

ES Executives' Section

| Technical provisions basis | 30-Jun-17 (£m) | 30-Jun-18 (£m) | 30-Jun-19 (£m) |
|-----------------------------------|-------------------|-------------------|-------------------|
| Assets | 196.3 | 195.8 | 199.4 |
| Amount needed to provide benefits | 189.8 | 186.2 | 181.5 |
| Surplus | 6.5 | 9.6 | 17.9 |
| Funding level | 103% | 105% | 110% |

By law, the statements from the Scheme actuary on [pages 78 to 79](#) must be included in this annual report. A copy of the full report on the valuation as at 30 June 2019 is available on the website

Asset backed contribution (SLP)

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

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

ES Executives' Section

Valuation as at 30 June 2019

Using the method and assumptions agreed by the Trustee, the ES Executives' Section had assets sufficient to cover 110% of its technical provisions as at 30 June 2019 (corresponding to a surplus of £17.9m). The Trustee agreed with the company that no deficit reduction contributions were required at the current time, although the employer will contribute an amount of £47k per annum towards the expenses of running the ES Executives' section.

www.zpen.info. The next full valuation is due as at 30 June 2022.

The methodology and assumptions to value the Scheme are covered in [pages 16 to 18](#).

Funding Committee

The Funding Committee is made up of representatives from the Trustee and from the company, chosen for their experience and expertise. The Pensions Regulator encourages regular dialogue between Trustee directors and the company 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 Scheme actuary. The Trustee also has an investment analyst, Zurich Investment Management, who develops proposals. These are discussed with the investment adviser, Hymans Robertson, who advises the Trustee 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.

Valuing the benefits

At least once every three years the Trustee asks the Scheme actuary to carry out a valuation to assess the financial position of the ZPen and ES Executives' sections. The valuations are based on all benefits earned to the valuation date and the last valuation was as at 30 June 2019.

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 benefits³ 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 Trustee also takes 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 (together the

"employer covenant"). They also consider the investment of the Scheme's assets, both now and into the future.

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

Step 2: determining the funding level

The actuary compares the technical provisions in the ZPen and the ES Executives' sections with the value of the assets in the relevant section of the Scheme. The result of this comparison is called the "funding level". For valuation purposes the SLP is included as an asset of ZPen. If the assets are valued higher than the technical provisions, 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 ZPen and ES Executives' sections may have different funding outcomes: for example, one could be in surplus and the other in deficit.

Step 3: agreeing a recovery plan

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

The Funding Committee works through the valuation process with the Scheme actuary in a series of workshops. The product of these workshops is a recommendation to the Trustee, 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 in respect of the annual actuarial report.

Valuation as at 30 June 2019 – method and assumptions⁴

The method and actuarial assumptions used for the valuation of the Scheme at 30 June 2019 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 in the calculation of the Technical Provisions is the Projected Unit Method, under which the salary increases assumed for each

³ Members have preserved benefits if they have left the company but have not yet reached retirement age.

⁴ Provided by Barnett Waddingham LLP

member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service.

The derivation of the principal assumptions to be used in the calculation of the Technical Provisions is arrived at partly by considering the Trustee's "best estimate" assumptions plus the strength of the employer covenant, with appropriate margins for prudence built in.

Inflation and pension increases

By looking at the cost of investing in UK government bonds with payments linked to inflation compared to the cost of investing in UK government bonds not linked to inflation, it is possible to arrive at a figure for the average market view of future Retail Price Index (RPI) inflation. This will then be compared to the latest Treasury targets for inflation in the UK, and other relevant information such as inflation swap pricing, when deriving the assumption to use. Supply and demand factors for such assets may also be taken into account, as well as potential or actual future changes to the derivation of inflation indices.

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

The Trustee continues to monitor and take professional advice on the governmental review and consultations around potential changes to RPI and CPI approaches including the possible implications from government bonds.

Discount rate

The discount rate will normally be determined by the Trustee based on professional advice, taking into account relevant market indicators at the valuation date, the long-term strategic asset allocation, the liability profile of the Scheme, and the perceived strength of the employer covenant. Allowance may also be made for agreed or potential changes in the strategic asset allocation in future.

As a proportion of the Scheme's assets are invested in assets which would be expected to outperform UK government bonds over the long term, an allowance may be made for this in the discount rate, depending on the perceived strength of the employer covenant. The allowance will be determined by the Trustee based on information provided by its professional advisers. 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 will reflect information published by Continuous Mortality Investigation Limited, a subsidiary of the Institute and Faculty of Actuaries, deemed most relevant to the membership of the Scheme, including an appropriate allowance for expected future improvements in longevity. This assumption will also reflect any available evidence relating to the actual mortality experience of the Scheme, as well as any other factors considered relevant.

Member options

If the Trustee considers it to be appropriate, allowance may be made for member options such as commuting pension for cash at retirement or taking early retirement. An allowance will be made for a proportion of members to exchange part of their pension for a lump sum at retirement. The Trustee takes advice from the Scheme Actuary as to the terms available for members to exchange pension for a cash lump sum. An allowance is made for a certain proportion of active members in the ES and AD tiers, born before 30 June 1967, to retire before reaching age 60. Members born after this date or in other tiers are assumed to retire at their normal retirement age. An allowance is made for a certain proportion of active members to leave service each year before reaching normal retirement age.

Dependant details

Assumptions regarding the proportion of members with a dependant at death, and the age difference between the member and the dependant, will be set taking into account professional advice and the experience of the Scheme.

Expenses

An additional contribution shall be paid by the participating employers to cover an allowance for standard administrative expenses and other professional fees the Trustee incurs in running the Scheme. This includes allowance for the annual Pension Protection Fund levy for the ES Executives' Section. The annual Pension Protection Fund levy for the ZPen Section is excluded from the expense allowance, the employer will arrange for the Scheme to be reimbursed from the 2021/22 levy onwards. The employer will also arrange for the Scheme to be reimbursed for the costs of any death in service insurance.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

The key assumptions used as at 30 June 2019 are as follows:

| Key Financial Assumptions/Data as at 30 June 2019 | ZPen Section | ES Executives' Section |
|---|--|--|
| Pre and post-retirement discount rate | Full gilt curve + 1.31%pa, tapering to gilt curve + 1.52% pa from June 2023, tapering further to gilt curve + 0.99%pa between June 2038 and June 2044 | Full gilt curve + 0.89%pa |
| Price inflation – RPI | Bank of England implied inflation yield curve less 0.15% pa | |
| Price inflation – CPI | RPI less 0.8% pa | |
| Salary inflation | 2.84%pa | n/a |
| Pension increases | Based on a full inflation yield curve and statistical model | |
| Mortality base table | 113% of S3PMA_L for males, 100% of S3PFA for females. | 100% of S3PMA_VL for males, 100% of S3PFA_VL for females |
| Mortality projection | CMI_2018 core projections from 2017 with an initial addition parameter of 0.25%pa and a long-term rate of improvement of 1.50%pa | CMI_2018 core projections from 2013 with an initial addition parameter of 1.00%pa and a long-term rate of improvement of 1.50%pa |
| Cash commutation | Members are assumed to take on average the following proportions of the maximum tax-free lump sum permitted, based on the current factors in force: Active members under age 50 in 2016 – 35% Active members over age 50 in 2016 – 55% Deferred members – 80% | Members are assumed to take 80% of the maximum tax-free lump sum permitted, based on the current factors in force |

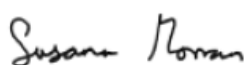
Zurich Financial Services UK Pension Scheme

Certification of the calculation of Technical Provisions

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Technical Provisions for both the ZPen Section and ES Executives' Section of the Zurich Financial Services UK Pension Scheme (the Scheme) as at 30 June 2019 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by Zurich Financial Services UK Pension Trustee Limited (the Trustee) as the trustee of the Scheme and set out in the Statement of Funding Principles dated 17 September 2020.

Signature:



Date:

17 September 2020

Name:

Susanna Morran

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

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

Employer:

Barnett Waddingham LLP

Investment management for the ZPen & ES Executives' sections

Investment strategy and principles

The overriding objective for the Trustee 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 the ZPen and ES Executives' Sections separately but applies the same principles to both.

The Funding Committee keeps the investment strategy under review, considering proposals and making recommendations for the Trustee 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 towards 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.

Responsible investment

As a long-term investor, the Trustee believes that incorporating environmental, social and governance (ESG) factors into investment decisions improves long term risk adjusted returns. As a result, the Trustee has agreed that the Scheme should be an active responsible investor. The Trustee has agreed 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 Trustee has been making 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 Trustee is aware 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, oil sands extraction and products are exposed to financially material factors. Therefore, the Trustee has explicitly determined to exclude investments in the equity and debt of such companies within portfolios.

Investment strategy review

As a part of the triennial valuation process the Trustee reviewed the Scheme's investment strategy in the broader context of the covenant strength and its funding strategy. This is part of the Trustee's integrated risk management (IRM) policy which recognises the interrelationship between investment, funding and covenant. In June 2020 the Trustee agreed that the investment strategy will be changed by increasing target hedging ratios (on a technical provisions basis) for interest rates and inflation from 80% and 60% to 90% and 80% respectively and increasing the allocation to infrastructure debt from 5% to 10% funded by a reduction of the corporate bond allocation. The target hedging ratios and infrastructure debt allocation should be reached no later than 2023.

COVID-19

Many asset classes suffered from volatility in early 2020 with the markets falling dramatically. Both ZPen and the ES Execs' equity portfolios dropped in value significantly. With the Trustee being a long-term investor the opportunity to re-balance the portfolio was taken to ensure the asset allocation was within agreed tolerance levels. The markets rebounded during Q2 2020, benefitting the equity portfolio returns. At the Scheme year end all of the portfolios in the ZPen and ES Executives' sections were within an acceptable range of their target allocation. The property fund held by the ZPen and ES Executives' sections suspended dealing due to the market volatility. The independent valuer has deployed a market uncertainty clause in its valuation in line with RICS guidance. This is consistent with the approach taken across the wider industry. The dealing suspension was lifted on the property fund on 17 September 2020.

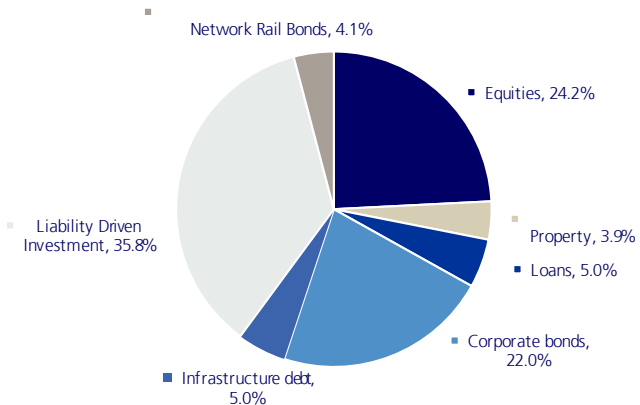
DB Statement of Investment Principles (SIP)

The Trustee has formalised a number of investment disclosure obligations, including responsible investment strategy amendments in the DB Statement of Investment Principles in line with the Shareholders Rights Directive (SRDII) regulations that came into effect on 1 October 2020. The latest SIP is available on www.zpen.info

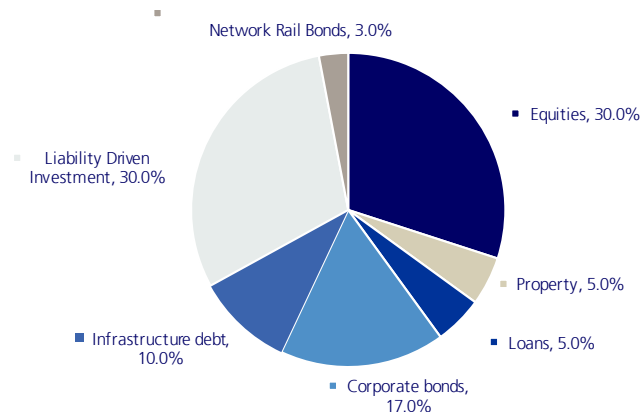
The graphs below show the strategic asset allocation (SAA) as at 30 June 2020.

ZPen

Current SAA

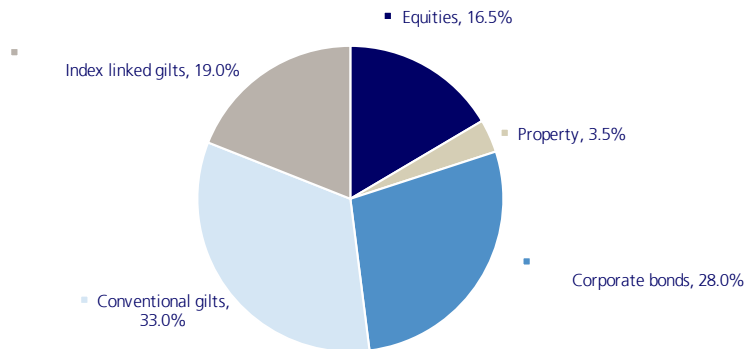


Target SAA



The Funding Committee reviewed ZPen’s long-term investment strategy alongside the 2019 triennial valuation process. The glide path to reach the target SAA should finish no later than 2023.

ESExecutives'

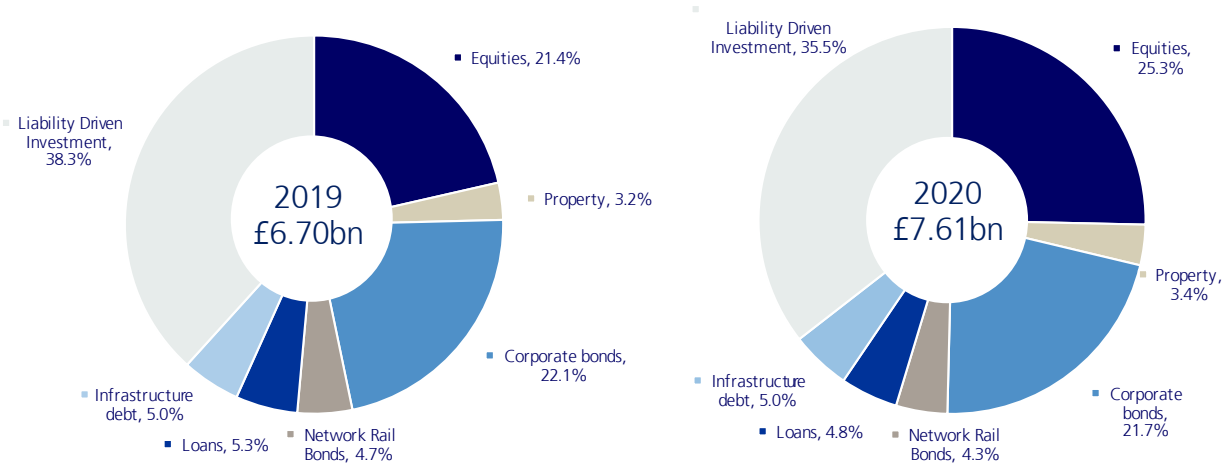


Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

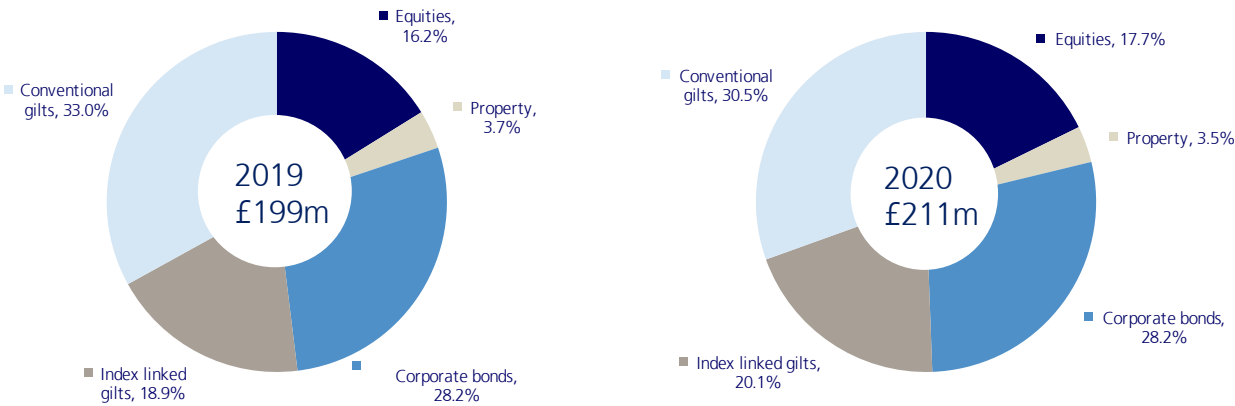
Investment management for the ZPen & ES Executives' sections

The actual distribution of investments for ZPen at 30 June 2020 compared with 30 June 2019 is shown below.



As at 30 June 2020 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 (MIDIS) 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 2020 compared with 30 June 2019 is shown below.



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

Management and custody of investments

The Trustee has delegated management of investments to professional investment managers listed on [page 6](#). 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 Trustee 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 Trustee has less influence over the underlying investments within pooled investment vehicles held by the Scheme but reviews the managers' policies and statements of compliance in respect of these matters.

The Trustee engaged with all of its investment managers during the COVID-19 pandemic. The Trustee was assured of the investment managers' operational capabilities in the lockdown as business continuity plans were activated due to office closures. The Trustee was satisfied with the investment managers' operational performance.

Credit risk is elevated due to the disruption of 'business as usual', meaning income may have fallen or stopped for some businesses. In this respect the Trustee liaised specifically with its corporate bond, senior loans and infrastructure debt managers to consider any additional actions the Trustee may need to take. Any actions raised by these meetings were noted and discussed at the Funding Committee. No further action was required by the Trustee, however credit risk will continue to be monitored closely due to the continued disruption to businesses.

The Trustee has 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 Trustee of the Scheme. The Trustee receives reports each month covering the assets held by the custodians and transactions in the month. These are monitored by the Trustee 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. The Trustee was satisfied with the custodian's operational performance during the COVID-19 pandemic.

Interest in Scottish Limited Partnership

As detailed on [page 63](#), 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 ZPen section 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 21](#).

Infrastructure Debt

In March 2016 the Trustee agreed an investment into infrastructure debt. Infrastructure is the physical systems of a nation such as transportation, communication, sewage, water, electricity systems, schools and hospitals. These investments are long-term loans which finance infrastructure development. Infrastructure debt matches pension liabilities well as it provides long term cash flows that match well with long term, often fixed, liabilities.

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

In June 2020 the Trustee approved the recommendation of the Funding Committee to increase the allocation to infrastructure debt by £300m.

As at 30 June 2020, the ZPen section had thirteen investments in infrastructure debt totalling £373m (2019: £326m).

The Trustee is cognisant of the additional credit risk arising on these assets due to the COVID-19 pandemic, new investments will continue to require an investment grade credit rating upon investment. The investment guidelines define industry sector limits, this diversifies credit risk, especially at a time where some sectors are harder hit than others.

Liability Driven Investments (LDI)

In December 2016 the Trustee added an allocation to LDI. The strategy aims to address the most significant risks faced by the ZPen section, being interest and inflation rate risks. The Funding Committee proposed changing the strategic asset allocation to reduce these risks and appointed a specialist LDI manager, Insight Investments. Assets transitioned from

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Investment management for the ZPen & ES Executives' sections

Columbia Threadneedle to Insight Investment in May 2017. By increasing the Scheme's hedging ratios for interest and inflation rates, it reduces 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 Trustee on a regular basis. In June 2020, the Trustee agreed to further increase the interest rate and inflation hedging ratio targets to 90% and 80% respectively (from 80% and 60%).

Investment performance

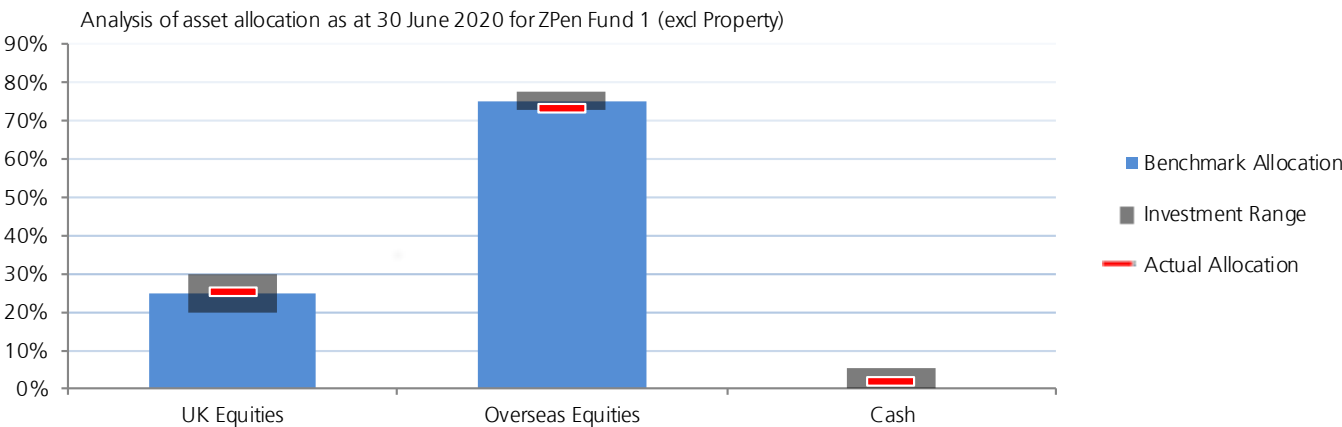
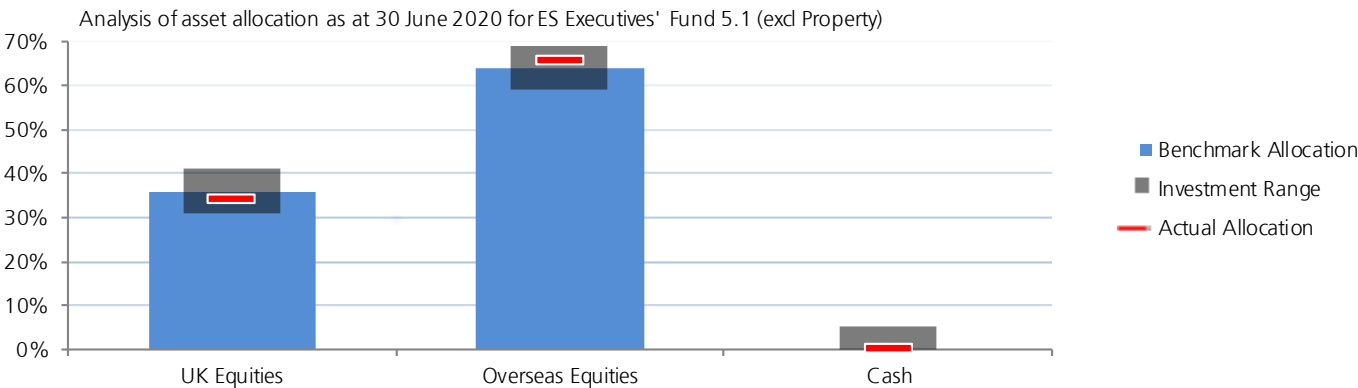
In the actively managed portfolios, the Trustee set a benchmark asset allocation. Performance targets are set based on the benchmark allocations and manager performance is compared against this, but the investment manager has discretion to manage investments within ranges around these benchmarks. This 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 ZPen's growth fund (fund 1) and the ES Executives' 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 24 to 27](#).

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's

investments and consider them to be appropriate relative to the reasons for holding each class of investment. The strategic asset allocation (SAA) agreed by the Trustee is on [page 20](#). The Trustee monitors the asset allocation on a quarterly basis to ensure assets are invested within agreed SAA ranges. The market volatility as a result of COVID-19 pandemic had an impact on the performance of all asset classes over the Scheme year. The LDI portfolio saw the largest increase primarily due to the decrease in gilt yields, this is a passive portfolio and will continue to reflect liability benchmark defined in the investment guidelines. The Trustee has monitored asset performance closely, as a long-term investor more value is placed on the long-term expectations of asset classes rather than short term performance.

More details about investments are given in the notes to the financial statements.

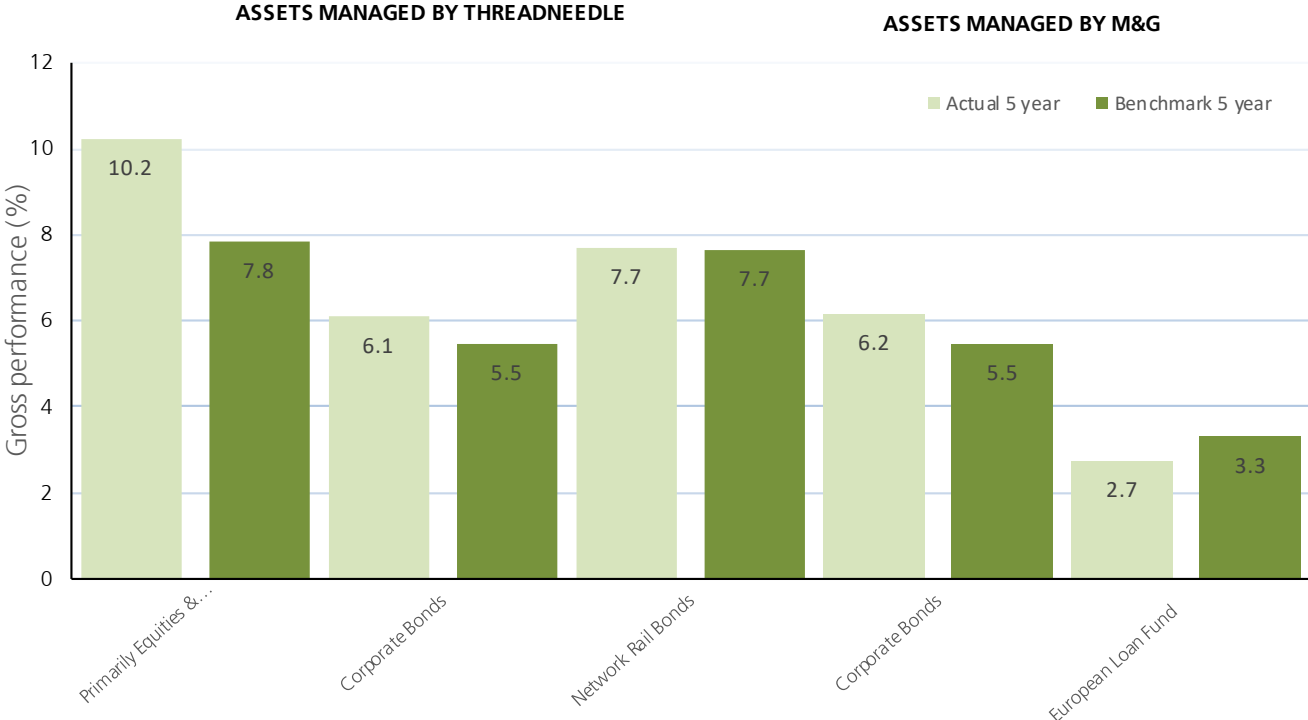


Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

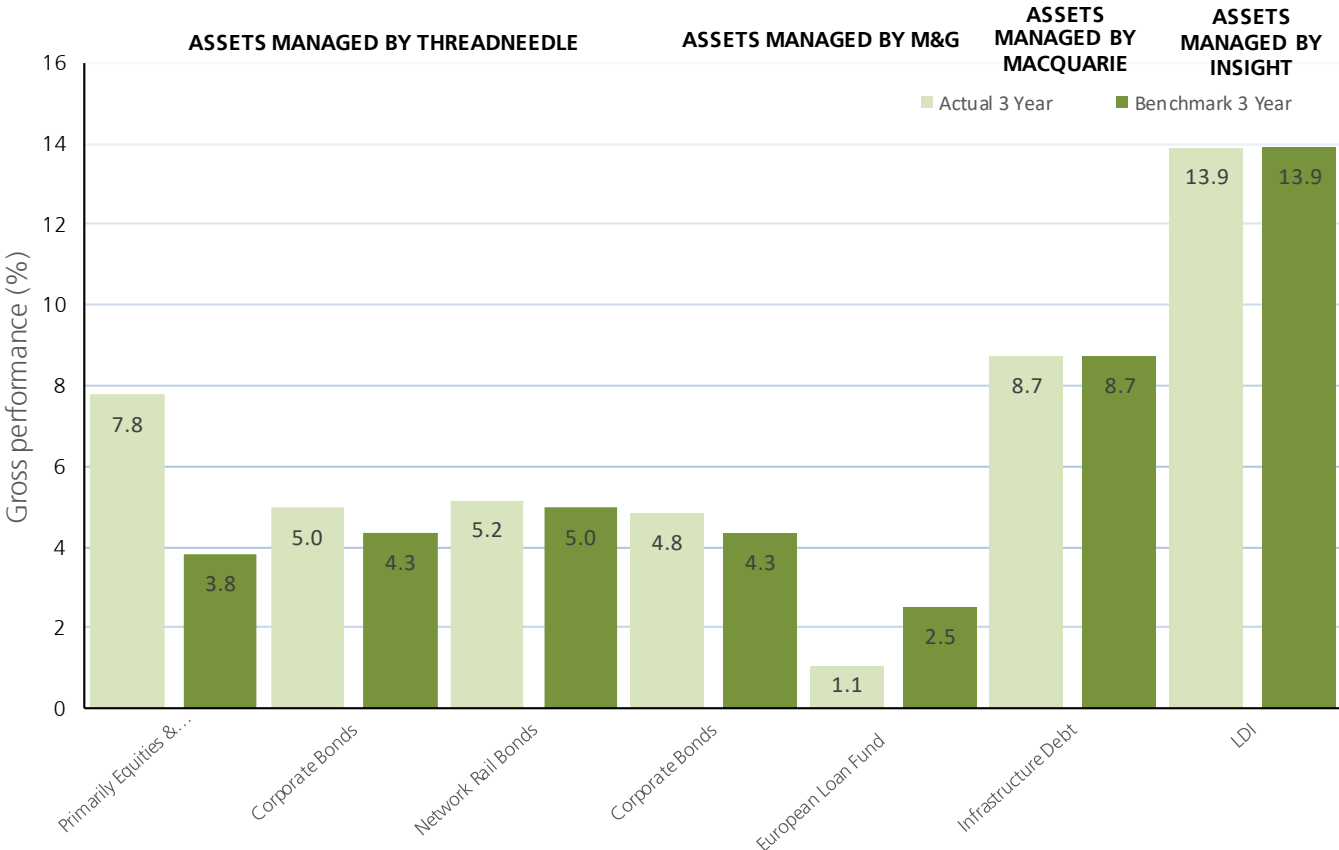
Investment management for the ZPen & ES Executives' sections

ZPen annualised performance for the five years ended 30 June 2020



Source: Northern Trust

ZPen annualised performance for the three years ended 30 June 2020



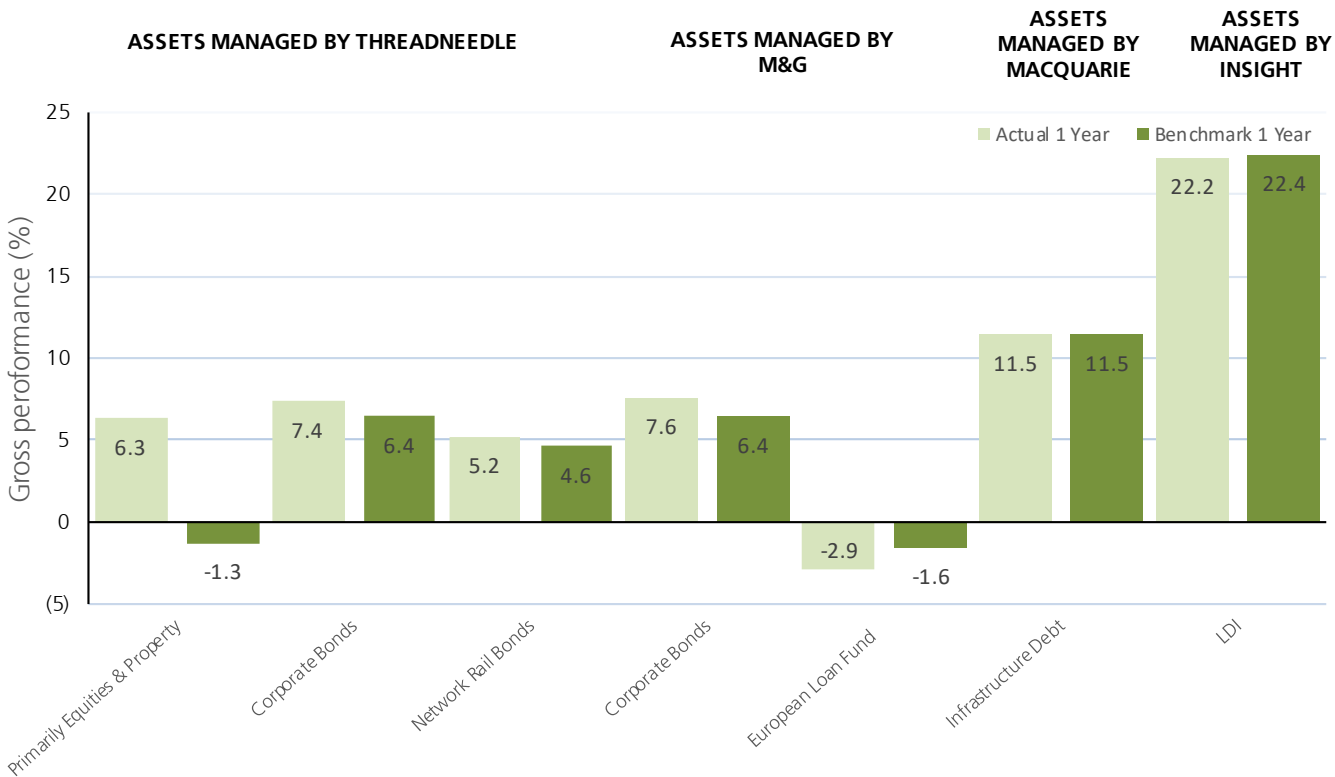
Source: Northern Trust and Insight Investment

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Investment management for the ZPen & ES Executives' sections

ZPen performance for one year ended 30 June 2020



Source: Northern Trust and Insight Investment

ZPen total performance* for year ended 30 June 2020



Source: Northern Trust and Insight Investment
*3 and 5 year performance is annualised

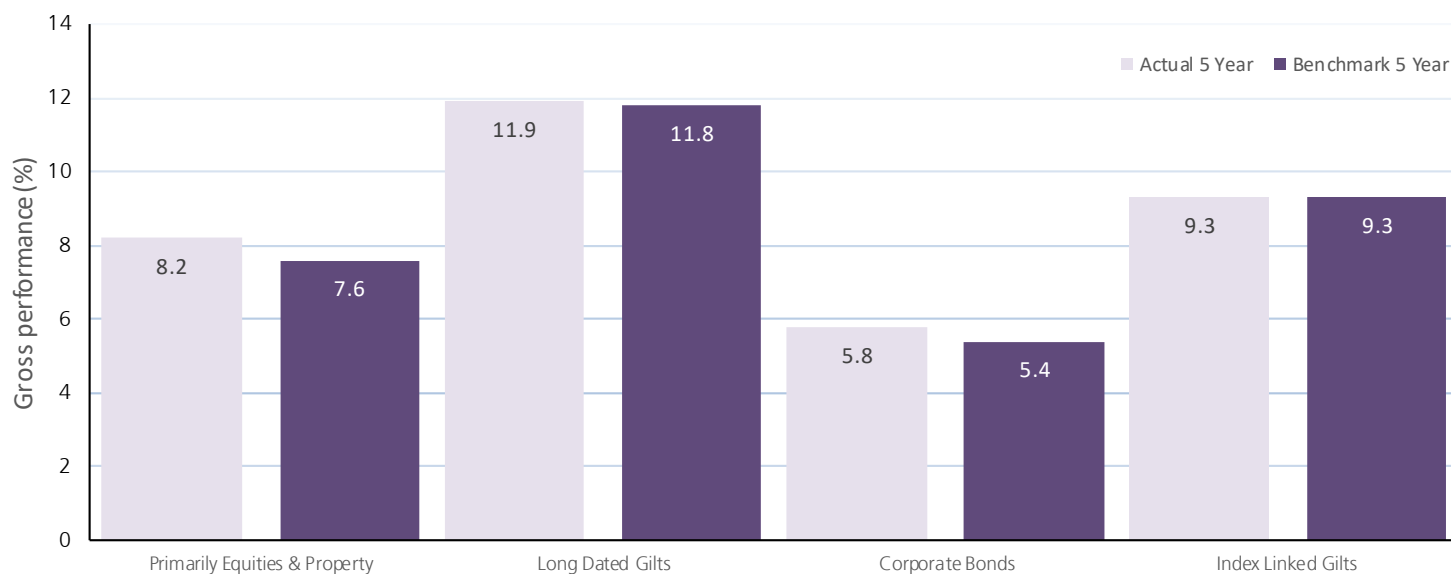
ZPen & ES Executives' performance figures are gross of fees.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

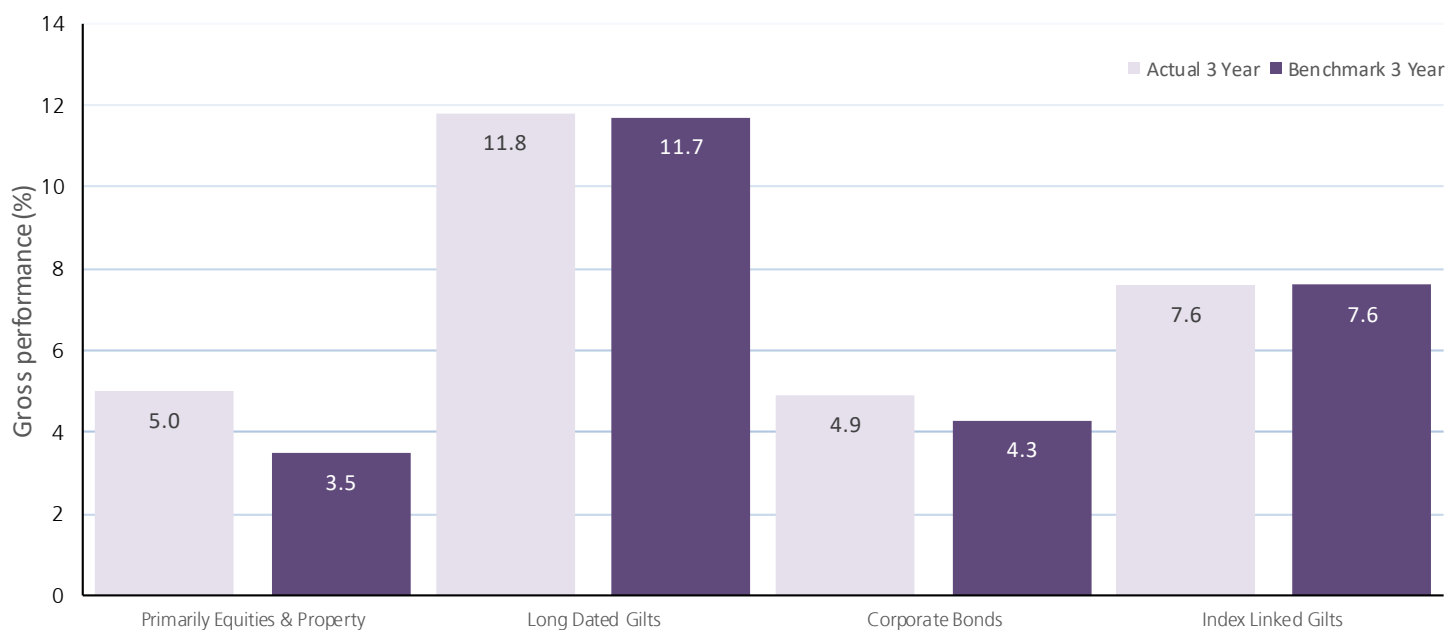
Investment management for the ZPen & ES Executives' sections

ES Executives' annualised performance for the five years ended 30 June 2020



Source: Threadneedle Asset Management Ltd

ES Executives' annualised performance for the three years ended 30 June 2020



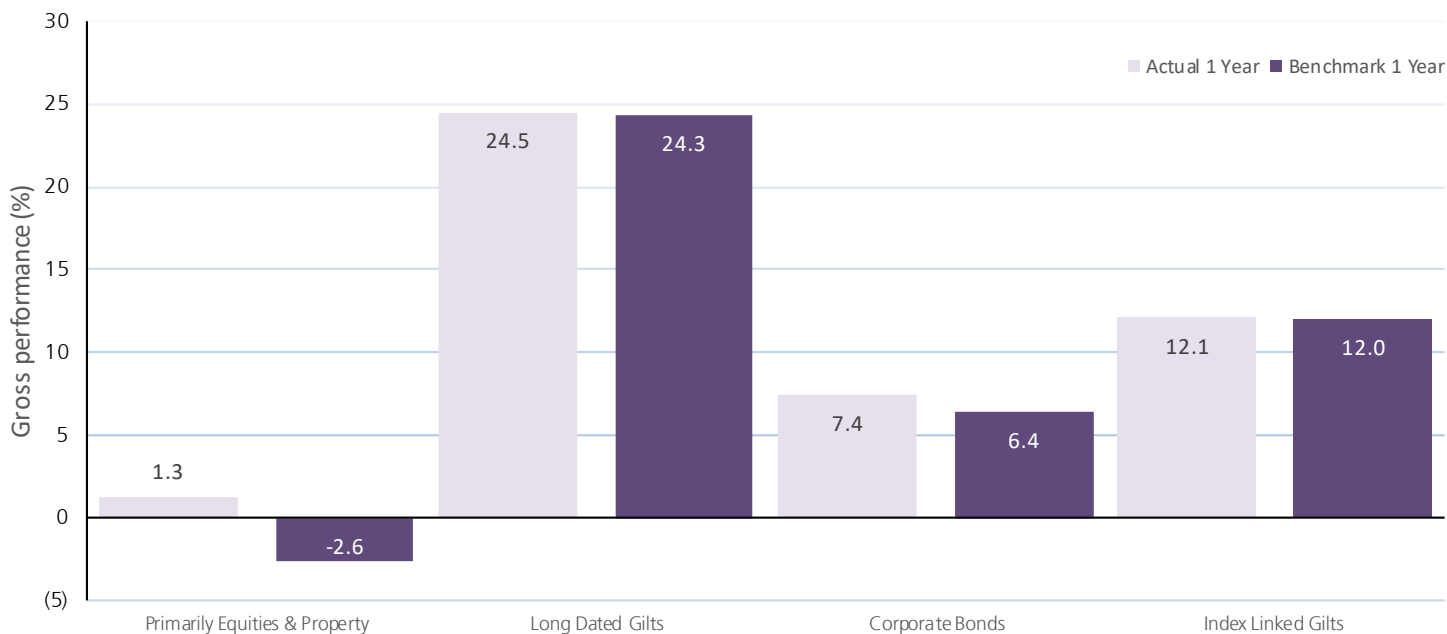
Source: Threadneedle Asset Management Ltd

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

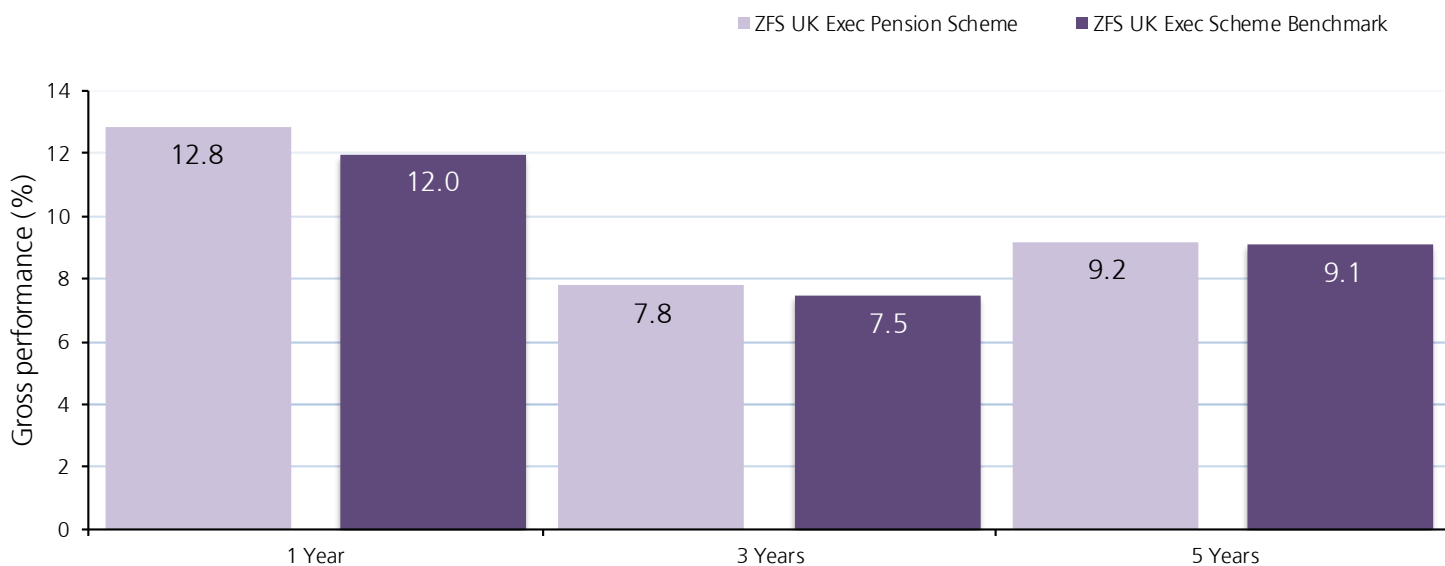
Investment management for the ZPen & ES Executives' sections

ES Executives' performance for one year ended 30 June 2020



Source: Threadneedle Asset Management Ltd

ES Executives' total performance* for year ended 30 June 2020



Source: Northern Trust
*3 and 5 year performance is annualised

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

ZCashBuilder

ZCashBuilder

In June 2019 the Trustee set up a DC Committee to provide more focus and attention on the ZCashBuilder and legacy AVC arrangements. The DC Committee is made up of representatives from the Trustee 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 director



BESTrustees
Independent Trustee director
represented by Catherine Redmond



Amy Brettell
Head of Market and Customer Insight, Zurich
Company nominated Trustee director



Tracey Anderson *Until 14 August 2020*
Head of UK Life & Retail Legal Team, Zurich
Reserve member Trustee director



Paul Keaveney *From 15 August 2020*
International Wholesale Practice Leader, Zurich
Reserve member Trustee director



Rich Roberts *Until 14 August 2020*
Head of Balance Sheet Investments, Zurich
Company representative



Caroline Taylor *From 1 September 2020*
National Secretary, Community
Company representative



Kevin Watts *Until 31 August 2020*
Labour Relations Manager, Zurich
Company representative



William Gilmore *From 1 September 2020*
Head of Investment Solutions, Zurich
Company representative



Trustee director



Reserve member Trustee director



Company representative

One of the first tasks for the DC Committee was to commence a review of the investment options and default strategies to ensure they remain appropriate for the membership. This review is expected to be completed during 2020, with any changes being implemented during 2021. Members affected by any changes arising from the review will be given plenty of notice of how the changes affect them and what, if anything, they need to do.

In addition to reviewing the investments, the DC Committee has carried out the annual governance tasks including the assessment against The Pension Regulator's Code of Practice 13, Value for Members assessment and preparation of the Chair's Statement (see [page 32](#)).

COVID-19

The Pensions Regulator issued a number of guidance notes for trustees which it has continued to update as the situation changes. The UK Pensions & Benefits Team has reviewed this guidance, recorded the Scheme's response and reported this to the DC Committee. Key actions taken include:

- Monitoring the performance of the administrator, RPMI, over the switch to home working: the DC Committee noted that RPMI have continued to meet the turnaround times and have focussed on the core financial transactions.
- Assessing the impact of the temporary closure of the property fund. On 25 March 2020 the property fund held by ZCashBuilder suspended dealing due to the market volatility. The independent valuer deployed a market uncertainty clause in its valuation in line with RICS guidance. This is consistent with the approach taken across the wider industry: decisions were taken quickly, with investment and legal advice, to redirect these contributions to the Sterling Liquidity Fund. All the March 2020 contributions were invested promptly. The dealing suspension was lifted on the property fund on 26 October 2020.
- The UK Pensions & Benefits Team keeping up to date with the latest COVID-19 related issues through The Pensions Regulator's website, attending webinars and online events and from advisers and industry contacts.
- Reassuring members, via a notice on www.zpen.info that pension investments are a long time investment and that market volatility, like that seen in February and March 2020, tends to be short term.

You can read more about the investment options in the Chair's Statement on [pages 32 to 42](#).

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

ZCashBuilder

ZCashBuilder investment performance for the year ended 30 June 2020

The year to 30 June 2020 saw mixed performance, primarily due to the global market falls arising from the pandemic. The worst performing fund was the Aquila UK Equity Index fund and this also suffered the biggest falls in March 2020.

Performance over a one, three and five year period is shown on [pages 30 to 31](#).

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

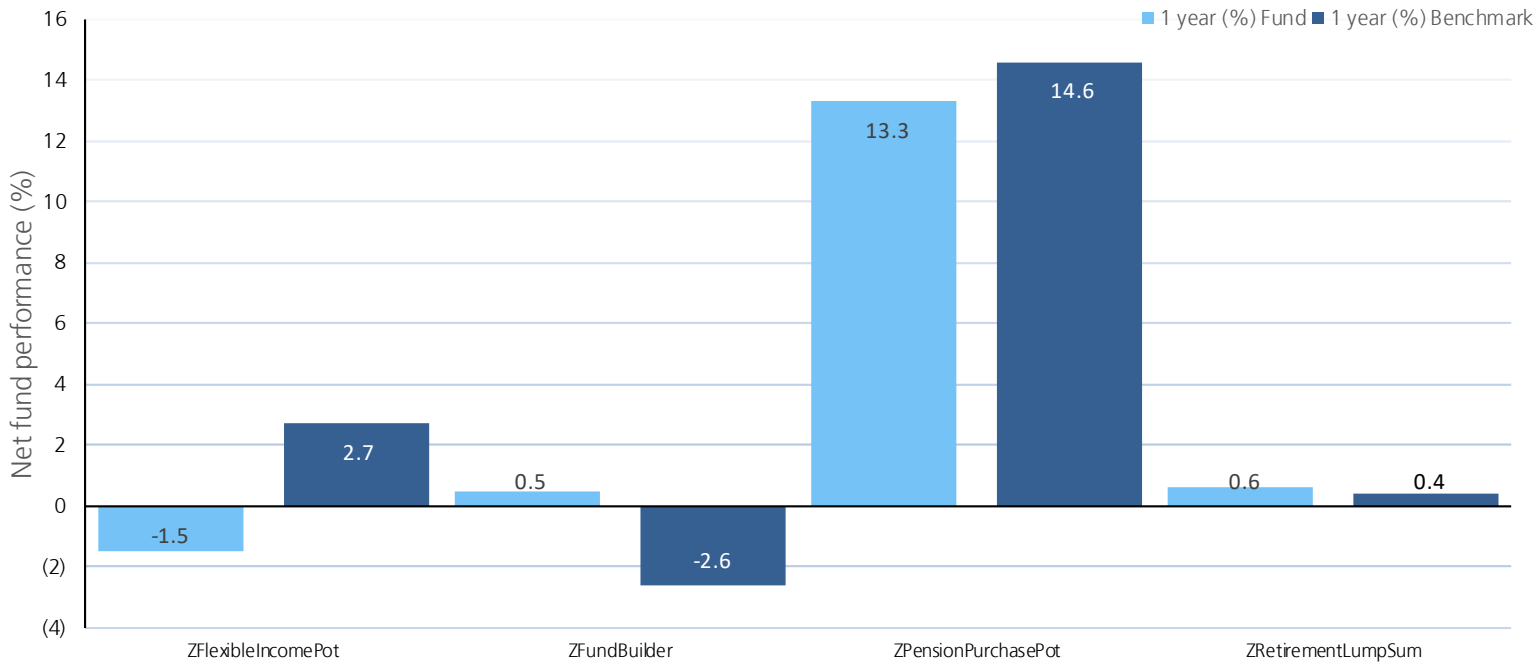
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

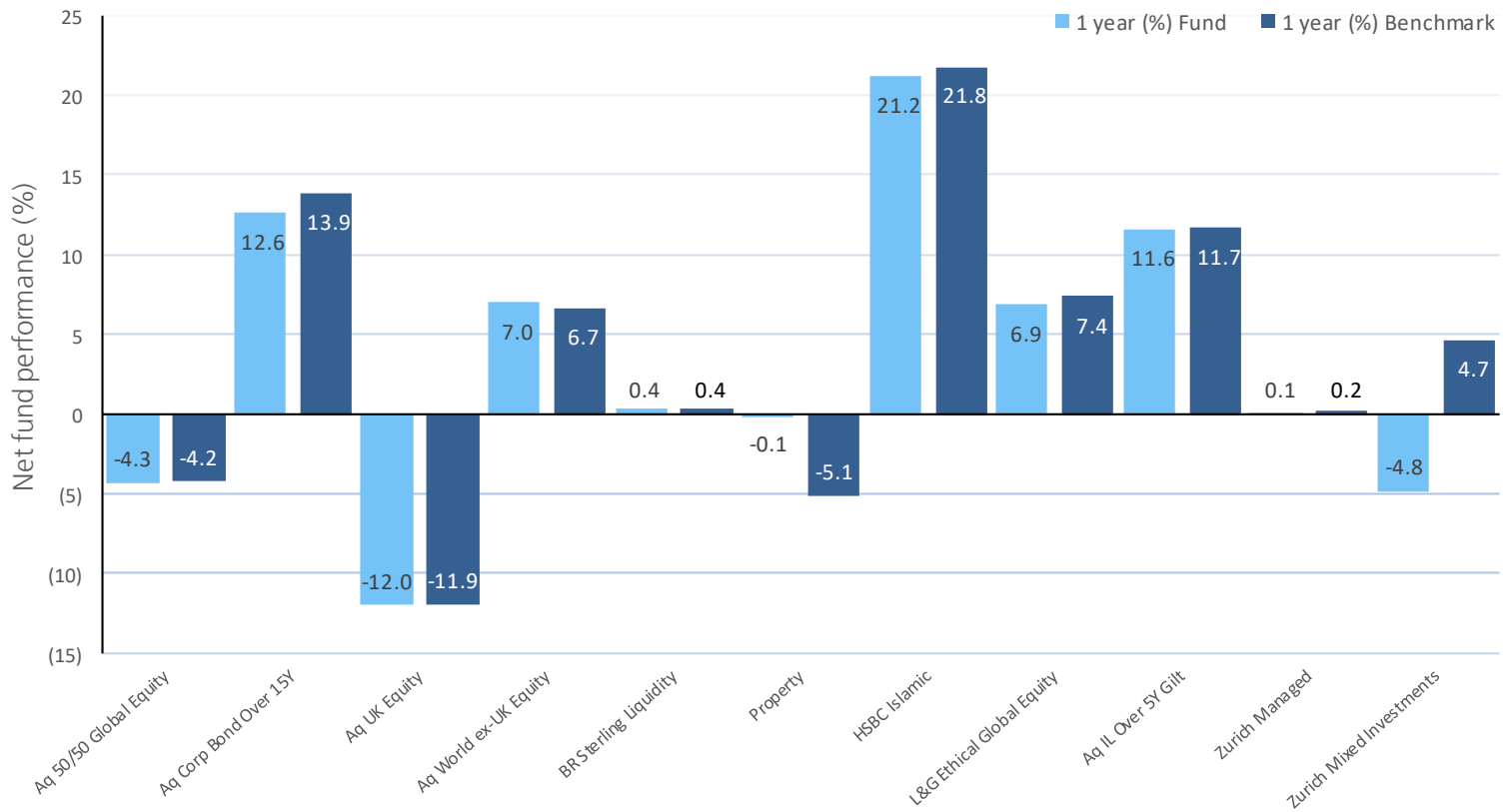
ZCashBuilder

ZCashBuilder performance for the year ended 30 June 2020

The investment performance of the default funds against the composite benchmark for the year is shown below.



The investment performance of the self-select funds against the benchmark for the current year is shown below.



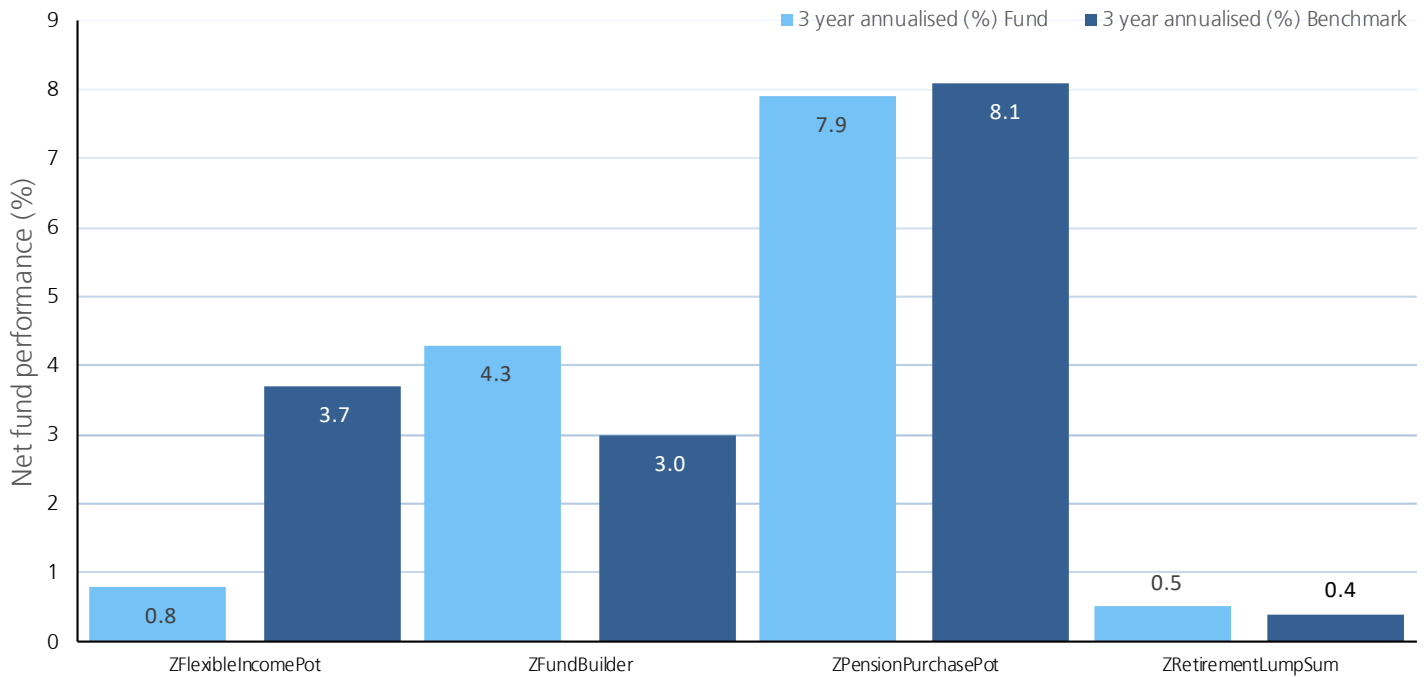
Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

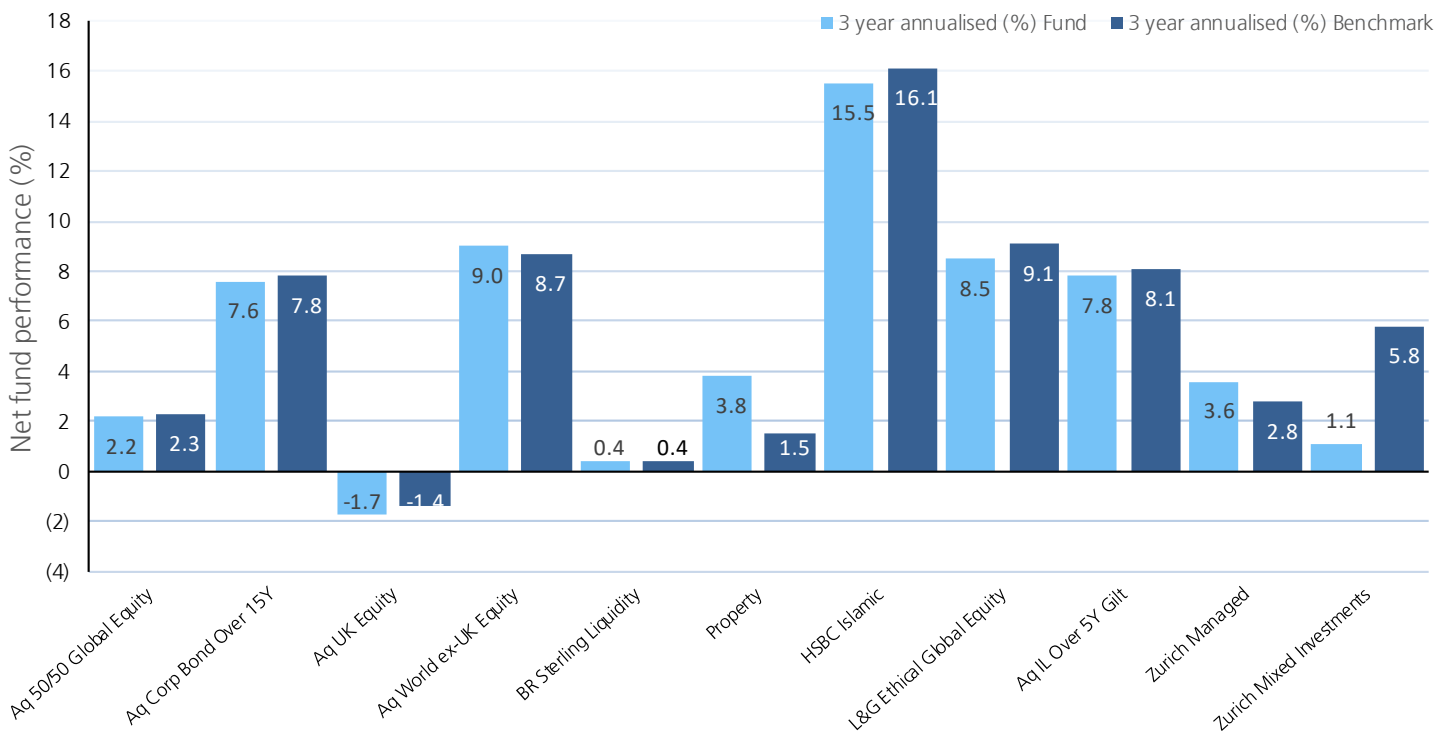
ZCashBuilder

ZCashBuilder annualised performance for the 3 years ended 30 June 2020

The investment performance of the default funds against the composite benchmark for 3 years is shown below.



The investment performance of the self-select funds against the benchmark for the 3 years is shown below.



ZCashBuilder performance figures are net of fees.

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

Source: Scottish Widows Ltd

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement






Chair's Statement regarding DC⁵ governance for the year ending 30 June 2020

Summary

Governance requirements apply to defined contribution (DC) pension arrangements to help members achieve a good outcome from their pension savings. The Trustee of the Zurich Financial Services UK Pension Scheme (the "Scheme") is required to produce an annual statement (which is signed by the Trustee Chair) to describe how these governance requirements have been met in relation to:

- the investment options in which members' funds are invested
- the requirements for processing financial transactions
- the charges and transaction costs borne by members
- an illustration of the cumulative effect of these costs and charges
- a 'value for members' assessment'; and
- Trustee knowledge and understanding.

The statement covers the period from 1 July 2019 – 30 June 2020. More information can be found in the pages that follow.

| | Key points: | Rating | Link |
|---|---|---|---|
| Default investment arrangements: The Trustee is 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 one fund which has underperformed. A high level review was carried out in 2018, and a more detailed investment review, including the default arrangements is in progress. |  | Default Investments |
| Core financial transactions: The Trustee is required to make sure that core financial transactions (e.g. investing contributions) are processed promptly and accurately. | The Trustee receives regular reports from the administrator and monitors performance against agreed service levels. Based on this the Trustee consider that the core financial transactions have been processed promptly and accurately during the Scheme year. |  | Core financial transactions |
| Value for Members: The Trustees is 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 Trustee 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 ⁶ arrangement used by one member. |  | Value for members |
| Trustee Knowledge and understanding: The Trustee is required to meet certain standards of knowledge and understanding to ensure the Trustee directors are able to properly exercise their duties as a Trustee. | The Trustee directors 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 Trustee directors. |  | Trustee knowledge |
| Governance: The Trustee is required to carry out an annual assessment against The Pension Regulator's Code of Practice 13 for the governance of DC Schemes. | The Trustee carried out an assessment against the Code of Practice 13 which identified that the Scheme meets all the legal requirements and the majority of expectations set out in the Code and associated Guides. |  | Governance |
| CONCLUSION: Taking account of all the factors considered, the Trustee believes that the Scheme provides good value for members and is expected to deliver good outcomes for members at retirement. | | | |

⁵ Defined Contribution

⁶ Additional Voluntary Contribution

Introduction

The Trustee is required to produce an annual statement to describe how it meets certain governance requirements. The Trustee has taken note of the statutory guidance when preparing this statement.

The Scheme provides both defined benefit (DB)⁷ and DC benefits. The DC benefits are provided through ZCashBuilder and legacy AVC providers. To assist the Trustee in meeting the governance requirements around these DC benefits, the Trustee has a DC Committee (DCC⁸) including both Trustee and company nominated representatives.

Where relevant, this Statement includes how the Trustee, and DCC reacted to Covid-19 and its impact on the Scheme's DC members and assets.

1 Default investment arrangements

ZCashBuilder is a qualifying pension Scheme for auto-enrolment and is therefore required to have a default investment option. Members who join the Scheme and who do not choose an investment option are placed into one of the following defaults:

- For members with ZCashBuilder benefits only (DC only default)
- For members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (hybrid default)

The Sterling Liquidity Fund is also classed as a default arrangement for members whose contributions were not able to be invested in the Zurich Property Fund when it temporarily closed in March 2020.

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' (SIP). The Scheme's SIP covering the default arrangements is attached to this statement. No changes were made to the SIP between 1 July 2019 and 30 June 2020, although a new SIP was approved by the Trustee in September 2020 and this is attached.

The aims and objectives of the default arrangements as stated in the SIP are as follows:

- To provide a good value lifestyle strategy which:
 - is suitable for the majority of members who do not wish to make an active choice
 - protects members against volatility in the approach to retirement.

The Trustee believes that these strategies are suitable for the majority of members based on modelling the expected fund values at retirement and how members are expected to take their benefits.

The default arrangements are therefore lifestyle strategies which:

- Gradually move investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Targets members who are expected to use Flexible Access Income Drawdown during their retirement (DC only strategy) and members who are expected to take cash at retirement (hybrid strategy).

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement.

If for some reason the Trustee can't invest contributions in line with the member's instructions it may decide to re-direct contributions to a fund with a similar, or lower, level of investment risk. The aim of this is to invest the contributions promptly and protect against market volatility whilst members are informed of the change and given the opportunity to review their investment instructions. This situation occurred in March 2020 when the Property Fund temporarily closed as a result of the Covid-19 pandemic. This was because surveyors were not able to accurately

⁷ 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

⁸ Defined Contribution Committee

assess the value of property due to the travel ban and a lack of market activity to provide market information. Without the ability to accurately value the properties it is not possible to accurately calculate the daily unit price. The temporary closure of the Property Fund resulted in the Trustee redirecting contributions to the Sterling Liquidity Fund, which in turn became an additional default arrangement in April 2020.

A high level review of the default investment performance and strategies was completed 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 and reduced to 17.5bps⁹ with effect from 1 April 2020.
- The investment charges paid by members are reduced by 3.5 bps for each fund in return for a payment of c£66,000 per year from the Trustee. This reduction commenced on 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. The Trustee 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.

The DC Committee started a more detailed review of the default investment strategies on 11 March 2020 and this is expected to be completed towards the end of 2020, with any changes implemented during 2021.

In addition to the strategy review, the Trustee also reviews the performance of the default arrangements against their aims, objectives and policies on a regular basis. The reviews that took place during the Scheme year concluded that the default arrangements were performing broadly as expected and are consistent with the aims and objectives of the default as stated in the SIP.

The Trustee regularly monitors the performance of the default investment strategies and the review being undertaken in 2020 includes a review of the performance of the funds used in the default investment strategies.

All funds have performed at or near the benchmark over the year, with the exception of the ZFlexibleIncomePot which has underperformed by almost 4% over the year and 2.7% pa over the last 3 years. The fund offers some protection against market falls and to achieve this, invests heavily in defensive assets, (i.e. government bonds). During the market falls in February and March 2020 as a result of Covid-19 this fund performed as expected, but it has not been able to generate the returns required to meet its benchmark of CPI+2%.

2 Processing core financial transactions

The Trustee has received assurance from the Scheme's administrator (RPMI) and has taken steps to ensure that there were adequate internal controls so that the core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members and beneficiaries.

The Scheme has a service level agreement (SLA) in place with the administrator which covers the accuracy and timeliness of all core financial transactions. These are split into granular detail with each step being assigned an SLA. The key processes adopted by the administrator to help it meet the SLA are as follows:

- Operating appropriate procedures, checks and controls and operating within the SLA.
- Production of quarterly reports which include reporting on performance against SLAs, and which are reviewed by the Scheme management team and the Trustee.
- Holding regular calls with the Scheme management team. These take place at least monthly and, on an ad-hoc basis if required. For example, a call was held on 26 March 2020 following the temporary closure of the Zurich Property Fund to agree a way forward to ensure that the contributions were invested promptly.
- At least two persons involved with checking investment processes. Checks are carried out by RPMI before investment instructions are entered into the automated system for action by Scottish Widows.
- The Scheme management reviews 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.

⁹ Basis points is the measure used to state charges: 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%.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

- During the move to home-working due to Covid-19 RPMI continued to meet their SLAs. This included the redirection of the March 2020 contributions which were due to be invested in the Property Fund and which were redirected to the Sterling Liquidity Fund and invested promptly.
- As part of the move to home working RPMI had to implement their Business Continuity Plan which was shown to be effective.

The Trustee receives quarterly reports about the administrator's performance and compliance with the SLA. This report is also reviewed by the Scheme management team and any queries raised with RPMI. Based on this information provided by the administrators the Trustee is satisfied that over the period covered by the statement:

- The quarterly reports verify the number of transactions performed and how many were outside the SLA including by how much and why.
- During the year RPMI achieved an overall performance against SLA of 99.4%. In relation to the core financial transactions, 1,400 were completed with 11 being outside the SLA, giving a performance of over 99.9%. This was reviewed by Hymans Robertson, the trustee's investment advisers, who considered it to be highly effective.
- There have been no material administration errors in relation to processing core financial transactions.
- Where RPMI's internal checks identified an error had occurred, this was rectified and if required, calculations and transactions carried out to ensure the member did not lose out financially.
- The Trustee reviewed the processes and internal controls implemented by RPMI on engagement and consider them to be suitably designed to enable core financial transactions to be effectively processed. In particular, the Trustee noted the high level of automation in the processes to reduce errors and inaccuracies.
- The Scheme management team also compare expected contributions to actual contributions going into the Scheme on a monthly basis and at an individual level, with all material differences being investigated.
- Quarterly reports with performance against SLAs are received from Scottish Widows in relation to the Supplementary Scheme.
- The temporary closure of the Property Fund did not delay any core financial transactions as members wishing to take any benefits invested in the Property Fund were spoken to and given information on the options available to them. As a result there were no outstanding transactions waiting to be disinvested when the fund reopened later in 2020.

3 Member-borne charges and transaction costs

The Trustee is required to set out the ongoing charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges also include any costs, e.g. administration and investment costs, since members incur these costs. The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds.

The charges and transaction costs for:

- ZCashBuilder have been supplied by Scottish Widows, who are the Scheme's platform provider and for some funds, also the investment manager.
- Legacy AVCs have been supplied by each of the providers.

There is no missing transaction cost data.

When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

3.1 Default arrangements

The Scheme has the following default arrangements:

- 1) For members with ZCashBuilder benefits only (DC only default)
- 2) For members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (hybrid default)
- 3) The Sterling Liquidity Fund for those members' contributions that were not able to be invested in the Zurich Property Fund when it temporarily closed in March 2020.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

Defaults (1) and (2) have been set up as a lifestyle strategy which means that members assets are automatically moved between different investment funds as they approach their retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested. The funds used in these defaults are ZFundBuilder, ZFlexibleIncomePot and ZRetirementLumpSum, and the charges for these funds are shown in section 3.2.

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%.

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. The member borne charges for all the Scheme's default arrangements complied with the charge cap.

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. These illustrations are provided for all three default arrangements. Illustrations for some of the self-select funds are shown under section 3.2.

| | DC only default | Hybrid default | Sterling Liquidity |
|--|-----------------|----------------|--------------------|
| Starting age (median) | 37 yrs | 48 yrs | 46 |
| Starting fund value (median) | £16,800 | £30,600 | £1,400 |
| Basic salary (median) | £33,500 | £42,200 | £47,700 |
| Future contributions assumed until age 60. | 12% | 12% | 12% |
| Incorporates lifestyling | YES | YES | NO |

| | DC only default | | Hybrid default | | Sterling Liquidity | |
|---------|-----------------|---------------|----------------|---------------|--------------------|---------------|
| | Before Charges | After Charges | Before Charges | After Charges | Before Charges | After Charges |
| Year 1 | £19,503.02 | £19,399.76 | £33,851.52 | £33,692.12 | £4,401.84 | £4,395.65 |
| Year 3 | £30,130.5 | £29,719.56 | £48,079.89 | £47,401.62 | £16,805.33 | £16,756.57 |
| Year 5 | £42,223.47 | £41,330.38 | £64,232.59 | £62,793.2 | £30,081.57 | £29,917.61 |
| Year 10 | £79,981.74 | £76,878.83 | £111,328.13 | £106,677.31 | £67,419.13 | £66,608.43 |
| Year 15 | £131,016.79 | £123,683.8 | | | £111,366.1 | £109,309.73 |
| Year 20 | £196,281.38 | £181,891.13 | | | | |
| Year 25 | £258,039.5 | £235,675.67 | | | | |
| Year 30 | | | | | | |
| Year 35 | | | | | | |
| Year 40 | | | | | | |

Notes:

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges can't be known in advance, the Trustee has had to make a number of assumptions about what these might be and these are explained below:

- The 'before costs' figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.
- The 'after costs' figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction costs figures used in the illustration are an average of those provided by the managers over the past 3 years.
- Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- The following financial assumptions have been made for all projections:

Inflation is assumed to be 2.50% each year.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

Salaries will increase with inflation

| Fund | Growth (before taking account of inflation) | Charges* | *These charges take into account the total member charge, shown in section 3.2 below, plus an average of the transaction costs over the past 3 years. |
|---------------------|---|----------|---|
| ZFundBuilder | 4.70% | 0.64% | |
| ZPensionPurchasePot | 2.40% | 0.20% | |
| ZRetirementLumpSum | 1.00% | 0.07% | |
| ZFlexibleIncomePot | 3.08% | 0.67% | |
| Sterling Liquidity | 1.00% | 0.28% | |

3.2 Self-select options

In addition to the default arrangement, members also have the option to invest in other lifestyle strategies and several other self-select funds. The level of charges for each self-select fund, including those used in the lifestyle strategies, are set out in the following table. The underlying funds for the lifestyle strategies, including those used in the default arrangement are shown in bold.

| Funds | Admin charge (bps) | Fund charge (bps) | Total member charges (bps) | Transaction cost ¹⁰ (bps) |
|-------------------------------------|--------------------|-------------------|----------------------------|--------------------------------------|
| ZFundBuilder* | 17.5 | 34.1 | 51.6 | 9.6 |
| ZFlexibleIncomePot* | 17.5 | 36.5 | 54.0 | 13.7 |
| ZPensionPurchasePot | 17.5 | 10.4 | 27.9 | -3.3 |
| ZRetirementLumpSum* | Nil | 5.6 | 5.6 | 4.3 |
| 50/50 Global Equity Index | 17.5 | 9.7 | 27.2 | 0.0 |
| UK Equity Index | 17.5 | 9.3 | 26.8 | 0.0 |
| World ex-UK Index | 17.5 | 10 | 27.5 | 0.0 |
| Ethical Global Equity Index | 17.5 | 26.5 | 44.0 | 0.4 |
| Corporate Bond Over 15 Year Index | 17.5 | 10.5 | 28.0 | -3.9 |
| Index-Linked Over 5 Year Gilt Index | 17.5 | 9.4 | 26.9 | 0.0 |
| Sterling Liquidity | 17.5 | 9.0 | 26.5 | 1.1 |
| Property | 17.5 | 70.0 | 87.5 | 23.0 |
| Zurich Managed Fund | 17.5 | 44.5 | 62.0 | 28.4 |
| Zurich Mixed Investments Fund | 17.5 | 36.9 | 54.4 | 3.4 |
| HSBC Islamic | 17.5 | 36.5 | 54.0 | 4.7 |

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

¹⁰ Transaction costs are the costs associated with buying and selling the assets within the fund. These figures include an element of 'slippage cost' which is the difference between the price at the time the instruction was sent to the market and the price that is used when the trade is carried out. It is possible for the slippage cost to be negative; for example if the price at the time the instruction was sent is higher than the price actually paid. Negative transaction costs can also occur where managers are able to offset the purchases and sales in any one fund as a way of reducing the transaction costs paid by members.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

The first table provides some detail on the typical member used for these illustrations. The second table sets out the projected fund values both before and after charges over a 40 year period. These illustrations are provided for three commonly used funds:

- ZFundBuilder: is the growth fund for the default strategies.
- Property Fund: is the fund with the highest charges.
- Aquila 50/50 Fund: is the fund with the most members and assets invested, outside the default strategies.

| | ZFundBuilder |
|--|--------------|
| Starting age | 20 yrs |
| Starting fund value | £4,900 |
| Basic salary | £22,500 |
| Future contributions assumed until age 60. | 12% |
| Incorporates lifestyling | NO |

| | ZFundBuilder | | Property Fund | | 50/50 Global Equity Fund | |
|---------|----------------|---------------|----------------|---------------|--------------------------|---------------|
| | Before Charges | After Charges | Before Charges | After Charges | Before Charges | After Charges |
| Year 1 | £6,395.19 | £6,374.82 | £6,392.13 | £6,353.42 | £6,404.35 | £6,395.68 |
| Year 3 | £12,888.07 | £12,758.26 | £12,868.52 | £12,623.44 | £12,946.91 | £12,891.18 |
| Year 5 | £20,303.19 | £19,963.72 | £20,251.84 | £19,614.47 | £20,458.08 | £20,311.35 |
| Year 10 | £43,583.58 | £42,135.05 | £43,362.36 | £40,678.33 | £44,255.21 | £43,618.73 |
| Year 15 | £75,244.36 | £71,494.04 | £74,666.20 | £67,807.23 | £77,011.44 | £75,336.39 |
| Year 20 | £117,760.41 | £109,919.76 | £116,540.23 | £102,386.18 | £121,515.33 | £117,955.05 |
| Year 25 | £174,286.54 | £159,742.55 | £172,001.56 | £146,087.07 | £181,367.06 | £174,651.74 |
| Year 30 | £248,838.21 | £223,848.00 | £244,874.28 | £200,925.12 | £261,208.01 | £249,473.03 |
| Year 35 | £346,519.91 | £305,804.33 | £339,999.01 | £269,325.93 | £367,014.65 | £347,566.35 |
| Year 40 | £473,813.16 | £410,018.51 | £463,496.19 | £354,205.46 | £506,474.27 | £475,472.20 |

Notes:

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges can't be known in advance, the Trustee has had to make a number of assumptions about what these might be and these are explained below:

- The 'before costs' figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.
- The 'after costs' figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction costs figures used in the illustration are based on those provided by the managers over the past 3 years.
- Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- 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 | 4.70% | 0.64% |
| Property Fund | 4.60% | 1.21% |
| 50/50 Global Equity Fund | 5.00% | 0.27% |

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

3.3 Legacy AVC funds

At 30 June 2020 approximately 500 members had DC benefits in one of the legacy AVC arrangements. 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 | Fund charge (bps) | Total member charges (bps) | Transaction Costs ⁶ (bps) |
|-------------------|-----------------------------------|-------------------|----------------------------|--------------------------------------|
| Eagle Star VCPs | With Profits | Nil | Nil | 4.2 |
| Eagle Star VCPs | Global Select | 117 | 117 | 34.3 |
| Eagle Star VCPs | Equity Managed | 116 | 116 | 26.6 |
| Eagle Star VCPs | Managed | 119 | 119 | 28.4 |
| Eagle Star VCPs | Secure | 109 | 109 | 2.1 |
| Threadneedle AVCs | Balanced Pathway | 39 | 39 | 15.9 |
| Threadneedle AVCs | Cautious Pathway | 26 | 26 | 10.4 |
| Threadneedle AVCs | UK Equity | 30 | 30 | 10.7 |
| Threadneedle AVCs | Global Select | 42 | 42 | 28.1 |
| Threadneedle AVCs | Aquila Over 15yr Gilt Index fund | 15 | 15 | 0.0 |
| AD Supplementary | Zurich JPM Asia Equity | 95 | 95 | 30.5 |
| AD Supplementary | Zurich JPM Balanced | 70 | 70 | 64.0 |
| AD Supplementary | Zurich Long Dated Gilt | 55 | 55 | 5.1 |
| AD Supplementary | Zurich Managed | 56 | 56 | 28.4 |
| AD Supplementary | Zurich Property | 83 | 83 | 23.0 |
| AD Supplementary | Zurich Threadneedle American | 69 | 69 | 19.0 |
| AD Supplementary | Zurich Threadneedle Asia | 72 | 72 | 35.5 |
| AD Supplementary | Zurich Threadneedle European | 68 | 68 | 79.4 |
| AD Supplementary | Zurich Threadneedle Global Equity | 82 | 82 | 26.2 |
| AD Supplementary | Zurich Threadneedle Japan | 67 | 67 | 5.0 |
| AD Supplementary | Zurich JPM UK Specialist Equity | 70 | 70 | 14.4 |
| Windsor Life AVCs | Deposit savings account | Nil | Nil | Nil |
| Gresham AVCs | Managed | 119 | 119 | 28.4 |
| Gresham AVCs | Equity Managed | 116 | 116 | 26.6 |

4 Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of 'good value' but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market. The

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

assessment was undertaken taking account of the pensions Regulator's Code of Practice No 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

4.1 ZCashBuilder

The Trustee reviews all member-borne charges (including transaction costs where available) annually with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The last review was carried out on 30 June 2020. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of service received has also been considered in this assessment. The Trustee's investment adviser has confirmed that the fund charges are competitive for the types of fund available to members.

As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes. The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and we expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustee believes this because:

- Members continue to benefit from good governance with a strong DC Committee and Trustee board which includes a professional trustee and strong support of an in-house executive pensions team.
- With effect from 1 April 2020 member charges were reduced by a further 1 bp as the administration charges were reduced to 17.5 bps.
- 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:
 - benchmarked the administration and investment fees using a comparison of charges on their database for maximum, minimum and average values. This included assessing the administration charges to be reasonable at 17.5bps.
 - benchmarked the administration SLAs and processes, and other services against their knowledge of the wider market
 - assessed the default and self-select fund range as suitable compared to schemes of a similar size
 - confirmed it is supportive of rating the Scheme as providing good value for members based on their experience of other schemes.
- There is close investment performance monitoring and the majority of funds have performed broadly in line with their benchmarks over the period.
- Members benefit from a range of communication methods and a website with modeling tools and substantial information. A new pension administration system and member website is expected in early 2021 which will provide members with more online self-service options.
- The provision of the Regional Pensions Support adds to the broader value for members.

The charges being paid by members, and the value for members being provided is being considered as part of the ongoing investment review.

4.2 Legacy AVCs

The Trustee assessed each provider separately on 30 June 2020 and reached the following conclusions:

- **Eagle Star:** the Trustee 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. This was communicated to these members. (Approximately 140 members in unit linked funds and 160 in traditional with-profits)
- **AD Supplementary Scheme:** the Trustee concluded that these funds are currently providing value for members who receive some administration services from Scottish Widows and also benefit from the rigorous investment governance oversight provided by Scottish Widows. (Approximately 40 members)

- **Threadneedle:** the Trustee concluded that these funds are currently providing value for members. The Trustee will monitor the performance of these funds to ensure they continue to provide value for members. (Approximately 85 members)
- **Gresham:** the Trustee concluded that the high charges for these funds are unlikely to represent value for the one member with benefits in these funds. The Trustee have written to this member and drawn their attention to the charges. (1 member)
- **ReAssure:** the Trustee concluded that these funds are providing value for members; there are no charges linked to these funds and members are benefiting from a guarantee that their fund will not reduce. Members are invested in 2 policies, one paying interest linked to the Nationwide Standard Mortgage Rate and the second linked to the Goldman Sachs Sterling Liquid Reserves Fund. (Approximately 100 members)

5 Trustee knowledge and understanding (TKU)

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's current statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally;
- Have, to the degree that is appropriate for the purpose of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding and investment of assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

- There is an appropriate induction in process which was implemented when Neil Evans was appointed as a Trustee on 1 August 2019. The induction took place on 13 September 2019.
- All Trustee directors are required to maintain a CPD¹¹ 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 Trustee's 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.
- At 30 June 2020 all Trustee directors had completed The Pension Regulator's Trustee Toolkit, which is designed to meet the minimum level of knowledge and understanding required by law. The Trustee directors appointed since then will complete the Trustee Toolkit within 6 months.
- The Trustee board includes an accredited 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, e.g. one attends the Trustee Board and Funding Committee meetings and the other attends the DC Committee meetings.
- The Trustee's investment advisers proactively raise any changes in the governance requirements and other relevant matters as they become aware of them and would typically deliver training on such matters if they were material. During the period covered by this statement, the Trustee received training on the following topics:
 - DC investment, in advance of commencing the DC investment review.
 - Valuation training
 - Refresher training on the Scheme's investment strategy
 - Middle market loans
 - Introductory session on the new DB Funding Code.
- The Trustee is supported by the Scheme management team providing technical and governance support and Scheme secretarial services.

¹¹ Continuing Professional Development

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Chair's Statement

- All Trustee directors are familiar with, and have access to copies of, the current Scheme governing documentation, including Trust Deed and Rules, together with any amendments, the SIP and key policies and procedures. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and where relevant deciding individual member cases.

The Trustee 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 Trustee to have quick access to the most up to date information relating to the Scheme.

In November 2018 the Trustee carried out its triennial Board Effectiveness Review (BER) by answering a questionnaire circulated to all Trustee directors and regular Trustee meeting attendees. The design and coverage of the BER drew on the Zurich Group Governance Principles for Subsidiaries and the Zurich BER questionnaire.

The 2019 interim BER took place on 17 September 2019 when the Trustee reviewed progress against its objectives and corresponding actions arising from the 2018 review. Based on this the Trustees directors were satisfied the Board was performing its role effectively.

The training programme is reviewed regularly to ensure it is aligned with the objectives of the Trustee's work plan and addresses knowledge gaps identified by the Trustee directors through self-evaluation.

Due to Covid-19 limitations on meetings, the annual training day was not held in May 2020 but was replaced by a programme of regular webinars.

The Trustee directors consider they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

Taking into account the knowledge and experience of the Trustee directors with the specialist advice received from the appointed professional advisers, including investment consultants and legal advisers, the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

6 Governance

To assist the Trustee in meeting its governance requirements:

- 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.
- A Trustee Governance Handbook has been produced which documents how the Trustee governs the pension Scheme and provides a framework to signpost all the Trustee's policies and key documentation.

7 Conclusion

Taking account of all the above, the Trustee believe that the Scheme provides good value for members and is expected to deliver good outcomes for members at retirement. This statement was approved by the Trustee on 8 December 2020 and signed on their behalf by:



David Sims

Chair: Zurich Financial Services UK Pension Trustee Ltd

Statement of Investment Principles for the default arrangements within ZCashBuilder

Introduction

The Trustee has produced a Statement of Investment Principles for the DC assets within the Scheme ("the DC SIP), which is available on www.zpen.info. The Trustee is also required to produce a Statement of Investment Principles relating to the Scheme's default arrangements *** ("the default SIP"). The information contained in this default SIP is also in the DC SIP.

1. Statement of the aims and objectives for the default investment arrangements*
2. Statement of investment beliefs, risks and policies**.

In addition to the information contained in the default SIP, the DC SIP also covers the investments available to members outside the default investment arrangements.

* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

** In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

Zurich Financial Services UK Pension Trustee Limited ("the Trustee") has produced this Statement of Investment Principles ("the Statement") which sets out how the Trustee invests the assets in the default arrangements for the Zurich Financial Services UK Pension Scheme ("the Scheme"). Separate Statement of Investment Principles are available for the defined benefit (DB), and defined contribution (DC) arrangements held within the Scheme.

This Statement has been prepared in accordance with all relevant legislations in force at the date of approval. It outlines the principles and policies governing investment decisions made by, or on behalf of the Trustee for the management of the defined contribution assets within the default arrangements and the Trustee's policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

This Statement will be reviewed by the Trustee at least every three years, and without delay after any significant change in the investment approach used for the default arrangements or the demographics of the Scheme. Before revising this Statement the Trustee will obtain and consider the written advice of the Trustee's appointed Investment Adviser ("the Adviser") to ensure its contents are appropriate to the circumstances of the Scheme.

The Trustee also consults 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.

The part of the Scheme which holds the DC assets and the default arrangements is called ZCashBuilder and is referred to throughout this Statement. Additional voluntary contributions paid by members of the Scheme are also used to provide DC benefits and are covered by the DC SIP.

Members wishing to invest in ZCashBuilder investment options outside the defaults have to make a choice and notify the Scheme's administrators.

1. Statement of the aims and objectives for the default investment arrangements

The Trustee offers the following default strategies:

for DC only members which targets drawdown at retirement;

- a) for members with both DB and DC benefits which targets cash at retirement;
- b) for members where, for some reason, the Trustee can't invest contributions in line with the member's instructions.

1.1 Investment Aims and Objectives

The Trustee has agreed the following investment objectives for the Scheme's DC default arrangements where members' have not instructed their contributions to be invested elsewhere:

To provide a good value lifestyle strategy which:

- is suitable for the majority of members who do not wish to make an active choice
- protects members against volatility in the approach to retirement

The Trustee believes that these strategies are suitable for the majority of members based on modelling the expected fund values at retirement and how members are expected to take their benefits.

The main default arrangements are therefore lifestyle strategies which:

- Gradually move investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Targets members who are expected to use Flexible Access Income Drawdown during their retirement (DC only strategy) and members who are expected to take cash at retirement (DB and DC strategy).

If for some reason the Trustee can't invest contributions in line with the member's instructions it may decide to re-direct contributions to a fund with a similar, or lower, level of investment risk. The aim of this is to invest the contributions promptly and protect against market volatility whilst members are informed of the change and given the opportunity to review their investment instructions.

1.2 Expected levels of investment returns

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement. The expected levels of return will be based on the level of risk chosen. These returns and the approach to managing investment risks including financially material considerations such as climate change are described in Section 2.

1.3 Kind of investments to be held

The Trustee invests in pooled funds accessed through the Scheme's investment platform provider. These pooled funds may invest in a wide range of assets including equities, bonds, cash, property, derivatives and alternatives, subject to complying with relevant legislation. In practice, the kinds of investments held, depend on the investment strategy of each fund within the default strategies.

1.4 Balance between different kinds of investments

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 high risk but substantial opportunity for capital growth).

The Trustee considers the merits of both active and passive management for the default strategies and may select different approaches for different asset classes.

2. Statement of investment beliefs, risks and policies

2.1 Investment beliefs

The Trustee has agreed a set of DC investment beliefs and refers to these when making strategic investment decisions. These beliefs will be revisited at regular intervals and updated as and when appropriate.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Default SIP

2.2 Risks

Investment risk in a DC scheme ultimately sits with the members.

The Trustee has considered members' circumstances and considered ways of measuring and managing risks when designing the default investment strategies for the Scheme. However, it is not possible to mitigate all of the risks at the same time, so members are encouraged to consider the risks that are most relevant to them and to invest to mitigate those risks.

The Trustee has put in place a structure both to monitor these risks and take action to mitigate them when it believes it is appropriate to do so.

The Trustee aims to provide information that allow members to take informed decisions. In arriving at the investment fund choices and designing the lifestyle strategies the Trustee has considered a number of risks including:

| Risk | Definition | How we address the risk |
|---------------------------|---|--|
| Climate risk | The extent to which climate change causes a material decrease in asset values as a consequence of factors including, but not limited to policy change, physical impacts and the expected transition to a low carbon economy. This is a macro-economic risk. | Engagement with the Adviser, fund managers and investment platform provider to understand the potential implications for the DC assets. |
| Counterparty risk | The failure of the investment platform provider. | The Trustee ensures that the 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. |
| Concentration risk | The failure of some of the investments that constitute a significant proportion of the assets | The Trustee uses a range of pooled funds across different asset classes to diversify risk. The funds available to members are also pooled funds across the different asset classes to offer diversification to members. |
| Credit risk | That one party to a financial instrument will cause financial loss for the other party by defaulting or falling in value. | The Trustee uses pooled funds which invest in a wide range of corporate and government bonds to minimise the impact should any one party default or fall in value. |
| Currency risk | Where a fund invests in overseas assets, a risk that the currency of the assets underperforms relative to Sterling leading to losses (or gains) in the value of the asset. | The Trustee has considered the need for currency hedging within the default investment strategies. |
| Equity risk | The risk that equities may fall in value due to fluctuations in the market, as well as the financial risk involved in holding equity in a particular company. | The Trustee manages equity risk primarily through investing in a range of global equities and by using pooled funds which minimise the financial risk associated with any particular company. All lifestyle strategies look to reduce downside risk in the years prior to retirement by switching into lower risk funds. A cash fund is available both in the lifestyle strategies and self-select fund range to provide capital protection. |

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

DC Default SIP

| | | |
|--|--|---|
| ESG (Environmental, social and governance) risk | The extent to which ESG issues (including, but not limited to, climate change) are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations, over the timescale relevant until DC members take their benefits. | The Trustee has a policy on responsible investment that addresses how these risks are considered and managed. The Trustee monitors the ESG activities of its fund managers and will engage periodically. |
| Interest rate risk | The risk of a reduction in the value of a bond fund as a result of an increase in interest rates. | The Trustee uses bond funds in combination with other asset classes to diversify risk. Members use the bond funds to as lower risk investments and also if they are likely to purchase an annuity. |
| Inflation risk | That investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the member's retirement savings. | The Trustee makes available investment options that are expected to provide a long-term real rate of return. |
| Liquidity risk | The risk that a fund, or asset, cannot be traded quickly when required. | The Trustee's policy is to invest in funds that offer daily dealing as far as possible to enable members to readily realise and change their investments. |
| Manager risk | A fund underperforms against the benchmark that it is being assessed against in the long term. | Fund performance is monitored on a regular basis. The Trustee has adopted a passive investment style for some of the funds which minimises the risk from underperformance. |
| Operational risk | The loss or error arising from the failure of people, processes and systems, or disruption due to an external event. | Appropriate processes and controls are integrated into business activities. The annual assessment against Code of Practice 13 includes confirmation that business continuity plans are in place and checked regularly. |
| Pension conversion risk | The risk that at retirement the assets held do not closely match how the member is expected to use their fund value in retirement. This is particularly important following the introduction of DC flexibilities at retirement. | For the default strategies this risk is managed by gradually switching into assets which more closely match how the Trustee expects members to access their retirement savings. A range of lifestyle strategies are available for members to select the option which best matches how they plan to take their benefits at retirement. |
| Political risk | The level of concentration in any one market leading to the risk of a negative influence on investment values arising from political intervention of other events. | Diversification of the assets within the default strategy |
| Real estate risk | The risk that real estate may fall in value due to fluctuations in the market. | The Trustee uses a Property Fund as part of a diversified range of pooled funds. |
| Retirement benefit risk | The risk that a member's retirement benefit falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. | Regular reviews of the suitability and performance of the investment options offered with the aim of helping members optimise their retirement income. The level of contributions is outside the Trustee's control, but member communications include reminders to consider the level of contributions. The member retirement planner allows members to see how changing contributions affects their fund value at retirement. |

2.3 Responsible investment

The Trustee recognises that members are long term investors and believes that incorporating ESG factors into investment decisions improves the long term risk adjusted returns for them. The Trustee further recognises that ESG factors may, however, be outweighed in appropriate circumstances by other financially material factors.

Selecting Managers

The Trustee always aims to select the most suitable manager for each pooled fund. The Trustee include ESG considerations when assessing the default strategies and self-select fund choices available to members. The fund selection process includes the fund manager's responsible investment practices and consideration of ESG factors.

Financially material considerations

The Trustee recognises that in using pooled funds it has delegated consideration of stock-specific issues to the fund manager. The fund selection process includes consideration of the fund manager's responsible investment and ESG practices, including, but not limited to, climate change) and how other financially material factors are taken into account when selecting, retaining and realising investments. The Trustee also assesses how these considerations are taken into account over an appropriate time horizon.

In addition, the Trustee recognises that for the passive fund range the choice of benchmark dictates the assets held by the investment manager who therefore 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 is aware of the risks of climate change and aims to understand the potential impact that climate risk factors may have on future investment returns.

At the time of the last fund review the Trustee did not make an explicit allowance for climate change within the development or implementation of its DC investment options. The Trustee may discuss the potential impact of climate risks with its Adviser and will monitor developments in this area

Voting

Whenever required, the Trustee will seek to exercise their voting rights in the best long term interests of Scheme members.

As the DC assets are all in pooled funds, the Trustee has adopted a policy of delegating voting decisions to the fund managers.

The fund 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.

The fund manager's house policies are expected to broadly meet with the Trustee's views. This will be considered as part of the manager selection process and ongoing monitoring of the fund manager.

Stewardship

The Trustee will monitor fund managers' voting activity and may periodically review fund managers' voting patterns.

The Trustee may also monitor fund managers' voting on particular companies or issues affecting more than one company.

Non-financial matters

The Trustees note that non-financial matters can affect various investment risks which are borne by members.

Fund managers are only expected to take non-financial factors into account when these do not conflict with the financial interests of members or beneficiaries and the Scheme's investment objectives.

Engagement

The Trustee believes it is appropriate for its fund managers to engage with key stakeholders which may include corporate management, issuers of debt or equity regulators and governance bodies, relating to their investments for the Scheme in order to improve corporate behaviours (including the management of actual or potential conflicts of interest), improve performance and strategy and mitigate financial risks (including ESG factors).

The Trustee expects the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will review engagement activity undertaken by the fund managers as part of its broader monitoring activity periodically. The Trustee believes that such engagement with fund managers will incentivise the preservation and enhancement of long term shareholder value of its investments.

When appointing the investment platform provider and selecting fund managers, the Trustee will require that each has an appropriate conflict of interest policy in place.

Member engagement

The Trustee recognises the importance of member engagement in relation to the investment options offered within ZCashBuilder. The DC Committee includes company representatives and regular attendance by members of the ZPen team who are both in a position to collate and present member feedback.

The Trustee promotes member engagement via the Scheme's website www.zpen.info, giving members access to resources including fund factsheets, member guides and newsletters.

The Trustee is aware that across the membership there will be differing views on responsible investment and aims to meet these through offering a range of self-select funds so members who wish to can select a fund which better reflects their views. The Trustee also gives members a choice of funds in which to invest their additional voluntary contributions.

2.4 Asset managers

The realisation 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.

In the unlikely event of any fund having a short term dealing suspension, the Trustee will always keep affected members informed via the ZPen website.

The expected return from investments

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 net of fees. In particular, when selecting investments for the default strategies, the Trustees will have regard to the relative investment return of each category and structure of the fund such that it is expected to deliver a return consistent with their investment objective.

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, or to provide continued value for members could result in a fund being replaced.

Performance measurement

The Trustee regularly monitors actual fund performance against the benchmarks set and will contact the fund manager if it has any concerns. The Trustee would not expect to replace a fund based on short term underperformance as the focus is on longer term outcomes; this aligns with the Trustee's beliefs on corporate governance.

The Trustee will review on a regular basis the investment performance of the investment funds together with the continuing suitability of the fund range made available to members. If the review showed that the performance or continuing suitability needed to be addressed, the DC Committee would either make a decision on behalf of the Trustee, or for more substantial issues would recommend an action to the Trustee.

Turnover

In the normal course of events the managers of pooled funds will sell investments from time to time to be replaced by others. The fund managers are aware that the expenses involved in transactions can affect performance and that transaction costs are reported to the Trustees for inclusion in the Chair's Statement each year.

In addition, the Trustee recognises that for the passive fund range the amount of each asset held by the investment manager is dictated by the benchmark and that the manager has limited freedom to minimise transaction costs. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and the stock turnover that comes with this.

When selecting actively managed funds, the Trustee will consider, with the help of its investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider to report on at least an annual basis on the underlying assets held within funds with details of any transaction costs incurred over the Scheme's reporting year.

The Trustee will challenge the platform provider and/or investment managers or if the level of turnover seems excessive.

Duration

The agreement between the Trustee and the investment platform provider will continue until it is no longer required; this could be when the Scheme ceases or if either party takes measures to end the agreement.

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon. The Trustee will carry out due diligence on the fund manager's investment decision making process, to ensure the investment decisions are over an appropriate time horizon and aligned with the objectives.

Incentives

The Trustee invests in pooled funds where the fund managers are paid for their services through an Annual Management Charge set and paid by the investment platform provider. For this reason, the Trustee does not have an arrangement providing incentives for the fund manager to either align its investment strategies and decisions with the Trustee's policies, or to make decisions aimed at improving their performance in the medium to long term.

The Trustee will:

- conduct an annual Value for Members assessment
- periodically review the Scheme's choice of investment platform provider and fund managers
- at least every 3 years review the suitability of both the investment options and the investment management arrangements.

The Investment platform provider and fund managers are aware that should they be found to not be providing value for members or otherwise acting in line with the Trustee's policies then the Trustee would consider replacing them.

Looking ahead

The Funding Committee continues to monitor the DB investments to ensure that the chosen investment strategy remains appropriate and the Trustee receives regular updates on ZPen and the ES Executives' financial position from the actuary following the triennial valuation.

The Trustee will be considering a proposal to invest in middle market loans later in 2020 for ZPen, as part of the long-term investment strategy review alongside the triennial valuation.

The DC Committee has carried out 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.

Macroeconomic climate

The Trustee is closely monitoring the macroeconomic climate. Topics such as Brexit & COVID-19 will continue to be a discussion point, the risks connected with these events are noted by the Trustee, and it is mindful of the potential impacts for the Scheme.

COVID-19

In early 2020, the COVID-19 pandemic resulted in a period of uncertainty for the global economy and financial markets, in turn creating significant volatility in the valuation of investment assets, including fluctuations from the impact in foreign exchange rates. The longer term impact of COVID-19 is unknown, the Trustee will keep the situation under review over the coming months, including implications for investment strategy and risk management.

Brexit

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

Consultations

DB funding code of practice

On 3 March 2020 the Pensions Regulator (TPR) published a consultation on its DB code of practice, which closed on 2 September 2020. The consultation considers TPR's new proposed regulatory approach, the principles to underpin the new framework and how they can be applied to provide clearer guidelines. The Trustee reviewed and responded to this consultation.

RPI consultation

The UK government and the UK Statistics Authority (UKSA) published a consultation on the reform of the

retail price index (RPI) methodology in connection with the Budget announced in March 2020.

The consultation follows an initial proposal by UKSA presented in March 2019 to address the shortcomings of the RPI measure of inflation by aligning its calculation with that of the consumer price index (CPI) including housing costs (CPIH)

The UKSA made two recommendations:

- (a) the publication of RPI should cease or
- (b) the calculation of RPI should effectively change to CPIH

This change may have an impact on the Scheme and its members with some of the investments and pension increases linked to RPI. The Chancellor announced on 25 November 2020 that the RPI calculation methodology will be aligned with that of CPIH inflation from 2030. There will be no compensation for index linked gilt holders.

The Trustee and its advisers are closely monitoring developments in this area.


Statement of investment principles (SIP)

In accordance with section 35 of the Pensions Act 1995 the Trustee, after consultation with Zurich Financial Services (UKISA) Limited, investment managers and advisers, has drawn up two SIPs governing decisions about investments for the purposes of the Scheme, which it reviews on a regular basis. One SIP covers the ZPen section and the ES Executives' section (the DB arrangements) and the other SIP covers ZCashBuilder and the legacy AVC arrangements (the DC arrangements) The statements describe the Trustee's investment objectives and how investments are chosen, what kinds of investments it holds, the balance between different types of investment, its approach to risk and how it monitors the investment performance.

The latest SIPs dated 30 September 2020 are available on www.zpen.info or the default SIP is available on [pages 43 to 49](#).

The signing of the Trustee report also confirms the Trustee's approval of the disclosures on [pages 10 to 11](#).

The Trustee approves [pages 3 to 50](#) and are signed on behalf of the Trustee:

| | |
|------------------|---|
| Trustee director | David Sims |
| Signature |  |
| Date | 8 December 2020 |

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 2020, 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 2020; 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 other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Trustee for the financial statements

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework 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.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

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.

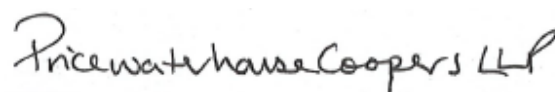
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at:

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 : 9 December 2020

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Fund account for the year ended 30 June 2020

| Amount in £'000 | Note | ZPen DB | ZPen DC | EExec DB | 2020 Total | ZPen DB | ZPen DC | EExec DB | 2019 Total |
|--|------|------------------|-----------------|-----------------|------------------|------------------|-----------------|----------------|------------------|
| Employer contributions | 4 | 14,890 | 39,304 | 32 | 54,226 | 11,947 | 41,383 | 32 | 53,362 |
| Employee contributions | 4 | - | 2,044 | - | 2,044 | - | 4,126 | - | 4,126 |
| Total contributions | | 14,890 | 41,348 | 32 | 56,270 | 11,947 | 45,509 | 32 | 57,488 |
| Transfers from other plans | 5 | 481 | 2,625 | - | 3,106 | 978 | 6,261 | - | 7,239 |
| Other income | 6 | 3,258 | - | - | 3,258 | 822 | - | - | 822 |
| | | 18,629 | 43,973 | 32 | 62,634 | 13,747 | 51,770 | 32 | 65,549 |
| Benefits paid or payable | 7 | (177,467) | (7,991) | (8,927) | (194,385) | (165,886) | (10,032) | (8,493) | (184,411) |
| Payments to and on account of leavers | 8 | (84,188) | (12,633) | (4,753) | (101,574) | (80,700) | (12,242) | (881) | (93,823) |
| Other payments | 9 | (1,541) | - | - | (1,541) | (1,293) | - | - | (1,293) |
| Administrative expenses | 10 | (4,772) | - | (46) | (4,818) | (5,229) | (1) | (3) | (5,233) |
| | | (267,968) | (20,624) | (13,726) | (302,318) | (253,108) | (22,275) | (9,377) | (284,760) |
| Net (withdrawals)/ additions from dealings with members | | (249,339) | 23,349 | (13,694) | (239,684) | (239,361) | 29,495 | (9,345) | (219,211) |
| Net returns on investments | | | | | | | | | |
| Investment income | 11 | 198,240 | - | 1,864 | 200,104 | 193,080 | - | 2,129 | 195,209 |
| Change in market value of investments | 12 | 801,581 | 1,183 | 23,225 | 825,989 | 391,254 | 16,152 | 11,159 | 418,565 |
| Investment management expenses | 13 | (11,723) | - | (300) | (12,023) | (9,730) | - | (295) | (10,025) |
| | | 988,098 | 1,183 | 24,789 | 1,014,070 | 574,604 | 16,152 | 12,993 | 603,749 |
| Net increase in the fund | | 738,759 | 24,532 | 11,095 | 774,386 | 335,243 | 45,647 | 3,648 | 384,538 |
| Opening net assets | | 7,728,555 | 348,111 | 199,360 | 8,276,026 | 7,393,312 | 302,464 | 195,712 | 7,891,488 |
| Closing net assets | | 8,467,314 | 372,643 | 210,455 | 9,050,412 | 7,728,555 | 348,111 | 199,360 | 8,276,026 |

The notes on [pages 55 to 75](#) form part of these financial statements.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Statement of net assets available for benefits as at 30 June 2020

| Amount in £'000 | Note | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|--|-------|--------------------|----------------|----------------|--------------------|-----------|---------|---------|-----------|
| | | DB | DC | DB | Total | DB | DC | DB | Total |
| Investment assets | | | | | | | | | |
| Equities | 12 | 1,856,038 | - | - | 1,856,038 | 1,492,937 | - | - | 1,492,937 |
| Bonds | 12 | 6,100,708 | - | 103,266 | 6,203,974 | 5,268,730 | - | 102,695 | 5,371,425 |
| Pooled investment vehicles | 15 | 732,231 | 360,710 | 101,951 | 1,194,892 | 656,736 | 335,385 | 95,611 | 1,087,732 |
| Derivatives | 16 | 99 | - | - | 99 | 109 | - | - | 109 |
| Other investments | 19 | 207,351 | - | 6,713 | 214,064 | 330,840 | - | 973 | 331,813 |
| AVC investments | 12,18 | - | 7,896 | - | 7,896 | - | 8,465 | - | 8,465 |
| Interest in SLP | 17 | 867,000 | - | - | 867,000 | 880,000 | - | - | 880,000 |
| | | 9,763,427 | 368,606 | 211,930 | 10,343,963 | 8,629,352 | 343,850 | 199,279 | 9,172,481 |
| Investment liabilities | | | | | | | | | |
| Derivatives | 16 | (1,542) | - | - | (1,542) | (3,514) | - | - | (3,514) |
| Amounts payable under repurchase agreements | 21 | (1,287,719) | - | - | (1,287,719) | (799,520) | - | - | (799,520) |
| Other investment balances | 19 | (20,032) | - | (1,188) | (21,220) | (128,279) | - | (290) | (128,569) |
| | | (1,309,293) | - | (1,188) | (1,310,481) | (931,313) | - | (290) | (931,603) |
| Total net investments | | 8,454,134 | 368,606 | 210,742 | 9,033,482 | 7,698,039 | 343,850 | 198,989 | 8,240,878 |
| Current assets | 25 | 27,107 | 4,333 | 112 | 31,552 | 43,744 | 4,406 | 721 | 48,871 |
| Current liabilities | 26 | (13,927) | (296) | (399) | (14,622) | (13,228) | (145) | (350) | (13,723) |
| Net current assets | | 13,180 | 4,037 | (287) | 16,930 | 30,516 | 4,261 | 371 | 35,148 |
| Total net assets available for benefits | | 8,467,314 | 372,643 | 210,455 | 9,050,412 | 7,728,555 | 348,111 | 199,360 | 8,276,026 |

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the 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 ZPen & ES Executives' section of the Annual Report and these financial statements should be read in conjunction with this report.

The financial statements on [pages 53 to 75](#) were approved by the Trustee and signed on its behalf by:

Trustee director David Sims
 Signature DP SIMS
 Date 8 December 2020

Financial statements

Notes to the financial statements (continued)

1. Identification of the financial statements

Zurich Financial Services UK Pension Scheme ('the Scheme') is established as a trust under English Law. The address for enquiries is ZPen Team, PO Box 193, Darlington, DL1 9FP. The registered address for the Scheme remains as The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX.

The Scheme has two defined benefit ("ZPen DB" & "ES Executives") sections which are no longer open to new members and closed to future accrual, and a defined contribution ("ZPen DC") 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 of Zurich Financial Services UK Pension Scheme 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 June 2018) ("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 has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on these financial statements. However, it has required certain additions to or amendments of disclosures in the financial statements.

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Currency

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

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling

at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

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

b) Contributions

Normal and additional voluntary contributions from employees and employers 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.

Employers' deficit funding contributions are accounted for on the due dates set out in the schedule of contributions, or on receipt if earlier, with the agreement of the employer and the Trustee.

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

All other contributions are accounted for in accordance with the agreement under which they are payable, or in the absence of such an agreement, when they are received.

c) Transfers from and to other schemes

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

d) Benefits and payments to and on account of leavers

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

Financial statements

Notes to the financial statements (continued)

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Scheme as appropriate. Refunds and opt-outs are accounted for when the Trustee is notified of the member's decision to leave the Scheme.

Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's 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) Administrative expenses

Administrative expenses and premiums on term insurance policies are accounted for on an accruals basis

f) Investment income and expenditure

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, or in the case of unquoted instruments, when the dividend is declared.

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. Rental income is accounted for as earned under the terms of the lease.

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.

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.

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.

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

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

g) Valuation and classification of investments

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 Trustee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used. The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing

Financial statements

Notes to the financial statements (continued)

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 Trustee. 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.
- Properties are valued annually by independent valuers who have recent experience of the locations and types of properties held by the Scheme, taking account, amongst other things, of the current estimate of rental values and market yields
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- 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 Zurich General Partner (Scotland) Limited 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.

- Accrued interest is excluded from the market value of bonds but is included in investment income receivable.

h) Other investment arrangements- repurchase agreements

The Scheme continues to recognise assets delivered out under repurchase contract arrangements to reflect its ongoing interest in those securities. Cash received from repurchase contracts is recognised as an investment asset, and an investment liability is recognised for the fair value of the repurchase obligation.

Cash delivered under reverse repurchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are disclosed as collateral supporting this receivable but not included as Scheme assets.

i) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- Critical judgements in applying the accounting policies

Control of Scottish Limited Partnership

The Scottish Limited Partnership is a distinct legal entity and is managed and controlled by the Zurich General Partner (Scotland) Limited. The agreement does not permit the Trustee to set the annual budget and financial plan, appoint or remove senior executives or set operating procedures and responsibilities. As such, the partnership interest has been included in these financial statements as a financial asset and has not been consolidated.

- Key accounting estimates and assumptions

The Trustee makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Scheme, the Trustee believes the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

liabilities within the next financial year are related to the valuation of the investments and, in particular, those classified in Level 3 of the fair-value hierarchy. Explanation of the key assumptions underpinning the valuation of investments are included within (g) and (h) above and with notes 16,20.

4. Contributions

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|------------------------------------|---------------|---------------|--------------|---------------|------------|------------|--------------|---------------|
| Employer contributions | | | | | | | | |
| Normal | - | 39,304 | - | 39,304 | - | 41,383 | - | 41,383 |
| Other receipts | 5,000 | - | - | 5,000 | 5,000 | - | - | 5,000 |
| Augmentation | 3,949 | - | - | 3,949 | 1,254 | - | - | 1,254 |
| Group life premium | 1,541 | - | - | 1,541 | 1,293 | - | - | 1,293 |
| Expense contributions | 4,400 | - | 32 | 4,432 | 4,400 | - | 32 | 4,432 |
| | 14,890 | 39,304 | 32 | 54,226 | 11,947 | 41,383 | 32 | 53,362 |
| Employee contributions | | | | | | | | |
| Additional voluntary contributions | - | 2,044 | - | 2,044 | - | 4,126 | - | 4,126 |
| | - | 2,044 | - | 2,044 | - | 4,126 | - | 4,126 |
| Total | 14,890 | 41,348 | 32 | 56,270 | 11,947 | 45,509 | 32 | 57,488 |

Employer normal contributions includes £13.1m (2019: £13.3m) 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 of Contributions dated 29 March 2018.

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

Other contributions relate to £5m (2019: £5m) paid to the Scheme by Zurich Employment Services Limited in January 2020. 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.

Augmentation contributions comprise a series of single payments to augment the benefits of individual members on redundancy.

5. Transfers from other plans

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|--|------------|--------------|--------------|---------------|------------|------------|--------------|---------------|
| Individual transfers in from other schemes | 481 | 2,625 | - | 3,106 | 978 | 6,261 | - | 7,239 |
| | 481 | 2,625 | - | 3,106 | 978 | 6,261 | - | 7,239 |

Transfers in to ZPen are received in respect of individuals within the ZCashBuilder and the ZPen UK Supplementary Pension Scheme.

Transfers in to ZCashBuilder are individual transfers from other schemes.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

6. Other income

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|-----------------------------------|--------------|------------|--------------|---------------|------------|------------|--------------|---------------|
| Claims on term insurance policies | 2,958 | - | - | 2,958 | 822 | - | - | 822 |
| VAT recovery | 300 | - | - | 300 | - | - | - | - |
| | 3,258 | - | - | 3,258 | 822 | - | - | 822 |

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

The VAT recovery relates to a claim of prior year periods (2015 - 2018)

7. Benefits paid or payable

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|--|------------------|----------------|----------------|------------------|------------------|-----------------|----------------|------------------|
| Pensions | (150,689) | - | (8,360) | (159,049) | (142,870) | - | (8,330) | (151,200) |
| Commutation of pensions/lump sum retirement benefits | (21,939) | (7,991) | (567) | (30,497) | (20,360) | (10,032) | (163) | (30,555) |
| Lump sum death benefits | (2,661) | - | - | (2,661) | (1,089) | - | - | (1,089) |
| Taxation where lifetime or annual allowance exceeded | (2,178) | - | - | (2,178) | (1,567) | - | - | (1,567) |
| | (177,467) | (7,991) | (8,927) | (194,385) | (165,886) | (10,032) | (8,493) | (184,411) |

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 settling their tax liability.

8. Payment to and on account of leavers

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|---|-----------------|-----------------|----------------|------------------|-----------------|-----------------|--------------|-----------------|
| Individual transfers out to other schemes | (84,188) | (12,633) | (4,753) | (101,574) | (80,700) | (12,242) | (881) | (93,823) |
| | (84,188) | (12,633) | (4,753) | (101,574) | (80,700) | (12,242) | (881) | (93,823) |

9. Other payments

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|-------------------------------------|----------------|------------|--------------|----------------|----------------|------------|--------------|----------------|
| Premiums on term insurance policies | (1,541) | - | - | (1,541) | (1,293) | - | - | (1,293) |
| | (1,541) | - | - | (1,541) | (1,293) | - | - | (1,293) |

The employer arranges for the life insurance premium to be reimbursed by the participating employers of the Scheme within 60 days.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

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 | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|-------------------------|----------------|----------|-------------|----------------|----------------|------------|------------|----------------|
| | DB | DC | DB | Total | DB | DC | DB | Total |
| Trustee Training | (5) | - | - | (5) | (17) | - | - | (17) |
| Trustee Fees | (172) | - | - | (172) | (119) | - | - | (119) |
| Auditor fees | (111) | - | - | (111) | (153) | - | - | (153) |
| Systems costs | (493) | - | - | (493) | (494) | - | - | (494) |
| Actuarial Fees | (796) | - | (40) | (836) | (444) | - | - | (444) |
| Payroll & Admin costs | (310) | - | (3) | (313) | (279) | (1) | (1) | (281) |
| Legal fees | (115) | - | - | (115) | (368) | - | - | (368) |
| Staff costs & Overheads | (1,531) | - | - | (1,531) | (1,444) | - | - | (1,444) |
| Industry Fees & PPF | (1,208) | - | (3) | (1,211) | (1,886) | - | (2) | (1,888) |
| Internal communication | (31) | - | - | (31) | (25) | - | - | (25) |
| | (4,772) | - | (46) | (4,818) | (5,229) | (1) | (3) | (5,233) |

11. Investment income

| Amount in £'000 | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|---|----------------|----------|--------------|----------------|----------------|----------|--------------|----------------|
| | DB | DC | DB | Total | DB | DC | DB | Total |
| Dividends from equities | 29,150 | - | - | 29,150 | 28,880 | - | - | 28,880 |
| Income from bonds | 111,212 | - | 1,443 | 112,655 | 102,864 | - | 1,654 | 104,518 |
| Net receipts from swaps | - | - | - | - | 404 | - | - | 404 |
| Annuity income | 629 | - | 31 | 660 | 613 | - | 32 | 645 |
| Interest on cash deposits | 965 | - | - | 965 | 1,059 | - | - | 1,059 |
| Income from SLP | 60,000 | - | - | 60,000 | 60,000 | - | - | 60,000 |
| Net (payments) from repurchase agreements | (7,458) | - | - | (7,458) | (4,742) | - | - | (4,742) |
| Other investment income | 3,742 | - | 390 | 4,132 | 4,002 | - | 443 | 4,445 |
| | 198,240 | - | 1,864 | 200,104 | 193,080 | - | 2,129 | 195,209 |

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

12. Reconciliation of net investments

ZPen DB

| Amount in £'000 | Opening value | Purchases and derivative payments | Sales proceeds and derivative receipts | Change in market value | Closing value |
|--------------------------------|------------------|-----------------------------------|--|------------------------|--------------------|
| Equities | 1,492,937 | 1,022,295 | (782,981) | 123,787 | 1,856,038 |
| Bonds | 5,268,730 | 1,302,483 | (1,208,620) | 738,115 | 6,100,708 |
| Derivatives | (3,405) | 31,731 | (11,927) | (17,842) | (1,443) |
| Interest in SLP | 880,000 | - | - | (13,000) | 867,000 |
| Pooled investment vehicles | 656,736 | 388,991 | (284,875) | (28,621) | 732,231 |
| Repurchase agreements | (799,520) | 15,945,701 | (16,433,900) | - | (1,287,719) |
| ZPen DB net investments | 7,495,478 | 18,691,201 | (18,722,303) | 802,439 | 8,266,815 |
| Cash and cash equivalents | 202,561 | - | - | (858) | 187,319 |
| ZPen DB net investments | 7,698,039 | | | 801,581 | 8,454,134 |

ZPen DC

| Amount in £'000 | Opening value | Purchases | Sales | Change in market value | Closing value |
|------------------------------------|----------------|---------------|-----------------|------------------------|----------------|
| Post 2007 ZCashBuilder Investments | 335,385 | 44,585 | (20,168) | 908 | 360,710 |
| AVC Investments | 8,465 | - | (844) | 275 | 7,896 |
| ZPen DC net investments | 343,850 | 44,585 | (21,012) | 1,183 | 368,606 |

ES Executives'

| Amount in £'000 | Opening value | Purchases | Sales | Change in market value | Closing value |
|-------------------------------|----------------|---------------|-----------------|------------------------|----------------|
| Bonds | 102,695 | 14,136 | (32,044) | 18,479 | 103,266 |
| Pooled investment vehicles | 95,611 | 9,905 | (8,311) | 4,746 | 101,951 |
| ESExec net investments | 198,306 | 24,041 | (40,355) | 23,225 | 205,217 |
| Cash and cash equivalents | 683 | - | - | - | 5,525 |
| ESExec net investments | 198,989 | | | 23,225 | 210,742 |

13. Investment management expenses

| Amount in £'000 | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|-------------------------|-----------------|----------|--------------|-----------------|----------------|----------|--------------|-----------------|
| | DB | DC | DB | Total | DB | DC | DB | Total |
| Administration | (109) | - | - | (109) | (35) | - | - | (35) |
| Management | (9,213) | - | (232) | (9,445) | (7,695) | - | (264) | (7,959) |
| Custody | (266) | - | (7) | (273) | (228) | - | (8) | (236) |
| Performance measurement | (45) | - | (11) | (56) | (41) | - | (11) | (52) |
| Performance fees | (636) | - | (50) | (686) | (209) | - | (5) | (214) |
| Other advisory fees | (1,454) | - | - | (1,454) | (1,522) | - | (7) | (1,529) |
| | (11,723) | - | (300) | (12,023) | (9,730) | - | (295) | (10,025) |

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;

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

| ZPen DB | 2020 | | 2019 | |
|-----------------|----------------|----------------|----------------|----------------|
| Amount in £'000 | Equities | Total | Equities | Total |
| Futures | (1,151) | (1,151) | (818) | (818) |
| Commissions | (759) | (759) | (709) | (709) |
| Total | (1,910) | (1,910) | (1,527) | (1,527) |

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 Trustee to quantify such indirect transaction costs.

15. Pooled investment vehicles

| Amount in £'000 | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|--------------------|----------------|----------------|----------------|------------------|----------------|----------------|---------------|------------------|
| | DB | DC | DB | Total | DB | DC | DB | Total |
| Equities | 29,798 | 37,041 | 36,626 | 103,465 | 26,812 | 35,931 | 32,128 | 94,871 |
| Bonds | 377,716 | 4,075 | 58,168 | 439,959 | 372,392 | 3,892 | 56,175 | 432,459 |
| Diversified growth | - | 299,175 | - | 299,175 | - | 277,978 | - | 277,978 |
| Property | 257,223 | 3,241 | 7,157 | 267,621 | 212,304 | 3,184 | 7,308 | 222,796 |
| Cash | 67,494 | 17,178 | - | 84,672 | 45,228 | 14,400 | - | 59,628 |
| Total | 732,231 | 360,710 | 101,951 | 1,194,892 | 656,736 | 335,385 | 95,611 | 1,087,732 |

16. Derivatives

| ZPen DB | 2020 | | | 2019 | | |
|-----------------------------------|-----------|----------------|----------------|------------|----------------|----------------|
| Amount in £'000 | Assets | Liabilities | Total | Assets | Liabilities | Total |
| Exchange traded | | | | | | |
| Futures | - | (1,081) | (1,081) | - | (3,496) | (3,496) |
| Over-the-counter contracts | | | | | | |
| Forward foreign currency | 99 | (461) | (362) | 109 | (18) | 91 |
| Total | 99 | (1,542) | (1,443) | 109 | (3,514) | (3,405) |

Objectives and policies for holding derivatives

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

Derivatives

The Trustee also uses the following derivatives to manage risk:

Forwards: The Scheme has overseas investments which mean that the value of the Scheme's 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:

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

Forward foreign currency

| Type Amount in £'000 | Expires within | Currency | | Fair value | |
|--------------------------------|-------------------|----------|----------|------------|--------------|
| | | bought | sold | Asset | Liability |
| Sell USD for GBP (3 contract) | 1 month | 32,542 | (40,703) | - | (395) |
| Sell GBP for USD (4 contract) | 1 month | 11,913 | (9,542) | 99 | - |
| Sell USD for JPY (2 contracts) | 1 month | 723,065 | (6,740) | - | (31) |
| Sell EUR for GBP (1 contract) | 1 month | 2,884 | (3,208) | - | (33) |
| Sell CAD for USD (1 contract) | 1 month | 413 | (566) | - | (2) |
| Sell USD for EUR (1 contracts) | 1 month | 68 | (76) | - | - |
| Total | | | | 99 | (461) |

Futures contracts

| Type Amount in £'000 | Expires within | Economic exposure | Fair value | |
|--------------------------|-------------------|----------------------|------------|----------------|
| | | | Asset | Liability |
| FUT SEP 20 LIF LONG GILT | 1 year | (167,233) | - | (1,081) |
| Total | | (167,233) | - | (1,081) |

17. Interest in (SLP) Scottish Limited Partnership

Special contributions were made to ZPen 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 ZPen 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 2020 as £867m (2019: £880m). This valuation was based on a number of assumptions and economic variables:

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 Trustee has 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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

over the partnership life the Trustee considers that the partnership interest meets the definition of a financial asset under FRS 102.

The Trustee considered the impact of COVID-19 on the SLP, the SLP continues to operate as expected, the valuation remained stable in the volatile market conditions. Within the modelling of the SLP, the pricing agent factors in the probability of Zurich defaulting by including the illiquidity premium assumption. It was concluded that the recent market conditions have not changed enough to warrant a change to this assumption.

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 ZPen 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.

19. Other investment balances

| Amount in £'000 | ZPen DB | ZPen DC | ESExec DB | 2020 Total | ZPen DB | ZPen DC | ESExec DB | 2019 Total |
|---------------------------------|-----------------|------------|----------------|-----------------|------------------|------------|--------------|------------------|
| Investment assets | | | | | | | | |
| Cash-sterling | 88,779 | - | 5,112 | 93,891 | 199,274 | - | 357 | 199,631 |
| Cash-foreign currency | 31,747 | - | - | 31,747 | 8,958 | - | - | 8,958 |
| Variation margin | 5,701 | - | - | 5,701 | 8,070 | - | - | 8,070 |
| Income receivable | 29,862 | - | 329 | 30,191 | 33,354 | - | 471 | 33,825 |
| Income tax recoverable | 2,438 | - | - | 2,438 | 2,252 | - | - | 2,252 |
| Balances due from brokers | 47,954 | - | 1,272 | 49,226 | 78,402 | - | 145 | 78,547 |
| Collateral | 870 | - | - | 870 | 530 | - | - | 530 |
| | 207,351 | - | 6,713 | 281,558 | 376,068 | - | 973 | 331,813 |
| Investment liabilities | | | | | | | | |
| Balances due to brokers | (20,032) | - | (1,188) | (21,220) | (128,279) | - | (290) | (128,569) |
| Obligation to return collateral | - | - | - | - | - | - | - | - |
| | (20,032) | - | (1,188) | (21,220) | (128,279) | - | (290) | (128,569) |
| | 187,319 | - | 5,525 | 260,338 | 247,789 | - | 683 | 203,244 |

20. Defined contribution assets

ZPen DC 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 Trustee. The Scheme administrator allocates investment units to members. The Trustee 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.

ZPen DC investment assets can be allocated to members or not, and therefore available to the Trustee to apply as specified in the Scheme rules, as follows:

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

| Amount in £'000 | 2020 | 2019 |
|--------------------------|----------------|---------|
| | Total | Total |
| Not allocated to members | 2,346 | 2,375 |
| Allocated to members | 366,260 | 341,475 |
| | 368,606 | 343,850 |

21. Repurchase Agreements

| Amount in £'000 | 2020 | 2019 |
|--|--------------------|-------------|
| | Total | Total |
| Amounts receivable under reverse repurchase agreements | 653,619 | 588,396 |
| Amounts payable under repurchase agreements | (1,941,338) | (1,387,916) |
| | (1,287,719) | (799,520) |

Bonds with fair value of £1,945m have been sold subject to repurchase contracts and therefore continue to be recognised in the financial statements (2019: £1,390m). There are 27 (2019: 18) repurchase agreements, with maturity dates between July 2020 and June 2021.

Bonds with a fair value of £656m received as collateral in respect of reverse repurchase agreements is not recognised in the financial statements (2019: £590m). Cash delivered to the counterparties is recognised as amounts receivable in the table above. There are 5 (2019: 4) reverse repurchase agreements, with maturity dates between July and November 2020.

22. 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.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

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

| Category | 1 | 2 | 3 | 2020 Total |
|--|------------------|------------------|------------------|------------------|
| Amount in £'000 | | | | |
| ZPen DB | | | | |
| Direct investments | | | | |
| Equities | 1,847,591 | 8,447 | - | 1,856,038 |
| Bonds | - | 5,727,768 | 372,940 | 6,100,708 |
| Derivatives | - | (1,443) | - | (1,443) |
| Interest in SLP | - | - | 867,000 | 867,000 |
| Pooled Investment Vehicles | - | 475,008 | 257,223 | 732,231 |
| Repurchase agreements | - | (1,287,719) | - | (1,287,719) |
| Cash and other net balances | 154,269 | 33,050 | - | 187,319 |
| ES Executives' | | | | |
| Bonds | - | 103,266 | - | 103,266 |
| Pooled Investment Vehicles | - | 94,793 | 7,158 | 101,951 |
| Cash and other net investment balances | 940 | 4,585 | - | 5,525 |
| ZPen DC | | | | |
| Pooled investments | - | 365,365 | 3,241 | 368,606 |
| | 2,002,800 | 5,523,232 | 1,507,562 | 9,033,482 |

The Interest in the Scottish Limited Partnership (SLP) was independently priced by Barnett Waddingham as at 30 June 2020. 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 is priced using a Mark to Market Model, there are two key stages in the methodology for each asset: projection forward of asset cash flows and discounting of cash flows to give a present value. Cashflows are discounted by selecting a relevant base rate. The asset manager will select the base rate taking into account the currency of the asset cash flows and the type of coupon it pays (i.e. fixed or inflation linked). In addition to the base rate a valuation spread will be included in the discount factor used to value each cashflow. This consists of a market consistent spread (MCS), that represents a loans' credit rating and an idiosyncratic spread (IS). The IS is the difference between the valuation spread and the MCS and captures specific asset features that are not captured by the MCS. A 5% fall in these assets would equate to £19m.

The pooled investments shown in category 3 under ZPen DB/DC and ES Executives' relate to the property funds. The property held by the funds has valuations prepared in accordance with the RICS Valuation - Global Standards 2017, including the International Valuation Standards and the RICS Valuation - Professional Standards UK January 2014 (revised April 2015), ("the Red Book"), and properties have been valued by a valuer who is qualified for the purpose of the valuation in accordance with the Red Book. The property values are then reflected in the property funds' net asset value (NAV) price, subject to dilution levies. The funds suspended dealing due to market volatility related to COVID-19. The independent valuer deployed a market uncertainty clause in its valuation as per RICS guidance. This meant the valuer was unable to provide an appropriate level of certainty regarding the valuation of the funds' assets, due to the market environment at the time. This is consistent with the approach being taken across the wider industry. However, the Trustee regards the market values as comparable to fair value. As at 30 June 2020, the value of the ZPen DB property fund was £257m, the value of the ZPen DC property fund was £3m and the value of the ES Executives' property fund was £7m. Across the portfolio £267m of investments were provided with a material valuation uncertainty clause, all of which related to property investment. A 5% fall in the property funds would equate to £13m.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

| Category | 1 | 2 | 3 | 2019 Total |
|--|------------------|------------------|------------------|------------------|
| Amount in £'000 | | | | |
| ZPen DB | | | | |
| Direct investments | | | | |
| Equities | 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 | 89,334 | 355,098 | 212,303 | 656,736 |
| Repurchase agreements | - | (799,520) | - | (799,520) |
| Cash and other net balances | 208,232 | (5,671) | - | 202,561 |
| ES Executives' | | | | |
| 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 |
| ZPen DC | | | | |
| Pooled investments | - | 343,850 | - | 343,850 |
| | 6,913,169 | (102,014) | 1,429,723 | 8,240,878 |

23. 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 Trustee determines its 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 Trustee manages 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 Trustee by regular reviews of the investment portfolio. The following table summarises the extent to which the various classes of investments are affected by financial risks:

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

| Amount in £'000 | Credit risk | Currency | Market risk | | 2020 | 2019 |
|------------------------------------|-------------|----------|---------------|-------------|--------------------|------------------|
| | | | Interest rate | Other price | | |
| ZPen DB | | | | | | |
| Equities | ○ | ● | ○ | ● | 1,856,038 | 1,492,937 |
| Bonds | ● | ● | ● | ○ | 6,100,708 | 5,268,730 |
| Derivatives | ● | ● | ● | ● | (1,443) | (3,405) |
| Interest in SLP | ○ | ○ | ● | ● | 867,000 | 880,000 |
| Pooled investment vehicles | ● | ● | ● | ● | 732,231 | 656,736 |
| Repurchase agreements | ● | ○ | ● | ○ | (1,287,719) | (799,520) |
| Cash and cash equivalents | ● | ● | ○ | ○ | 187,319 | 202,561 |
| ZPen DC | | | | | | |
| Post 2007 ZCashBuilder Investments | ● | ● | ● | ● | 360,710 | 335,385 |
| AVC Investments | ● | ● | ● | ● | 7,896 | 8,465 |
| ESExec | | | | | | |
| Bonds | ● | ● | ● | ○ | 103,266 | 102,695 |
| Pooled investment vehicles | ● | ● | ● | ● | 101,951 | 95,611 |
| Cash and cash equivalents | ● | ● | ○ | ○ | 5,525 | 683 |
| | | | | | 9,033,482 | 8,240,878 |

○ Hardly/not at all

● Partially

● Significantly

During the COVID-19 pandemic the Trustee has monitored credit and market risks closely, many of the asset classes with exposures to partial or significant risks noted above have increased due to the economic fall-out. Credit risks have increased over many different industries due to the disruption of 'business as usual', meaning income may have fallen or completely stopped. Market risks have increased due to the volatile conditions, interest rates have decreased to record lows in a bid to boost the economy. The Trustee has an integrated risk management policy that takes these risks into consideration with a number of other factors, including the employer covenant and funding position.

Further information on the Trustee's 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 objectives of the ZPen and ES Executives' sections is to:

- 1) Invest in assets of appropriate quality and liquidity, which meet, together with contributions from the employers, the benefits the Scheme provides as and when they fall due, as set out in the Trust Deed and Rules and
- 2) Manage the investment risk relative to the agreed levels to which the Trustee is prepared to expose the scheme.

The Trustee set the investment strategy for the DB Sections taking into account considerations such as the strength of the employer covenant, the long-term liabilities and the funding agreed with the employer. The investment strategy is set out in its Statement of Investment Principles ('SIP'). The current strategy is described in the investment strategy section on [page 19](#).

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

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, repurchase agreements 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:

| Amount in £'000 | 2020 Total | 2019 Total |
|--|--------------------|---------------|
| ZPen DB | | |
| Bonds | 6,100,708 | 5,268,730 |
| Derivatives | (1,443) | (3,405) |
| SLP | 867,000 | 880,000 |
| Pooled Investment Vehicles | 732,231 | 656,73 |
| Repurchase agreements | (1,287,719) | (799,520) |
| Cash and other net balances | 187,319 | 202,561 |
| Total | 6,598,096 | 6,205,102 |
| ES Executives' | | |
| Bonds | 103,266 | 102,695 |
| Pooled Investment Vehicles | 101,951 | 95,611 |
| Cash and other net investment balances | 5,525 | 683 |
| Total | 6,808,838 | 6,404,091 |

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. Infrastructure debt is included within the bonds category, credit risk arising from infrastructure debt investment is managed in a similar way to corporate bonds. The Investment Management Agreement restricts the investment manager to minimum credit quality for debt investments and includes limits on sector and subsectors (e.g. social infrastructure, transportation and power).

The Trustee considers 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 Trustee also relies upon the investment manager's internal rating system in some instances.

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 arising from repurchase activities is mitigated through collateral arrangements which fully collateralise the exposure. Collateral positions are taken with multiple counterparties to further manage the credit risk.

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).

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

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 Trustee carries 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.

| Amount in £'000 | 2020 | 2019 |
|---------------------------------|------------------|-----------|
| ZPen DB | | |
| Unit linked insurance contracts | 257,223 | 212,304 |
| Open ended investment companies | 475,008 | 444,431 |
| ESExec | | |
| Unit linked insurance contracts | 4,597 | 3,808 |
| Open ended investment companies | 97,354 | 91,803 |
| ZPen DC | | |
| Unit linked insurance contracts | 360,710 | 335,385 |
| | 1,194,892 | 1,087,731 |

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.

Credit risk has been monitored closely by the Trustee in light of the COVID-19 pandemic, the majority of credit risk is held within the bond asset class. Further information on the actions the Trustee has taken to monitor the elevated credit risk levels are shown on [page 22](#).

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 Trustee has 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:

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

| Amount in '000 | 2020 | 2019 |
|------------------------------|------------------|------------------|
| | Exposure | Exposure |
| Australian dollar (AUD) | 1 | 1 |
| Brazilian real (BRL) | 10,462 | 14,989 |
| British pound sterling (GBP) | 7,015,851 | 6,498,838 |
| Canadian dollar (CAD) | 8,876 | 14,588 |
| Czech koruna (CZK) | 53 | 147 |
| Danish krone (DKK) | 19,468 | 24,921 |
| Euro (EUR) | 279,219 | 263,658 |
| Hong Kong dollar (HKD) | 67,476 | 43,870 |
| Hungarian forint (HUF) | 4,056 | 1,212 |
| Indonesian rupiah (IDR) | 14,393 | 18,263 |
| Japanese yen (JPY) | 158,058 | 121,717 |
| Mexican peso (MXN) | - | 4,462 |
| New Taiwan dollar (TWD) | 20,479 | 12,698 |
| Norwegian krone (NOK) | 4,474 | 4,956 |
| Philippine peso (PHP) | 5,687 | 4,424 |
| Polish zloty (PLN) | 1,986 | 2,470 |
| South African rand (ZAR) | 6,469 | 12,567 |
| South Korean won (KRW) | 34,649 | 17,502 |
| Swedish krona (SEK) | 15,234 | 13,177 |
| Swiss franc (CHF) | 73,326 | 38,442 |
| Thai baht (THB) | 7,355 | 5,801 |
| United States dollar (USD) | 711,184 | 630,563 |
| Total | 8,458,756 | 7,749,266 |

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme investments are held in bonds, swaps, gilts and an interest in a SLP. The Trustee has set a benchmark limit of the total investment in bonds and gilts which can be seen in the Strategic Asset Allocation. 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 Trustee implemented the new investment strategy in 2016 which includes allocation to the Liability Driven Investment. In June 2020, the Trustee further increased the target hedging ratio.

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. At the Scheme year end the Property funds were suspended from dealing, therefore making it illiquid, the equities (including pooled vehicles) and senior loans PIV were trading on request. The infrastructure debt portfolio is unlikely to be traded as it is on a buy and hold strategy.

Financial statements

Notes to the financial statements (continued)

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

ZCashBuilder

Investment strategy

The Trustee 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 Scottish Widows Ltd. 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)
- SW Aquila 50/50 Global Equity Index 2
- SW Aquila UK Equity Index 2
- SW Aquila World ex UK Index 2
- SW Aquila Corporate Bond 15+ Year Index 2
- SW BlackRock Sterling Liquidity
- Property 2 SW
- SW Aquila Index Linked Over 5 Year Gilt Index 2
- SW Managed 2
- SW HSBC Islamic 2
- SW L&G Ethical Global Equity Index 2
- SW Mixed Investments 2

The Trustee 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 Trustee and therefore may face a different profile of risks from their individual choices compared with the section as a whole.

Credit risk

ZCashBuilder is subject to direct credit risk in relation to Scottish Widows through its holdings in the list of funds on [page 30](#). 2020: £361m (2019: £335m)

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

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

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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Financial statements

Notes to the financial statements (continued)

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, liquidity and other price risk arising from the underlying financial instruments held in the funds managed by the underlying fund managers.

On 25 March 2020, the ZPen DC Property Fund suspended dealing and the Principal Employer agreed to the use the Reserve Fund to pay out the ZPen DC Property Fund assets for one retiring member. The Property Fund units are now held in the Reserve Fund until the Trustee can sell. The value of these units as at 30 June 2020 was £3,515.55. As at 30 June 2020 the ZPen DC Property Fund value was £3.7m, the trading suspension was not lifted until 26 October 2020.

24. Concentration of investments

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

| Amount in £'000 | 2020 | | 2019 | |
|-----------------|----------------|-------|----------------|--------|
| | Value | % | Value | % |
| ZPen DB | | | | |
| SLP | 867,000 | 9.58% | 880,000 | 10.63% |
| Total | 867,000 | | 880,000 | |

25. Current assets

| Amount in £'000 | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|-----------------|---------------|--------------|------------|---------------|---------------|--------------|------------|---------------|
| | DB | DC | DB | Total | DB | DC | DB | Total |
| Other debtors | 1,541 | 279 | - | 1,820 | 1,293 | 1,155 | - | 2,448 |
| Cash balances | 25,566 | 4,054 | 112 | 29,732 | 42,451 | 3,251 | 721 | 46,423 |
| | 27,107 | 4,333 | 112 | 31,552 | 43,744 | 4,406 | 721 | 48,871 |

26. Current liabilities

| Amount in £'000 | ZPen | ZPen | ESExec | 2020 | ZPen | ZPen | ESExec | 2019 |
|-------------------------|-----------------|--------------|--------------|-----------------|-----------------|--------------|--------------|-----------------|
| | DB | DC | DB | Total | DB | DC | DB | Total |
| Unpaid benefits | (798) | (296) | - | (1,094) | (1,274) | (145) | - | (1,419) |
| Tax payable | (2,472) | - | (204) | (2,676) | (2,447) | - | (201) | (2,648) |
| Accrued expenses | (6,426) | - | (121) | (6,547) | (6,178) | - | (96) | (6,274) |
| Amounts due to employer | (4,231) | - | (74) | (4,305) | (3,329) | - | (53) | (3,382) |
| | (13,927) | (296) | (399) | (14,622) | (13,228) | (145) | (350) | (13,723) |

27. Contingencies and commitments

At 30 June 2020 the Scheme had undrawn commitments to fund infrastructure debt investments amounting to £15.9m (2019: £32m). The timing of these commitments is detailed below:

| Date | Amount in £'000 |
|--------------|-----------------|
| 24-May-21 | 15,900 |
| Total | 15,900 |

Financial statements

Notes to the financial statements (continued)

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 Trustee.

28. Related party transactions

Related party transactions and balances comprise:

Key Management Personnel

- Contributions accrued under the ZCashBuilder section (note 3), in accordance with the Trust Deed and Rules, include amounts in respect of three Trustee directors (2019: three) and pensions paid (note 7) in respect of four Trustee directors (2019: three)
- Fees and expenses of £172k (2019: £119k) were paid to professional trustees in respect of their services to the Scheme and to other Trustee directors as out of pocket expenses.
- 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.

Employer and other related parties

- APCs, pre 2007 AVCs and the ZPen Supplementary funds held in unit linked and with profits funds, some of which are provided by members of the Zurich group, are subject to annual management charges. These typically range from 0.26% to 1.19% of the fund value. The change in market value of these investments is net of this charge.
- Contributions made to ZCashBuilder, ZPen Supplementary funds and the pre 2007 AVC funds, are invested in a variety of unit linked and with profits funds, some of which are provided by companies within the Zurich group. The total value of these funds at 30 June 2020 was £369m (2019: £343m). Of this total, £361m (2019: £335m) is invested through a Group Investment Only Platform provided by Zurich Assurance Ltd (Scottish Widows Ltd from 1 July 2019) and £3m (2019: £4m) is invested elsewhere within the Zurich Group.
- As detailed in note 9, following advice from the Scheme actuary, the Trustee 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.
- 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 2020 are disclosed in note 25, as balances due to Zurich group of companies.
- 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.
- Zurich Assurance Limited held 65.96% and Zurich Financial Services UK Pension Scheme 33.44% of the participating shares in the Threadneedle India Fund. The Scheme held an investment of £20m (2019: 18m) as at 30 June 2020.

Financial statements

Notes to the financial statements (continued)

- As at 30 June 2020, the scheme had a debtor with Zurich Employment Services Ltd and Zurich UK General Services Ltd relating to the premium on term insurance policies of £1.54m

Other than those items disclosed above and elsewhere in the financial statements, there were no other related party transactions.

All related party transactions were in accordance with the Trust Deed and Rules.

29. Employer related investments

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

The Scheme held less than 0.01% (2019: less than 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 – SW Aquila 50/50 Global Equity Index 2 and SW Aquila World Ex UK Index 2).

30. Subsequent events

On 20 November 2020, the High Court ruled that schemes providing guaranteed minimum pensions (GMPs) must revisit and, where necessary, top-up historic cash equivalent transfer values paid out which were calculated on an unequal basis. The Trustee is now reviewing, with their advisers, the implication of this ruling on the Scheme and considering the technical and practical aspects of implementing any necessary adjustments.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

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

Statement about contributions

Opinion

In our opinion, the contributions required by the schedules of contributions for the Scheme year ended 30 June 2020 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 2020 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

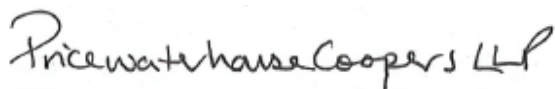
As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance 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: 9 December 2020

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020


Summary of Contributions for the year ended 30 June 2020

During the year ended 30 June 2020, the contributions payable to the Scheme were as follows:

| Amount in £'000 | ZPen | ZPen | ESExec | 2020 |
|---|---------------|---------------|-----------|---------------|
| | DB | DC | DB | Total |
| Contributions required by the schedules of contributions | | | | |
| Normal contributions | - | 39,304 | - | 39,304 |
| Group life premium | 1,541 | - | - | 1,541 |
| Other payments | 5,000 | - | - | 5,000 |
| Expense contributions | 4,400 | - | 32 | 4,432 |
| | 10,941 | 39,304 | 32 | 50,277 |
| Other contributions | | | | |
| Augmentations | 3,949 | - | - | 3,949 |
| Additional voluntary | - | 2,044 | - | 2,044 |
| Total | 14,890 | 41,348 | 32 | 56,270 |

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 Trustee on 8 December 2020 and is signed on their behalf by:

| | |
|------------------|---|
| Trustee director | David Sims |
| Signature |  |
| Date | 8 December 2020 |

ZPen actuarial certificate 17 September 2020

Zurich Financial Services UK Pension Scheme

ZPen Section

Certification of the Schedule of Contributions

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 2019, to be met for the period for which the schedule is expected to be in force.

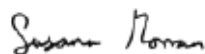
I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any Recovery Plan.

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 17 September 2020.

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:

17 September 2020

Name:

Susanna Morran

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

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

Employer:

Barnett Waddingham LLP

ES Executives' actuarial certificate 17 September 2020

Zurich Financial Services UK Pension Scheme

ES Executives' Section

Certification of the Schedule of Contributions

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 2019, to be met for the period for which the schedule is expected to be in force.

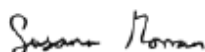
I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any Recovery Plan.

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 17 September 2020.

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:

17 September 2020

Name:

Susanna Morran

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

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

Employer:

Barnett Waddingham LLP

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

Zurich Financial Services UK Pension Scheme (“the Scheme”) Implementation Statement

8 December 2020

Background

In 2019, the government published regulations¹² which introduced new requirements for pension schemes like ZPen setting out the policies they need to explicitly include in their Statement of Investment Principles (SIP) (the document that sets out the investment principles and practices the Trustee follows when governing the Scheme’s assets).

This expanded on legislation¹³ which was introduced in 2018 for schemes with more than 100 members to disclose the risks of their investments, including the ones arising from environmental, social and governance (ESG) considerations. It also required the Trustee to disclose policies in relation to the stewardship of investments, including engagement with investee firms and the exercise of the voting right associated with the investment.

Further to this, from 1 October 2020 the Trustee is required to produce an implementation statement setting out how it has acted on the principles it set out in the SIP, including how it takes account of the views which, in its opinion, members hold. This must cover policies on the exercise of voting rights related to its investments and engagement activities. This document is intended to meet those requirements and will be included in the Scheme’s Report and Accounts and published on www.zpen.info.

The SIP in force during the Scheme year ended 30 June 2020 was prepared in accordance with all relevant legislation in-force at the date of the approvals. The SIP outlines the principles and policies governing investment decisions made by, or on behalf of the Trustee for the management of the defined benefit (DB) and defined contribution (DC) assets and the Trustee’s policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

Review of the SIP during the year

During the year ended 30 June 2020 the Trustee had a single SIP document which covered both the ZPen Section (including DB & DC arrangements) and ES Executives’ Section. This was originally prepared on 12 June 2018 and then updated in the first three months of the Scheme year on 10 September 2019. The Funding Committee initially reviewed the document on 23 May 2019, with further input from the Trustee on 6 June 2019 and 25 July 2019. The Trustee’s investment and legal advisers reviewed the SIP to ensure it continued to comply with current legal requirements and to incorporate the Trustee’s Responsible Investment strategy in line with investment regulations. The Trustee formally approved the SIP on 10 September 2019. This Implementation Statement (“the Statement”) reports on how the Trustee has met the policies set out in both of these versions of the SIP.

In March 2020 the Trustee agreed to carry out a full review of the SIP including:

- creating separate SIP documents for DB assets (ZPen and ES Executives’ Sections) and DC assets (ZCashBuilder and legacy AVCs)
- having a separate SIP for the default arrangement within ZCashBuilder
- making SIPs more accessible to members by removing much of the detailed technical content into an Investment Policy Implementation Document
- updating the SIPs to meet the new legal requirements

During the drafting process the SIPs were reviewed by the Trustee’s investment and legal advisers, the Funding Committee (DB SIP) in September and DC Committee (DC SIP) in August.

On 30 September 2020 the Trustee approved two new SIP documents, these are available on www.zpen.info and:

¹² Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

¹³ The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 (now the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018)

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

- will be reviewed at least every three years and following any significant changes in investment policy or Scheme membership.
- reflect the new legislative requirements requiring the Trustee to explain its policies on how it monitors its investment managers (“Managers”).

Please note that this Statement applies to the policies set out in the SIP updated on 10 September 2019 and does not cover the policies in the SIPs approved in September 2020. These will be covered by the Trustee’s next implementation statement.

The table below sets out the SIPs in-force during the Scheme year and the subsequent changes.

| | Scheme year start 1 July 2019 | Scheme year end 30 June 2020 | Subsequent changes |
|--|--|---|--------------------------------|
| In-force (covering both the ZPen (including DB & DC arrangements) and ES Executives’ Sections) | SIP dated 12 June 2018 | SIP dated 10 September 2019 | |
| DB assets; ZPen and ES Executives’ Sections | | | DB SIP dated 30 September 2020 |
| DC assets; ZCashBuilder and legacy AVCs | | | DC SIP dated 30 September 2020 |

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the policies set out in the SIP have been adhered to throughout the year for the Scheme. The rest of this statement explains how and the extent to which these policies have been adhered to.

Policies for choosing and realising investments, and the kinds of investments to be held

The DB SIP outlines the Trustee’s principles and policies for choosing investments and the kind of investments to be held. In selecting investments, the Trustee obtains and considers written advice from a regulated investment adviser.

- For the DB assets, ZPen and ES Executives’ Sections, this is fulfilled by identifying appropriate objectives which reflect the risk and return requirements and then constructing a portfolio of investments to meet these objectives. In June 2020 the Trustee agreed to refine the investment strategy for the ZPen section by increasing target hedging ratios (on a technical provisions basis) for interest rates and inflation from 80% and 60% to 90% and 80% respectively and increasing the allocation to infrastructure debt from 5% to 10% funded by a reduction of the corporate bond allocation. The target hedging ratios and infrastructure debt allocation are due to be reached by 2023. No changes to the SIP were required as a result of these investment strategy amendments. Formal advice was provided to the Trustee by regulated investment advisers prior to the change, confirming the suitability of the investments for the purposes of Section 36 of the Pensions Act 1995. The investment advisers were involved throughout the investment review process to leverage market expertise in order to review the Trustee’s investment analyst’s proposal.
- For DC assets, ZCashBuilder, the Trustee has identified a suitable range of options, including both lifestyle strategies and investment funds which are made available to members via Scottish Widows; the Scheme’s investment platform provider. No changes were made to the DC investment options during the year.

Throughout the year, the Managers had discretion in the timing of realisation of investments.

The asset allocation is reviewed for all arrangements on a quarterly basis via the Funding Committee (DB assets) and DC Committee (DC assets). The DB assets are referred to the Trustee board on a quarterly basis and are reviewed regularly by the ZPen team and the Trustee’s investment analyst. The Trustee is comfortable that over the year the investments held were consistent with the asset allocation set out in the SIP.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

For more information on how the Scheme's investments are governed, please see the Report and Accounts at www.zpen.info.

Policies on managing and measuring risk, and expected returns

DB assets: ZPen & ES Executives' Sections

The Trustee's objectives are 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
- 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
- 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

The Trustee believes by fulfilling its objectives and by adhering to the policies in the SIP it ensures that assets are invested in the best interests of members and their beneficiaries.

During the year, the Trustee monitored the return on assets on a quarterly basis. The strategic asset allocation (SAA) changes on a quarterly basis in line with an agreed glidepath that will end in 2023. Assets were monitored and re-balanced in line with the agreed policy. Where possible, re-balancing was done with monthly outflows (for example, pensioner payroll) to reduce unnecessary transaction costs. During Q1 and Q2 2020 several transactions took place to re-balance the portfolio back in line with the SAA due to the volatile market conditions.

The Trustee approved an Integrated Risk Management (IRM) policy in March 2020 to formalise the framework that was already in place. Risk monitoring has been reported to the Trustee board via the Funding Committee on a quarterly basis. Due to the volatile markets, the Funding Committee monitored key risks more frequently in Q1 and Q2 2020. Any investment strategy decisions are taken in the context of IRM, this includes the investment strategy refinement referred to in the previous section. The Trustee received IRM training from its actuarial and investment advisers in the previous Scheme year.

DC assets: ZCashBuilder

The Trustee's objectives are to provide:

- an appropriate range of investment choices designed to generate income and capital growth
- a range of funds appropriate for members' attitude to risk and proximity to retirement, noting that members' investment needs and risk appetite change approaching retirement
- default options which reduce investment risk as members approach retirement
- funds and lifestyle strategies which are aligned to how members are able to take their benefits.

These options together with contributions from members and the employer will provide a fund at retirement with which to provide an income in retirement. Two default strategies were available throughout the year:

- For members with only DC benefits the default strategy targets drawdown in retirement
- For members with both DB and DC benefits the default strategy targets cash at retirement.

The Trustee uses Scottish Widows as its investment platform provider to access the ZCB funds. Scottish Widows is regulated by the Financial Conduct Authority and the Prudential Regulation Authority to maintain adequate financial resources to ensure it can meet its liabilities as they fall due.

In March 2020 the Property Fund temporarily closed to all transactions, with the result that the Trustee were unable to invest the March 2020 contributions in this fund. The Trustee decided to invest these contributions in the Sterling Liquidity Fund instead as, with the market volatility being experienced at that time, this would protect the value of the contributions until they could be invested elsewhere, either by the member or redirected back to the Property Fund when it reopened. The Sterling Liquidity fund was also

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

considered to be closest to the members' attitude to risk of those available within the fund range. As a result of this decision the Sterling Liquidity Fund became a default arrangement for those members affected. Contributions from the affected members were invested in the Sterling Liquidity Fund until further instruction was received from these members, or the Property Fund reopened.

Responsible Investment (RI) Strategy

As a long term investor, the Trustee has agreed that the Scheme should be an active responsible investor. The Trustee has agreed 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

Policies on the exercise of voting rights and undertaking engagement activities

The Trustee's specific strategy on engagement is summarised below, together with its assessment of how, and the extent to which, this has been implemented over the Scheme year to 30 June 2020:

Policy & response

DB assets: ZPen & ES Executives' Sections

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).

The Trustee discussed responsible investment practices with all of its Managers. In January 2020 a 'Responsible Investment day' (see Responsible Investment day on page 87) was organised to engage with the Managers about a number of items including; RI investment philosophy; specific examples of RI in practice and climate change. The Trustee was satisfied that the Managers were following an approach which takes account of all financially material factors (including ESG factors).

At the meeting with Columbia Threadneedle Investments (CTI), the Manager was challenged on its voting record for its holdings in specific companies. One example of a challenge is CTI's votes concerning climate change initiatives at the annual general meeting.

CTI explained the rationale for its voting record, including in relation to climate change resolutions, and its ongoing engagement with the relevant companies. A detailed explanation of the rationale was noted by the Trustee. No further action was required as the Trustee was satisfied with CTI's response.

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.

During the Scheme year, the Trustee strengthened its restriction list with regard to companies exposed to coal and oil. Where the Scheme directly holds securities (as opposed to a fund), it will no longer invest in companies that:

- generate more than 30% of their revenue from mining thermal coal, or produce more than 20 million tons of thermal coal per year;
- generate more than 30% of their electricity from coal;

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

- are in the process of developing any new coal mining or coal power infrastructure;
- generate at least 30% of their revenue directly from the extraction of oil from oil sands;
- are purpose-built (or “dedicated”) transportation infrastructure operators for oil sands products, including pipelines and railway transportation;
- generate more than 30% of their revenue from mining oil shale, or
- generate more than 30% of their electricity from oil shale.

The restriction list is updated on a quarterly basis and has been shared with the equity and bond Managers since Q3 2019. There were no exceptions noted to the restriction list during the Scheme year.

2.8.8. Managers report on voting activity to the Trustee on at least an annual basis. The Trustee will monitor Managers’ voting activity.

For the directly held securities, the Trustee delegated voting activities and decisions to CTI the equities fund manager. All of the voting decisions are available on the CTI’s website seven days after each company meeting. The Trustee reviewed quarterly updates on voting statistics from CTI during the Scheme year. During the Responsible Investment day (page 87), key individual company voting records were challenged (See 2.8.4 above for an example).

Taking into account the periodic reviews and the responses given to the questions raised during the Responsible Investment day, the Trustee is satisfied that CTI’s voting policy is aligned with its own guiding principles. CTI votes actively at company meetings, applying principles on a pragmatic basis. CTI views this as one of the most effective ways of signalling approval (or otherwise) of a firm’s governance, management and strategy. CTI’s RI team makes the final voting decisions in collaboration with the firm’s portfolio managers and analysts.

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.

The Trustee continues to meet with its Managers on a regular basis (see Engagement with Managers table, below, for examples of meetings) and RI remains a standing item for the majority of Managers. RI is discussed less regularly with the Liability Driven Investment (LDI) manager, Insight, due to the limited scope of its investments (mainly Gilts). For more information about the meetings with Managers, including examples of meetings which have taken place and matters that the Trustee has raised with Managers, please see the below section entitled ‘Engagement with Managers’.

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.

The Trustee maintained its position on soliciting member views on non-financial matters in their investment decision making between the effective date of the SIP and the Scheme year end.

DC assets: ZCashBuilder

3.8.2. As part of the regular DC fund review, the Trustee includes ESG considerations when assessing the default fund and self-select fund choices available to members.

At the DC Committee meeting in November 2019, as part of its preparation for the DC investment review, the Committee received training on responsible investment as a factor which is financially material to the performance of DC investments. This prepared the Committee for considering how to incorporate responsible investment into the default investment strategy, as set out in paragraph 3.8.2 of the SIP.

A review of the Scheme’s DC investments commenced in March 2020 and as part of this, the DC Committee explored how ESG considerations could be incorporated into the default strategies and self-select funds. This investment strategy review will be completed during the Scheme year ending 30 June 2021 and a full update will be provided in next year’s implementation statement.

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

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

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.

The Trustee met with the majority of its Managers in the DC section during the Scheme year. Managers with larger holdings within the DC section were prioritised. The meetings covered the following topics; RI investment philosophy; specific examples of RI in practice and climate change. The Trustee was satisfied that the Managers are following an approach which takes account of all financially material factors (including ESG factors). In future years it is more likely the Trustee will engage with its investment platform provider directly rather than through individual fund managers.

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.

The Trustee reviewed the voting policies of its Managers and was satisfied that the voting policies are aligned with its own guiding principles. The review of any changes to house policies will be performed in the current Scheme year to 30 June 2021. For more information about the Managers' voting policies, please see the below section entitled "Exercise of voting rights".

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.

A majority of the equity holdings within ZCashBuilder are within ZFundBuilder and held by BlackRock and CTI. At the Responsible Investment day the attendees met with both BlackRock and CTI, these meetings are shown in the table within the 'Engagement with Managers' section. The ZPen team engaged with the investment platform provider (Scottish Widows) to request the provision of voting activity and patterns of Managers. Scottish Widows are currently unable to deliver this information and are developing this capability (see Exercise of voting rights – ZCashBuilder, below)

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 and may periodically review Managers voting patterns. The Trustee may also monitor Managers' voting on particular companies or issues affecting more than one company.

The Trustee met with the majority of its Managers in the DC section during the Scheme year. The meetings covered the following topics; RI investment philosophy; specific examples of RI in practice and; climate change. The Trustee was satisfied that the Managers are following an approach which takes account of all financially material factors (including ESG factors). In future years it is more likely the Trustee will engage with its investment platform provider directly rather than through individual investment managers. For more information about the meetings with Managers, please see the below section entitled 'Engagement with Managers'.

3.9.4. The Trustee may solicit member views on investment options from time to time, this may include options on the number and types of funds made available and ESG considerations.

The Trustee made plans for focus groups with members during the Scheme year, which were delayed by the pandemic in 2020. The Trustee will look to make plans for focus groups when circumstances permit and is considering alternative methods of engaging with members.

Engagement with Managers

The table below shows sets out a number of engagements with the Managers. This includes engagements through the Funding Committee and meetings with Trustee and ZPen team representatives. The table does not include every single meeting with the Managers, however the ones selected below are representative of key touch points during the year. The Trustee has found direct meetings with Managers is the most effective ways to engage on responsible investment and voting records.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

| Date | Manager | Subjects discussed |
|-------------|--|---|
| 26/11/2019 | MIDIS (Infrastructure Debt) | <ul style="list-style-type: none"> • Company update • Investment update • Portfolio review |
| 22/01/2020 | CTI (Equities & Corporate bonds) | <ul style="list-style-type: none"> • ESG factors within investment philosophy • RI in practice • Proxy voting and engagement • Climate change |
| 22/01/2020 | M&G (Corporate bonds and Senior loans) | <ul style="list-style-type: none"> • ESG factors within investment philosophy • RI in practice • Engagement • Climate change |
| 22/01/2020 | Blackrock (Equities) | <ul style="list-style-type: none"> • ESG factors within investment philosophy • RI in practice • Proxy voting and engagement • Climate change |
| 23/01/2020 | Insight (LDI) | <ul style="list-style-type: none"> • Company update • Portfolio review • RPI consultation |
| 19/03/2020 | M&G | <ul style="list-style-type: none"> • Market developments (COVID-19) • Portfolio positioning • Fund liquidity |
| 20/03/2020 | MIDIS | <ul style="list-style-type: none"> • Market developments (COVID-19) • Portfolio update |
| 03/04/2020 | Insight | <ul style="list-style-type: none"> • Market developments (COVID-19) • Market liquidity • Portfolio positioning |
| 03/04/2020 | CTI | <ul style="list-style-type: none"> • Market developments (COVID-19) • Market liquidity • Portfolio positioning |
| 20/05/2020 | M&G | <ul style="list-style-type: none"> • Company update • Portfolio review • Market update (for COVID-19 and Brexit) |
| 02/07/2020 | JP Morgan (Equities) | <ul style="list-style-type: none"> • ESG factors within investment philosophy • RI in practice • Proxy voting and engagement • Climate change |
| 02/07/2020 | HSBC (Equities) | <ul style="list-style-type: none"> • ESG factors within investment philosophy • RI in practice • Proxy voting and engagement • Climate change |
| 03/07/2020 | LGIM (Equities) | <ul style="list-style-type: none"> • ESG factors within investment philosophy • RI in practice • Proxy voting and engagement • Climate change |

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

Responsible Investment Day – 22 January 2020

The Responsible Investment day consisted of 4 attendees representing the Trustee. This included the nominated Trustee for responsible investment, the Scheme's responsible investment champion, the ZPen Finance Manager and the Trustee's investment analyst. The attendees were briefed ahead of each Manager meeting with key information on each mandate in order to facilitate discussions.

The meetings all followed a similar format and were structured to discuss four main topics, these were:

- ESG factors within investment philosophy
- RI in practice
- Engagement
- Climate change

Manager reporting on responsible investments was a focus for all Manager engagements, improving the quality of information in the quarterly reports improves the oversight of responsible investment. There was good progress on the Manager reporting during the Scheme year, however the Trustee will continue to engage with Managers on this area as it develops.

M&G meeting – 20 May 2020

Representatives from M&G presented at the Funding Committee, M&G were asked to present on the following topics:

- Company update
- Portfolio review (Corporate bonds & senior loans)
- Market update (for COVID-19 and Brexit)
- Responsible investments

The Funding Committee challenged M&G on their consideration of ESG factors within the investment making decision process and its progress on producing a carbon report to produce a carbon sensitivity score for the portfolios. M&G are also looking at ways to adapt engagement with companies to focus specifically on behaviour. An example of this is companies that accept government bail-outs but still pay dividends to equity owners.

Exercise of voting rights

Voting policy

In September 2019 the Trustee approved a proxy voting policy, the proxy voting policy was initially considered by the Funding Committee and was reviewed by the Trustee's investment and legal advisers. The Trustee approved the proxy voting policy having reviewed it against the SIP. The policy operates with the following principles:

- The Trustee is ultimately responsible for exercising voting rights efficiently and in line with its mandate to generate superior risk-adjusted economic returns on the investments for the benefit of the Scheme's members. No consideration shall be given to an investee company's potential business relationships to Zurich outside of the Scheme.
 - The safety of the underlying investment and obtaining the sustained generation of long-term economic return generated by the shares are the primary objectives in determining how votes are exercised. In the process, due attention shall be paid to the assessment of ESG issues.
 - As a long-term investor, the Scheme does apply a longer-term focus, and expects Managers to vote in order to support the investee companies' strong and sustainable governance, as well as a long-term oriented strategy and its implementation. Long-term value creation is preferred over short-term gains.
 - Voting rights for financial investments shall be exercised actively following clearly defined voting guidelines.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

- However, where economic costs of exercising voting rights are not commensurate with expected benefits, voting may be refrained from.

As all of the Scheme's assets are externally managed, the Trustee reviews the Managers' applicable proxy voting policies every three years or more frequently if there are any material changes. If these are in alignment with the guiding principles described above, the Trustee will delegate the authority to exercise voting rights to the Managers.

As discussed in the 'Policy and Response' section, the Trustee met with the majority of Managers during the Scheme year, with RI as a key topic for the majority of meetings.

The Scheme has 3 types of equity structures within the ZPen & ES Executives' sections.

- Segregated mandates in segregated custody accounts (DB)
- Pooled mandates in segregated custody accounts (DB)
- Via-platform investments (DC)

The table on the next page sets out the portfolios that contain equities.

The DC assets (equity components) column provides the components of any "blended funds". A blended fund is a fund that is made up of multiple funds. Apart from the fund, ZFundBuilder, all other funds in the table are "wrapped funds". Wrapped funds invest in one underlying fund, Scottish Widows offer these funds, hence the prefix of "SW" before the majority of funds.

Across the ZPen (DB & DC assets) & ES Executives' sections the majority of equity assets are with CTI. There are approximately £2.2bn of equities held in total, £2.0bn of these at the Scheme year end were held by CTI through segregated mandates and pooled funds (through segregated custody accounts and via-platform investments). The statistics for the DB assets will reflect the fact that CTI would have voted on behalf of the Trustee (through the segregated custody accounts) and as fund managers (through the pooled funds).

The Trustee reviewed quarterly updates on voting statistics from CTI during the Scheme year. During the Responsible Investment day, key individual company voting records were challenged. All of the voting decisions are available on the CTI's website seven days after each company meeting.

As discussed in the 'Policy and response' section, the Trustee is satisfied that CTI's voting policy is aligned with its own guiding principles. CTI votes actively at company meetings, applying principles on a pragmatic basis. CTI views this as one of the most effective ways of signalling approval (or otherwise) of a firm's governance, management and strategy. CTI's RI team makes the final voting decisions in collaboration with the firm's portfolio managers and analysts.

The key statistics and significant votes for CTI are shown on pages 89-91.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

| DB assets | % of Scheme equity assets | DC assets | % of Scheme equity assets | ZFundBuilder (equity components) | % of Scheme equity assets |
|---------------------------|---------------------------|---|---------------------------|---|--|
| Fund 1 (ZPen) | 85.9% | ZFundBuilder (blended fund – see next column for equity components) | 9.3% | Aquila UK Equity Aquila US Equity Threadneedle Asia Threadneedle European Threadneedle Japan JPM All-Emerging Markets Equity | 3.6% 1.2% 0.5% 1.2% 0.5% 0.2% |
| Fund 5.1 (ES Executives') | 2.9% | SW Managed | | | 0.1% |
| | | SW Mixed Investments | | | <0.1% |
| | | SW Aquila 50/50 Global Equity Index | | | 0.8% |
| | | SW Aquila UK Equity Index | | | 0.2% |
| | | SW Aquila World ex-UK Equity Index | | | 0.5% |
| | | SW HSBC Islamic | | | 0.1% |
| | | SW L&G Ethical Global Equity Index | | | 0.1% |

Fund 1

CTI's statistics showed the following:

- **469 meetings in total**
 - 5 did not vote because CTI had sold out of the holding prior to the AGM. 98.9% meetings were voted
 - 204 had at least one vote against management (which we class as a vote against management's recommendation – either an abstain or against).
- **6,368 individual resolutions**
 - 5,833 'for'
 - 314 'against' or 'withhold'
 - 8 'one year' votes submitted for US Say on Pay items
 - 177 'abstain'
 - 36 resolutions not voted – at the five meetings mentioned above where CTI had sold our position before the AGM

Fund 5.1

CTI's statistics showed the following:

- **739 meetings in total**
 - 11 did not vote because CTI had sold out of the holding prior to the AGM. 98.5% meetings were voted
 - 357 had at least one vote against management (which we class as a vote against management's recommendation – either an abstain or against).
- **9,086 individual resolutions**
 - 8,097 'for'
 - 591 'against' or 'withhold'
 - 13 'one year' votes submitted for US Say on Pay items
 - 286 'abstain'
 - 99 resolutions not voted – at the five meetings mentioned above where CTI had sold our position before the AGM.

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

Significant votes

| | |
|---|---|
| Company name | Centene Corporation |
| Date of vote | 28-Apr-20 |
| Summary of the resolution | Reduce Supermajority Vote Requirement |
| How you voted | For |
| Rationale for the voting decision | Enhances shareholders' rights |
| Outcome of the vote | Dissent from 94% of shareholders |
| Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? | Active stewardship (engagement and voting) continues to form an integral part of our research and investment process. |
| On which criteria have you assessed this vote to be "significant"? | Vote against management; significant level of shareholder dissent. |

| | |
|---|---|
| Company name | Tesco Plc |
| Date of vote | 26-Jun-20 |
| Summary of the resolution | Advisory Vote to Ratify Named Executive Officers' Compensation |
| How you voted | Against |
| Rationale for the voting decision | Misalignment between pay and performance; discretion used to alter outcomes |
| Outcome of the vote | Dissent from 67% of shareholders |
| Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? | Active stewardship (engagement and voting) continues to form an integral part of our research and investment process. |
| On which criteria have you assessed this vote to be "significant"? | Vote against management; significant level of shareholder dissent. |

| | |
|---|---|
| Company name | Li Ning Company Limited |
| Date of vote | 12-Jun-20 |
| Summary of the resolution | Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights |
| How you voted | Against |
| Rationale for the voting decision | Dilution risk. |
| Outcome of the vote | Dissent from 58% of shareholders |
| Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? | Active stewardship (engagement and voting) continues to form an integral part of our research and investment process. |
| On which criteria have you assessed this vote to be "significant"? | Vote against management; significant level of shareholder dissent. |

Zurich Financial Services UK Pension Scheme

Annual report for the year ended 30 June 2020

Implementation Statement

| | |
|---|---|
| Company name | Sanofi |
| Date of vote | 28-Apr-20 |
| Summary of the resolution | Advisory Vote to Ratify Named Executive Officers' Compensation |
| How you voted | Against |
| Rationale for the voting decision | Concerns with performance conditions attached to long-term pay. |
| Outcome of the vote | Dissent from 58% of shareholders |
| Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? | Active stewardship (engagement and voting) continues to form an integral part of our research and investment process. |
| On which criteria have you assessed this vote to be "significant"? | Vote against management; significant level of shareholder dissent. |

| | |
|---|---|
| Company name | Northgate Plc |
| Date of vote | 15-Jan-20 |
| Summary of the resolution | Approve Restricted Stock Plan |
| How you voted | Against |
| Rationale for the voting decision | Concerns with complexity and quantum on offer. |
| Outcome of the vote | Dissent from 40% of shareholders |
| Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? | Active stewardship (engagement and voting) continues to form an integral part of our research and investment process. |
| On which criteria have you assessed this vote to be "significant"? | Vote against management; significant level of shareholder dissent. |

ZCashBuilder

The ZPen team engaged with the investment platform provider (Scottish Widows) to request the provision of voting information on all of the equity holding funds. Scottish Widows were unable to deliver this information and will be developing this capability over the next Scheme year.

The Trustee was able to satisfy itself that its policies and principles on voting were taken into account by fund managers through discussing voting in engagement through the Scheme year. The Trustee engagement with Managers did not include ZFlexibleIncomePot and SW Mixed Investments as these two funds have a small percentage of equities relative to other asset classes. Approximately 25% of ZCashBuilder equity assets are held by CTI, CTI are covered in detail above.