Zurich Financial Services UK Pension Scheme

Annual report and financial statements for the year ended 30 June 2021

Pension Schemes Registry reference no: 10089264

Zurich Financial Services UK Pension Scheme
Annual report for the year ended 30 June 2021
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Welcome from the Trustee Chair

Welcome to the 2021 annual report and financial statements. This is our second report since the onset of COVID-19 and marks the first full Scheme year where our governance of the Scheme has been affected by the pandemic. We have had to work through a number of challenges and have adapted well, alongside our administrators and advisers.

2021 saw The Pension Schemes Act 2021 become law. The Act is broad ranging but primarily aimed at strengthening the powers of The Pensions Regulator (TPR) in order to protect scheme members. There are also implications for DB scheme funding and climate change reporting.

Many of the provisions of the Act require secondary legislation to be passed and we are starting to see some of the new measures come into force.

Trustee board

In the last report we noted a few changes to the Trustee board.

Simon Clifford (company-nominated Trustee director) resigned from the board in June 2020 and Liz Ryan joined in his place.

In August 2020, Tom McKenna and Graham Mearns resigned from the board at the end of their three year terms as member-nominated Trustee directors (MNDs) and Hilary Newton and Derryn Yong joined the board following an MND nomination and selection process.

Hilary has since left employment with Zurich and been replaced on the board by Paul Keaveney who was selected in the MND nomination and selection process as a reserve member director. A reserve member director can be appointed as an MND if one of the current MNDs leaves mid-term.

Trustee advisers

The Trustee board has a number of advisers to support us. Under the Trustee's governance framework we regularly review these advisers' appointments.

In February 2021 we appointed Lane Clark & Peacock as DC adviser.

During the year, we also carried out a review of the Scheme auditor and Scheme actuary.

In April 2021 we appointed Ernst & Young as Scheme auditor in place of PricewaterhouseCoopers.

In August 2021, we appointed Martin Potter, a partner at Hymans Robertson, as Scheme actuary. Martin has extensive experience of advising trustees of large pension schemes with sponsoring employers in the financial services sector.

Trustee knowledge and understanding

The Trustee directors are committed to developing and maintaining their knowledge and understanding. Due to the impact of the pandemic we replaced our annual training day with a series of virtual training sessions run throughout the year. This year we received training on long-term journey planning for DB schemes, GMP equalisation, responsible investment, the security of DC assets and cyber security.

All our training is delivered by appropriate specialists in the relevant fields.

Funding – ZPen and ES Executives' Sections

In September 2020 we concluded the valuation as at 30 June 2019. Hopefully you will have already looked at the valuation report on the member website, or perhaps just read the headlines in the September 2020 Trustee Newsflash, but pages 18 to 21 of this report provide a useful reminder. The valuation results show that both the ZPen and ES Executives' Sections of the Scheme remain in surplus.

You may be aware that TPR is updating its DB Funding Code of Practice which we expect to be in force in late 2022. This will require trustees to put in place a long-term objective so that by the time the Scheme is significantly mature it has a low level of dependence on the employers and is invested with a high resilience to risk. Trustees will also be required to develop a journey plan to achieve the Scheme's long-term objective. Work is underway to develop a long-term objective and journey plan and we are engaging with the Company to complete this.

Changes to participating employers

On 30 April 2021, one of the participating employers in the Scheme, Dunbar Assets Ltd, ceased to employ any active members. Under legislation, this triggers a debt in relation to the employer's share of the Scheme's liabilities calculated on a buy-out basis. This debt was settled on 30 June 2021 and Dunbar Assets Ltd exited the Scheme as a participating employer.

Investments

The Trustee continues to make good progress on its responsible investment strategy. During the latest Scheme year the Trustee has focused on climate change risks and opportunities. The Trustee has agreed and published a climate change policy, describing governance, strategy and risk management of climate change risks and opportunities. You can read more about this on page 23.

As 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. For the ZPen DB arrangement the investment strategy was amended to increase target hedging ratios for interest rates and inflation, further addressing the most significant investment risks faced by the Scheme, and increasing the allocation to infrastructure debt. In December 2020 the Trustee agreed to allocate 2.5% of the Scheme's investment assets to middle market loans (MML) by reducing the equity allocation. The MML fund was launched in September 2021.

For the ES Executives' Section, in June 2021 the Trustee agreed a de-risking strategy, reducing the allocation to growth assets significantly. This included selling the Section's entire real estate holding. The proceeds of the growth reduction have been used to increase exposure to corporate bonds and gilts. The revised strategic asset allocation still leaves the funding ratio (on a technical provision basis) comfortably over 100% while reducing market risk. You can read more about this on page 24.

ZCashBuilder

ZCashBuilder members now make up over a quarter of Scheme members. Our DC Committee has carried out an investment review with changes implemented in April 2021.

The Committee has also conducted the annual value for members assessment and assessed ZCashBuilder as providing good value for members. You can read more about this in the Chair's Statement on page 36.

Looking forward, the Committee is focusing on our 'at-retirement' strategy and approach to member engagement.

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

With very best wishes

David Sims

David Sims (Chair)

14 December 2021

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 those of the Zurich Insurance Group. In this document, when we refer to Company, we mean the Scheme's sponsoring company. When we refer to employers we mean the Scheme's participating employers, including the Scheme's sponsoring company (see page 9).

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.

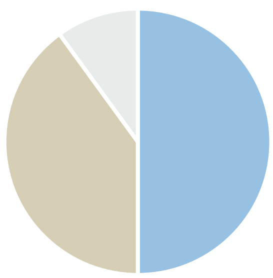
Under the Trustee's constitution there must always be between eight and ten Trustee directors, including:

- 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.

Trustee directors at 30 June 2021



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 selection process was last run in 2020, as the term of office for three of the member-nominated Trustee directors, Tim Culling, Tom McKenna and Graham Mearns, expired on 14 August 2020. Following a competency based interview process, 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.

In November 2021, Hilary left employment with Zurich and was replaced on the board by Paul Keaveney who was selected in the MND nomination and selection process as a reserve member director. A reserve member director can be appointed as an MND if one of the current MNDs leaves mid-term.

Changes to Company-nominated Trustee directors

Liz Ryan was appointed as a Company-nominated Trustee director, effective from 1 July 2020, replacing Simon Clifford who resigned on 30 June 2020.

Committees

The Trustee has two committees, the Funding Committee and the DC Committee. Each committee has representatives from the Trustee and the Company. The objective of the Funding Committee is to manage investment and valuation matters for the DB arrangements with a view to providing oversight and guidance in line with relevant legal and regulatory requirements. The objective of the DC Committee is to manage the DC arrangements with a view to achieving good member outcomes and providing oversight and guidance in line with relevant legal and regulatory requirements. Both committees report into the Trustee quarterly.

The Trustee directors also meet from time to time in sub-committees to consider, amongst other things, discretionary, administrative and investment issues.

Trustee directors


David Sims (Chair)
Former CEO Zurich Europe Life


Christian Jochum
Head of Strategy Development, Investment Management, Zurich


Amy Brettell
Head of Customer, UK Claims, Zurich


Katja Pluto
Head of Risk, EMEA, Zurich


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


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
Former Chief Financial Officer, UK Life, Zurich


Hilary Newton *Appointed 15 August 2020, Resigned 1 November 2021*
Product Management and Inforce Manager, Zurich


Derryn Yong *Appointed 15 August 2020*
International Portfolio Manager, Zurich International, Zurich


Paul Keaveney *Appointed 1 November 2021*
International Wholesale Practice Leader, Commercial Property, 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

Contacts

For general information and individual benefit enquiries:

David Lidbury, Customer Services Manager

ZPen Team
PO Box 377
Darlington
DL3 6XY

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

Emma Skuse
Head of UK Pensions & Benefits

To contact the Trustee:

Claire Calo, Scheme Secretary

ZPen Team
PO Box 377
Darlington
DL3 6XY

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

UK Pensions & Benefits Team

Further details on how to contact us are on page 16.

Trustee's advisers

Investment Managers

ZCashBuilder
Lloyds Banking Group plc (Scottish Widows Ltd)

ZPen DB & ESExec DB
Threadneedle Asset Management Ltd

ZPen DB
M&G Investments UK

Insight Investment Management (Global) Limited

Macquarie Group Ltd

Ares Management Ltd
from 15/09/2021

Custodian, investment performance & compliance monitoring

ZPen DB & ESExec DB
The Northern Trust Company

Investment advisers

Hymans Robertson LLP

Covenant advisers

PricewaterhouseCoopers LLP

Solicitors

Eversheds Sutherland (International) LLP

DC advisers

from 12/02/2021
Lane Clark & Peacock LLP

Investment analysts

Zurich Insurance Company Ltd, Investment Management

Independent auditors

PricewaterhouseCoopers LLP*
until 20/01/2021

Ernst & Young LLP
from 15/04/2021

Insurance Company

Zurich Assurance Ltd

* PWC resigned from their position as Scheme auditor on 20 January 2021. In their statement on leaving office, it was noted there are no circumstances with their resignation which, in their opinion, significantly affect the interests of members or prospective members of, or beneficiaries under the Scheme.

Actuarial Advisers

Barnett Waddingham LLP

Hymans Robertson LLP
from 28/05/2021

Actuary

Susanna Morran**
Barnett Waddingham LLP
until 12/08/2021

Martin Potter
Hymans Robertson LLP
from 12/08/2021

Customer Services

ZPen DB & ESExec DB
UK Pensions & Benefits, Zurich

ZCashBuilder & pensioner payroll
RailPen
(formerly branded as RPMI)

Bankers

ZPen DB & ESExec DB
Lloyds Bank plc

ZCashBuilder
The Royal Bank of Scotland plc

AVC providers

Zurich Assurance Ltd

Scottish Widows Ltd

ReAssure Ltd

Threadneedle Asset Management Ltd

Trustee company secretary

Zurich Corporate Secretary (UK) Limited

Scheme secretary

Claire Calo, Zurich

** Susanna Morran resigned her position as Scheme actuary on 12 August 2021. In her statement on leaving office, she noted no circumstances connected with her resignation which significantly affected the interests of the members, prospective members or beneficiaries of the Scheme.

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. This was reviewed and updated during the Scheme year.

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, two committees of the Trustee directors can be formed to consider the matter from each of the Section's perspective.

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 Trust Nominees No.1 Limited.

The share held by Capita Trust Nominees No.1 Limited is a 'golden share'. Any amendment to the Articles of Association for the Trustee company requires the consent of the golden shareholder.

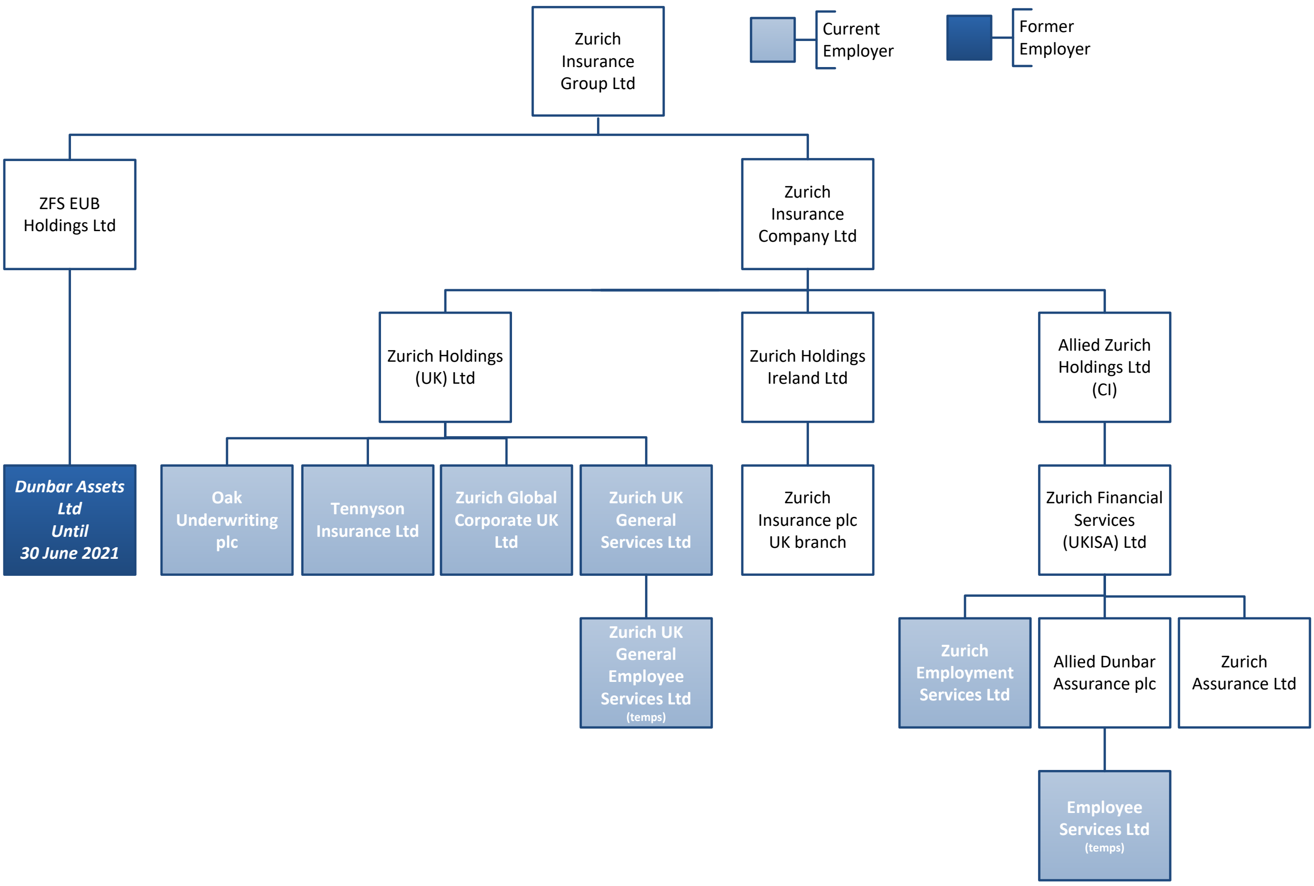
Zurich Financial Services (UKISA) Limited appoints all of the Trustee directors, although the appointment or removal of the independent Trustee director also requires the consent of the golden shareholder.

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 and Irish businesses. During the Scheme year Dunbar Assets Ltd ceased to be a participating employer; further information about this can be found on page 11.



Trustee knowledge and understanding

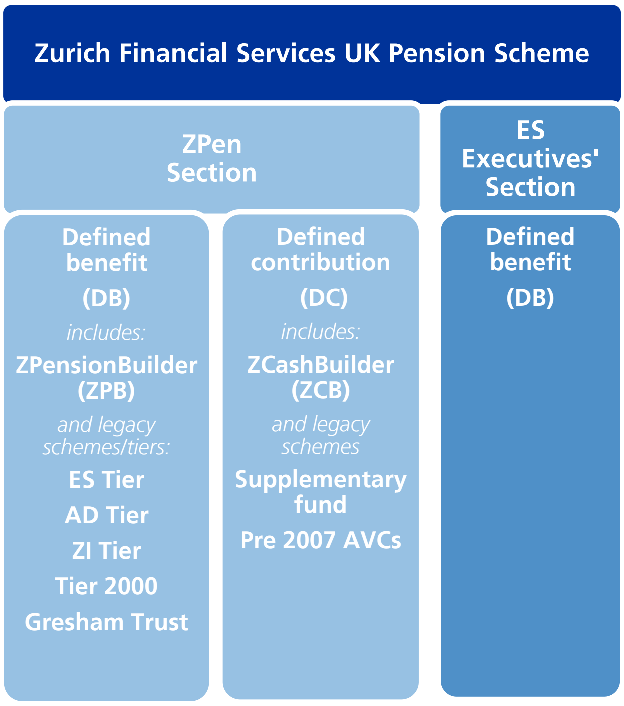
By law[1], Trustee directors must have enough knowledge and understanding to be able to carry out their function effectively. This requirement is reinforced by The Pensions Regulator (TPR), who has set out its expectations for trustee knowledge and understanding (TKU) in a Code of Practice.

The Trustee has a formal policy on TKU, and this is regularly reviewed to ensure continued compliance with TPR’s requirements.

Full details of how the Trustee directors have complied with these requirements are set out in the Chair’s Statement on page 36.

Scheme structure

The Scheme has two sections: the ZPen Section, with its associated arrangements (ZPen DB and ZPen DC), and the ES Executives’ Section (ESExec DB). The assets in each section are kept completely separate, as you will see in the financial statements. The diagram on the right provides a basic overview of the Scheme structure.



Overview of the Scheme year

Trustee meetings

The Trustee directors meet as a full board at least four times a year, as well as a day to review the risk framework and agree priorities for the Scheme work plan. They will usually act by consensus, although they do each have one vote, should the need arise. The Chair does not have a casting vote.

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

The Trustee directors keep an attendance record and attendance at the Trustee, Funding Committee and DC Committee meetings during the Scheme year is as shown in the table on the next page. During the COVID-19 pandemic all meetings switched to being held virtually; these are also included in the attendance records.

[1] Pensions Act 2004

Meeting attendance this Scheme year

	Trustee board		Funding Committee		DC Committee	
	Quarterly board meetings, risk day, additional meetings					
	Meetings attended	**Eligible to attend**	**Meetings attended**	**Eligible to attend**	**Meetings attended**	**Eligible to attend**
David Sims	9	9	5	5	n/a	
Amy Brettell	7	9	n/a		3	4
Tim Culling	8	9	n/a		5	5
Neil Evans	8	9	4	5	n/a	
BESTrustees[2]	9	9	3	5	5	5
Christian Jochum	9	9	3	5	n/a	
Hilary Newton	8	9	n/a		2	2
Katja Pluto	7	9	n/a		n/a	
Liz Ryan	9	9	n/a		n/a	
Derryn Yong	9	9	n/a		n/a	

Scheme events

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

Included in 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.

Change to participating employers

Dunbar Assets Ltd, a participating employer in the Scheme is expected to be wound up by June 2022. In anticipation of the wind up, Dunbar Assets transferred its last remaining active employees to Zurich Employment Services with effect from 30 April 2021.

Pension regulations stipulate that, when a participating employer ceases to employ any active members, at a time when at least one other employer in a multi-employer scheme continues to employ active members, the departing employer is required to pay its share of the scheme's liabilities on the buy-out basis; this is known as the Section 75 debt.

Dunbar Assets Section 75 debt of £29.7m was settled on 30 June 2021 and Dunbar Assets exited the Scheme as a participating employer.

Deed of Amendment

On 4 August 2021, the Trustee and Company agreed a Deed of Amendment to make two changes to the Scheme rules. The changes:

- Align the default age at which ZCashBuilder benefits (for ZCashBuilder only members) come into payment with the default target retirement age under the new default investment strategy (which is State Pension Age).
- Introduce flexibility for the Company to determine additional elements of remuneration to be pensionable in respect of ZCashBuilder contributions.

The changes to the default age at which ZCashBuilder benefits come into payment does not prevent members electing for their ZCashBuilder benefits to come into payment on a different date and all benefits calculated by reference to Normal Pension Date will continue to be so.

[2] BESTrustees have been represented by Clive Gilchrist and Catherine Redmond

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.

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 2021. 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. 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 2020	1.5%
	1 July 2021	2.9%
ZPB (former Tier 2000 tier)	1 July 2020	1.5%
	1 July 2021	2.9%
ZPB (former ZI tier)	1 October 2020	1.1%
ZPB (former AD tier)	1 January 2021	0.9%
ZPB (former AD IOM tier)	1 January 2021	1.5%
Legacy tiers		
ES tier	1 July 2020	3.0%
	1 July 2021	3.0%
Tier 2000	1 July 2020	1.5%
	1 July 2021	2.9%
ES Exec	1 July 2020	3.0%
	1 July 2021	3.0%
ZI tier	1 October 2020	1.1%
AD tier	1 January 2021	0.9%
AD Isle of Man	1 January 2021	1.5%
Guaranteed Minimum Pension (GMP) accrued from 6 April 1988*		
All tiers except AD & AD Isle of Man	From 6 April 2020	1.7%
	From 6 April 2021	0.5%

* A GMP is the minimum level of pension which a pension scheme has to provide to members who were contracted out of the State Earning Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. From GMP payment age, which is 60 for females and 65 for males, the GMP receives statutory pension increases.

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; Z Growth, Z Cautious Growth, L&G Ethical Global Equity Index, LGIM Future World 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 including the PPF Levy. As a result of the triennial valuation a new schedule of contributions was agreed, the expense contributions have been decreased to £3.7m per annum, applicable from January 2021. However, the annual Pension Protection Fund levy for the ZPen Section is now excluded from the expense allowance and the employer will arrange for the Scheme to be reimbursed from the 2021/22 levy onwards. Further details are on page 20.

Scheme membership

Details of the Scheme membership are on page 15.

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 included in this annual report have been prepared and audited in accordance with the regulations made under Sections 41 (1) and (6) of the Pensions Act 1995 and are set out from page 63.

Statement of Trustee's Responsibilities

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 the above 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 not be wound up.

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.

The Trustee is responsible under pensions legislation for preparing, maintaining, 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 are made to the Scheme by the employers in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

The Pensions Regulator (TPR) – codes of practice

TPR is a statutory body which regulates work based pension arrangements.

TPR'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.

TPR has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives. TPR 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.

During 2021, TPR has consulted on its first phase of a new singe code of practice. This will replace 10 of the existing codes of practice, which deal mainly with the governance and administration of pension schemes, with 51 shorter, topic-based modules. The full response to the consultation is expected early in 2022.

The DB Funding code, which is also the subject of a separate review by TPR, is expected to be in force in late 2022 and brought into the new code in due course. This code identifies a number of overarching principles that TPR believes should stand behind all scheme valuations. Most significantly, TPR will require trustees to put in place a long-term objective so that by the time the scheme is significantly mature it has a low level of dependence on the employers and is invested with a high resilience to risk. Trustees will also be required to develop a journey plan to achieve the scheme's long-term objective.

ESG: Clarifying and strengthening Trustee investment duties

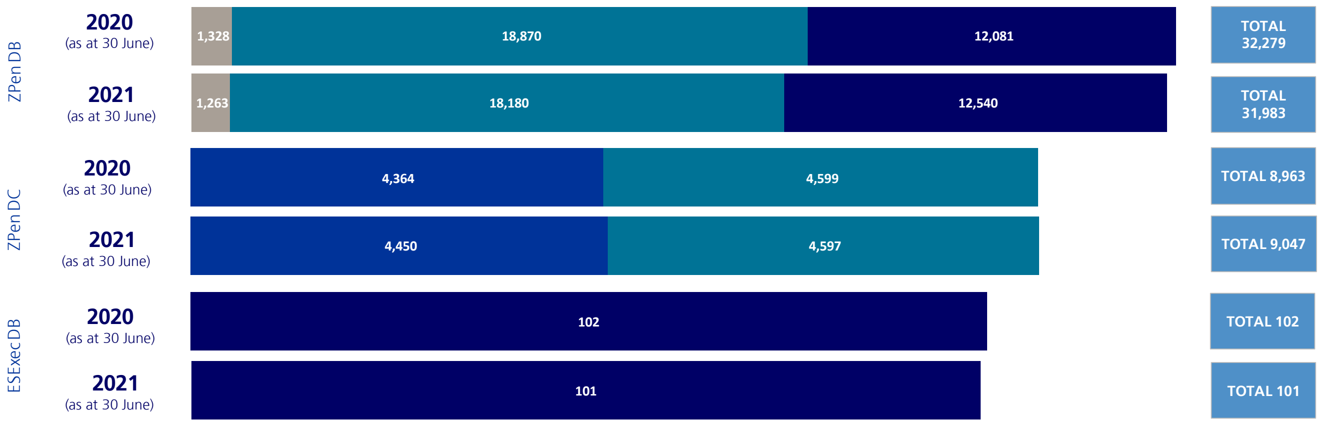
Pension schemes with more than 100 members are now required to disclose the risks of their investments, including the ones arising from environmental, social and governance (ESG) considerations. The new rules published by the Department of Work & Pensions came into effect on 1 October 2019 and require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

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 from page 90.

Membership details



		Active*	Final salary link	Preserved		Pensioners	
	Total	ZPen DC	ZPen DB	ZPen DB	ZPen DC	ZPen DB	ESExec DB
Balance at start of year	41,344	**4,364**	**1,328**	**18,870**	**4,599**	**12,081**	**102**
Retrospective adjustments		(18)	-	-	18	-	-
Joiners		374	-	-	-	-	-
Leavers with preserved benefits		(235)	(44)	44	235	-	-
Leavers transferred out		-	-	(146)	(192)	-	-
Deaths		(5)	(1)	(15)	(7)	(260)	(3)
Retirements		(30)	(20)	(544)	(21)	595	-
Partial benefits taken		-	-	-	-	26	-
Dependant pensioners		-	-	-	-	98	2
Commutation		-	-	(29)	(35)	-	-
Balance at end of year	41,131	4,450	1,263	18,180	4,597	12,540	101

Included within ZPen DB pensioners are 1,496 (2020: 1,427) dependant members and 478 (2020: 485**) annuitants.

Included within ESExec DB pensioners are 17 (2020: 15) dependant members and 8 (2020: 8**) 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. 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).

** The 2020 annuitants reported last year were based on an estimate, they have been updated in this year's accounts.

Customer services

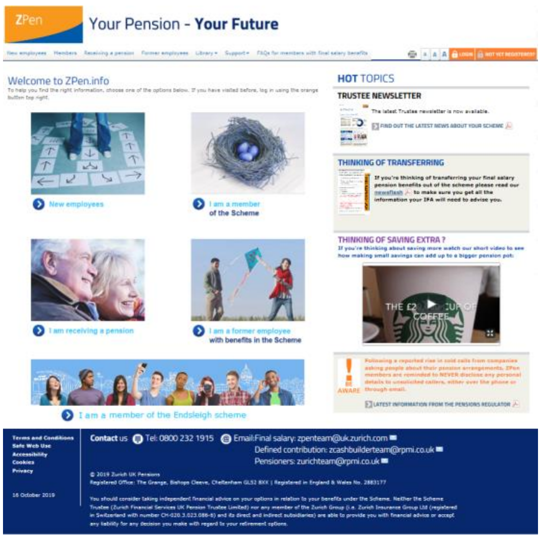
Help for members

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 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 4,300 members have used the website to set up their own retirement benefits.



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 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

Members are encouraged to contact the Customer Services teams by email whenever possible:

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

ZCashBuilder members
zcashbuilderteam@railpen.co.uk

Members with pensions in payment
zurichteam@railpen.co.uk

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

Funding defined 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 Scheme "liabilities"), and
- have sufficient assets, appropriately invested, to ensure that the Scheme is in good shape to meet the benefit payments as they arise (the 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.

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.

Funding committee members

David Sims (Chair)
Former CEO Zurich Europe Life

Christian Jochum
Head of Strategy Development, Investment Management, Zurich

BESTrustees
represented by Clive Gilchrist
Trustee Executive, BESTrustees

Neil Evans
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

Actuarial liabilities

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 Company will contribute an amount of £3.7m per annum, from June 2021, towards the expenses of running the ZPen Section. The costs of the PPF levy from 2021 have been met by the Trustee and reimbursed separately by the Company. 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 30 June 2020, the full valuation as at 30 June 2019, and the annual update at 30 June 2018 are 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.

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 net income of £60m a year.

This was valued at £760m at 30 June 2021 and is included in the total audited value of the assets for the ZPen Section of £8,455m.

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 Company will contribute an amount of £47k per annum towards the expenses of running the ES Executives' Section.

ZPen Section

Technical provisions basis	30-Jun-19 (£m)	30-Jun-20 (£m)	30-Jun-21 (£m)
Assets (excluding AVCs/APCs)	6,849	7,600	7,695
Amount needed to provide benefits	7,666	8,460	8,065
(Deficit)	(817)	(860)	(370)
Funding level excluding SLP	89%	90%	95%
Asset backed contribution (SLP)	880	867	760
Surplus incl. SLP	63	7	390
Funding level including SLP	101%	100%	105%

ES Executives' Section

Technical provisions basis	30-Jun-19 (£m)	30-Jun-20 (£m)	30-Jun-21 (£m)
Assets	199	211	203
Amount needed to provide benefits	182	185	173
Surplus	17	26	30
Funding level	110%	114%	118%

By law, the statements from the Scheme actuary on pages 88 to 89 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 www.zpen.info. The next full valuation is due as at 30 June 2022.

The methodology and assumptions to value the Scheme are covered below.

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 benefits[3] 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 the ZPen Section. 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 assumptions[4]

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 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.

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

[4] Provided by Barnett Waddingham LLP

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

In February 2021, the Trustee agreed that future funding updates would incorporate a change to the inflation assumptions to reflect the outcome of the consultation following the UK Statistics Authority's proposal to align RPI with CPIH (CPI + owner occupiers' housing costs).

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 Company will arrange for the Scheme to be reimbursed from the 2021/22 levy onwards. The Company will also arrange for the Scheme to be reimbursed for the costs of any death in service insurance.

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

Actuarial certificate

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:	Susanna Morran	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 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 the Scheme's liabilities (this is known as the strategic asset allocation). The committee considers the investment strategy for ZPen and ES Executives' Sections separately but applies the same principles to both Sections.

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

A separate committee manages the investment strategy of ZCashBuilder. For more information on the DC committee please see page 33.

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 been integrating ESG factors at various steps in its investment process for many years, and has been working very closely with its advisers and investment managers.

The Scheme has already made good progress in this area over the last few years with its engagement activities, in respect of investments, and the positive environmental impact from the investment in renewable energy projects and utilities through the infrastructure debt portfolio.

During the latest Scheme year the Trustee has focused on climate change risks and opportunities as a result of the responsible investment (RI) strategy development as well as changing regulatory requirements. The additional climate change regulations under Section 175(2A) of the Pensions Act 1995 require pension schemes with assets exceeding £5bn to comply with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, applicable from 1st October 2021. In order to comply with the regulations the Trustee has agreed and published a climate change policy, describing governance, strategy and risk management of climate change risks and opportunities. The DB and DC climate change policies can be found on www.zpen.info. The Trustee also agreed to a 25% weighted average carbon intensity (WACI) reduction target over 5 years for its equity and corporate bond portfolios. The first TCFD report will be published on the Scheme's website before the end of January 2023 for the Scheme year ending 30 June 2022.

Financially material considerations

Within the Scheme's mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to the respective Managers. The Trustee has discussed the extent to which ESG factors, where relevant to the investment mandate, are integrated into the investment processes of the Managers and are satisfied that the Managers are following an approach which takes account of all financially material factors (including ESG factors, including, but not limited to, climate change) when selecting, retaining and realising investments. The Trustee is also satisfied that these factors are considered over a time horizon which is appropriate for the Scheme. The Trustee considers ESG factors at various steps in its investment process. The Trustee also notes the approach taken by the Zurich Group to responsible investment and will both consider and leverage the Group's policies and resources, including any potentially restricted securities, where the Trustee believes it appropriate to do so. Where restrictions are applied on any securities, the Trustee will provide this information to its Managers and require the Manager to comply with the restrictions. 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 is exposed to financially material factors. So where the Scheme directly holds securities (as opposed to a fund), the Trustee has explicitly determined to exclude investments in the equity and debt of such companies within portfolios.

Engagement

The Managers' house policies are expected to broadly meet with the Trustee's views. If expectations are not met the Trustee will engage with the Manager. Where assets are directly held by the Trustee, the Trustee may set explicit guidelines within the IMA. After a period of engaging with the Manager, if expectations are not met then the Trustee would consider terminating the IMA and replacing the Manager. The Trustee believes it is appropriate for its Managers to engage with key stakeholders which may include corporate management of 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 its Managers to consider the capital structure of investments and the appropriateness of any investment made. Where Managers are responsible for investing in new issuance, the Trustee expects the Manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors. The Trustee will review engagement activities undertaken by their Managers as part of its broader monitoring activity periodically. The Trustee believes that such engagement incentivises the Managers to preserve and enhance long term shareholder value of its investments. The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each Manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest in writing to the Trustee.

Member engagement

The Trustee does not have a formal policy of soliciting member or beneficiary views on nonfinancial matters in their investment decision making but will periodically review its position.

Non-financial matters

Where the Scheme directly holds securities, the Trustee has determined to exclude investment in the debt and equity of companies involved in the manufacture of UN-sanctioned weapons from investment portfolios. The Trustee has not imposed any other restriction for non-financial reasons but will periodically review its position.

Investment strategy

ZPen DB

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. The investment strategy was amended to increase 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 investment guidelines were agreed by the Funding Committee and implemented in August 2020. The target hedging ratios and infrastructure debt allocation should be reached no later than 2023. In December 2020, the Trustee agreed to allocate 2.5% of the Scheme's investment assets to middle market loans (MML) by reducing the equity allocation. The MML fund managed by Ares was launched in September 2021.

ESExec DB

The Section benefits from a robust funding level on a technical provisions basis and has a shorter liability duration in comparison to the ZPen DB arrangement. Having a shorter liability duration means the Section is more mature, the membership profile consists fully of pensioners (ZPen DB consists of 40% pensioners). In June 2021 the Trustee agreed a de-risking strategy for the Section, reducing the allocation to growth assets from 20% to 5%. This includes entirely selling the Section's real estate assets of 3.5%. The proceeds of the growth reduction will be used to increase exposure to corporate bonds (from 28% to 35%) and gilts (from 52% to 60%). The revised strategic asset allocation still leaves the funding ratio (on a technical provision basis) comfortably over 100% while reducing market risk.

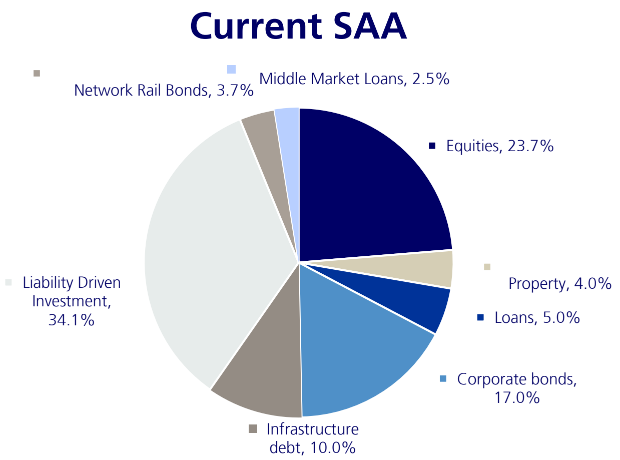
Statement of Investment Principles (SIP)

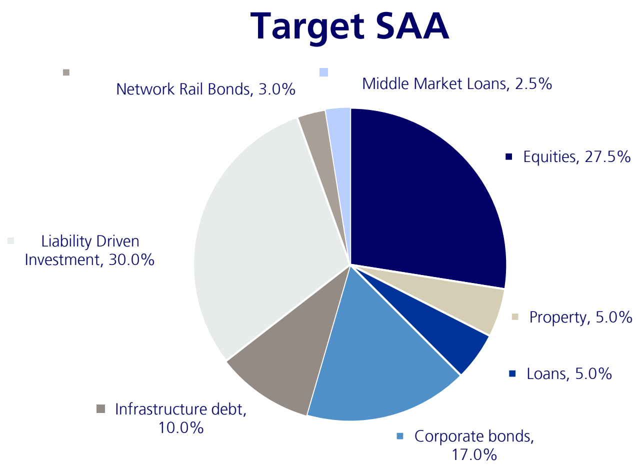
In accordance with Section 35 of the Pensions Act 1995 the Trustee, after consultation with Zurich Financial Services (UKISA) Limited, investment managers and advisers, has drawn up two SIPs governing decisions about investments for the purposes of the Scheme, which it reviews on a regular basis. One 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 DB and DC SIPs are available on www.zpen.info. The policies on financially material considerations, engagement, member engagement and non-financial matters for DC are detailed in the DC Default SIP on pages 53-59.

Distribution of investments

The graphs below show the strategic asset allocation (SAA) as at 30 June 2021.

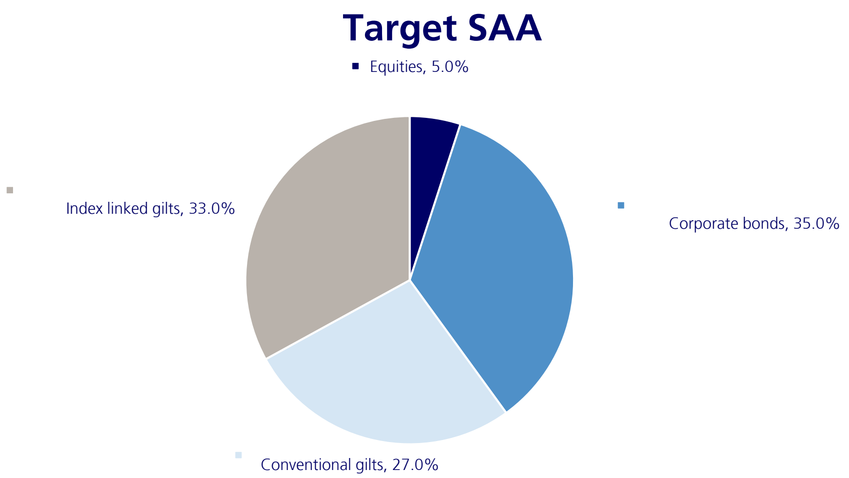
ZPen DB



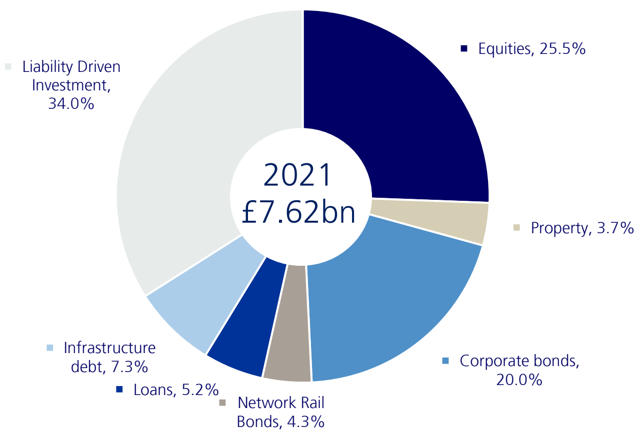


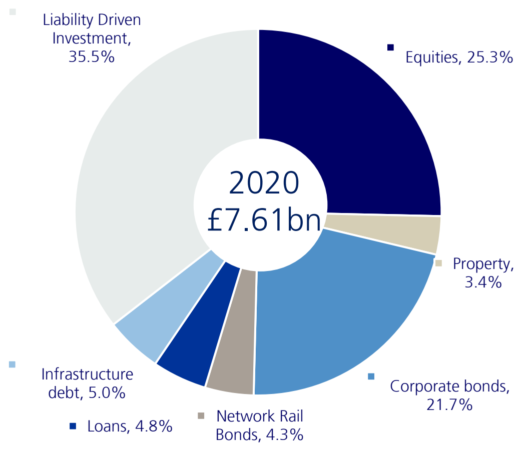
The Funding Committee reviewed ZPen's long-term investment strategy alongside the 2019 triennial valuation process. The glide path to reach the target SAA should finish no later than 2023. The Funding Committee reviewed the ES Executives' Section's long-term investment strategy during 2021. The transactions to move to the strategic asset allocation shown below was completed in August 2021.

ESExec DB



The actual distribution of investments for ZPen at 30 June 2021 compared with 30 June 2020 is shown below*.

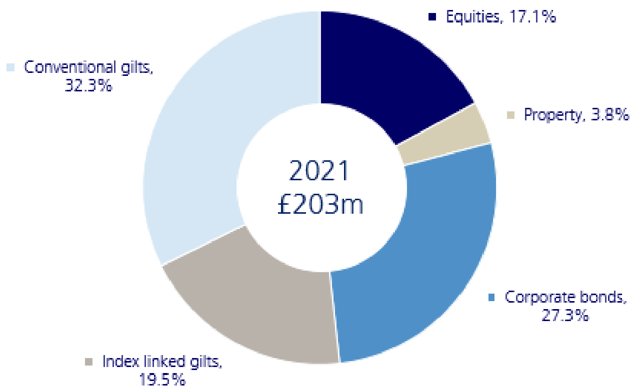


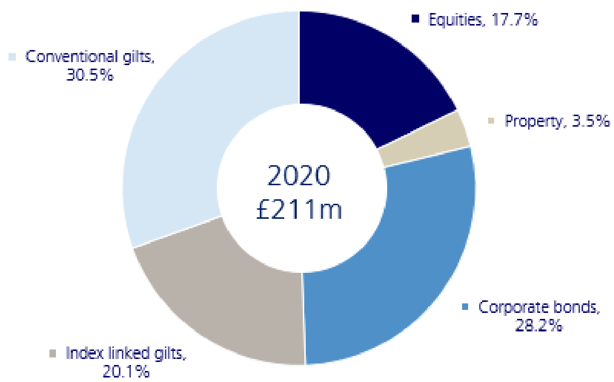


As at 30 June 2021, the Loans fund and approximately 50% of the corporate bonds are managed by M&G Investment Management, the infrastructure allocation is managed by Macquarie Infrastructure Debt Investment Solutions (MIDIS) and the LDI mandate is managed by Insight Investment. The rest of the investments are managed by Columbia Threadneedle.

*The actual distribution graphs above exclude SLP and investment in cash.

The actual distribution of investments for the ES Executives' Section at 30 June 2021 compared with 30 June 2020 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 detailed on page 7. These managers, which are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objective and policies set out in the SIP are followed.

The agreements put in place by the 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 Scottish Limited Partnership.

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 custodian 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 continued operational performance during the COVID-19 pandemic.

Interest in Scottish Limited Partnership

As detailed on page 74, on 31 July 2014 the Scheme acquired an interest in a Scottish Limited Partnership (SLP), funded by a special contribution from the Company 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 26.

Infrastructure Debt

In March 2016, the Trustee agreed an investment into infrastructure debt. Infrastructure are 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 2021, the ZPen Section had eighteen investments in infrastructure debt totalling £548m (2020: £373m).

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 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%).

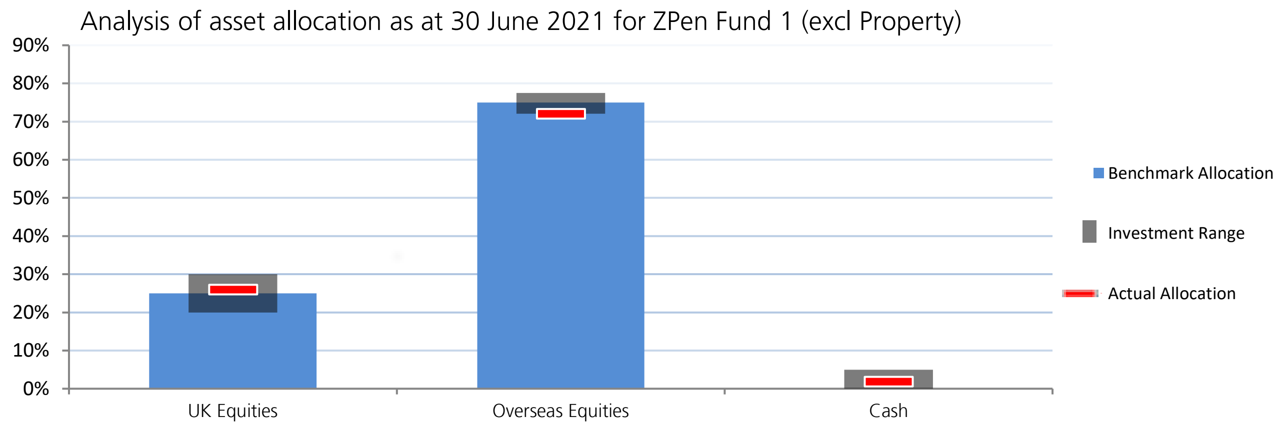
Investment performance

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.

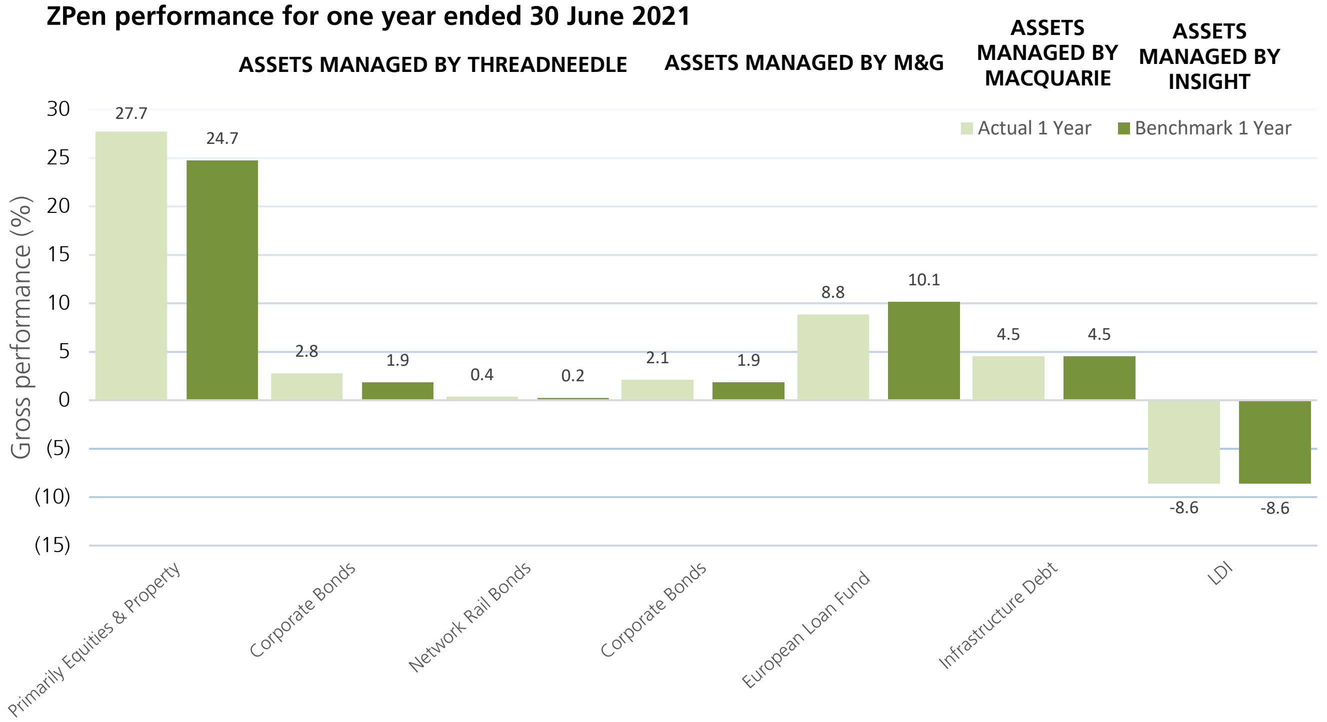
The diagrams below show the benchmarks, investment ranges as permitted by the investment guidelines and actual allocation at the year-end for the ZPen's growth fund (fund 1). All other funds are 100% invested in their specific asset classes. Full details of the performance are given on pages 29 to 32.

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 25. 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 equity portfolio saw the largest increase, markets did well from increased confidence through stimulus being pumped into the economies, positive vaccine news and the reduction in restrictions. 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.

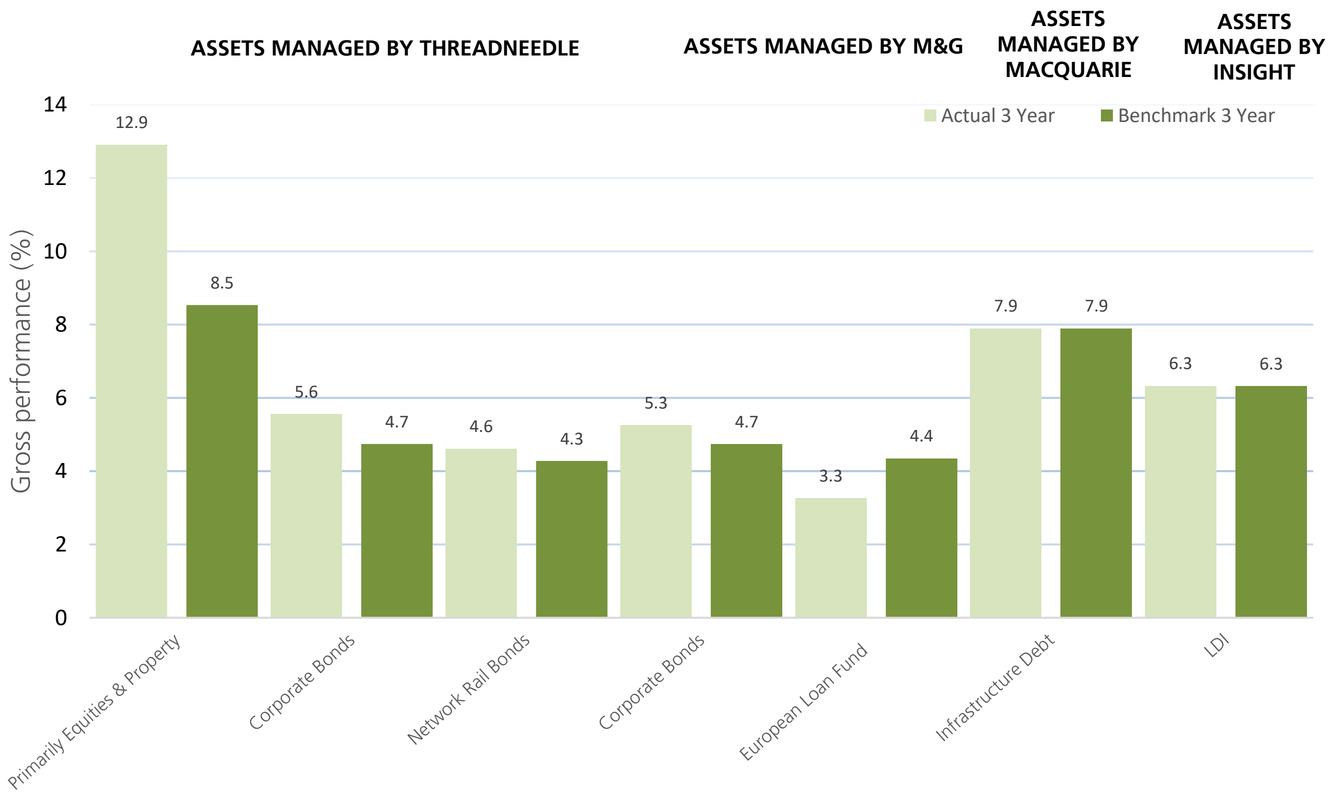


ZPen performance for one year ended 30 June 2021



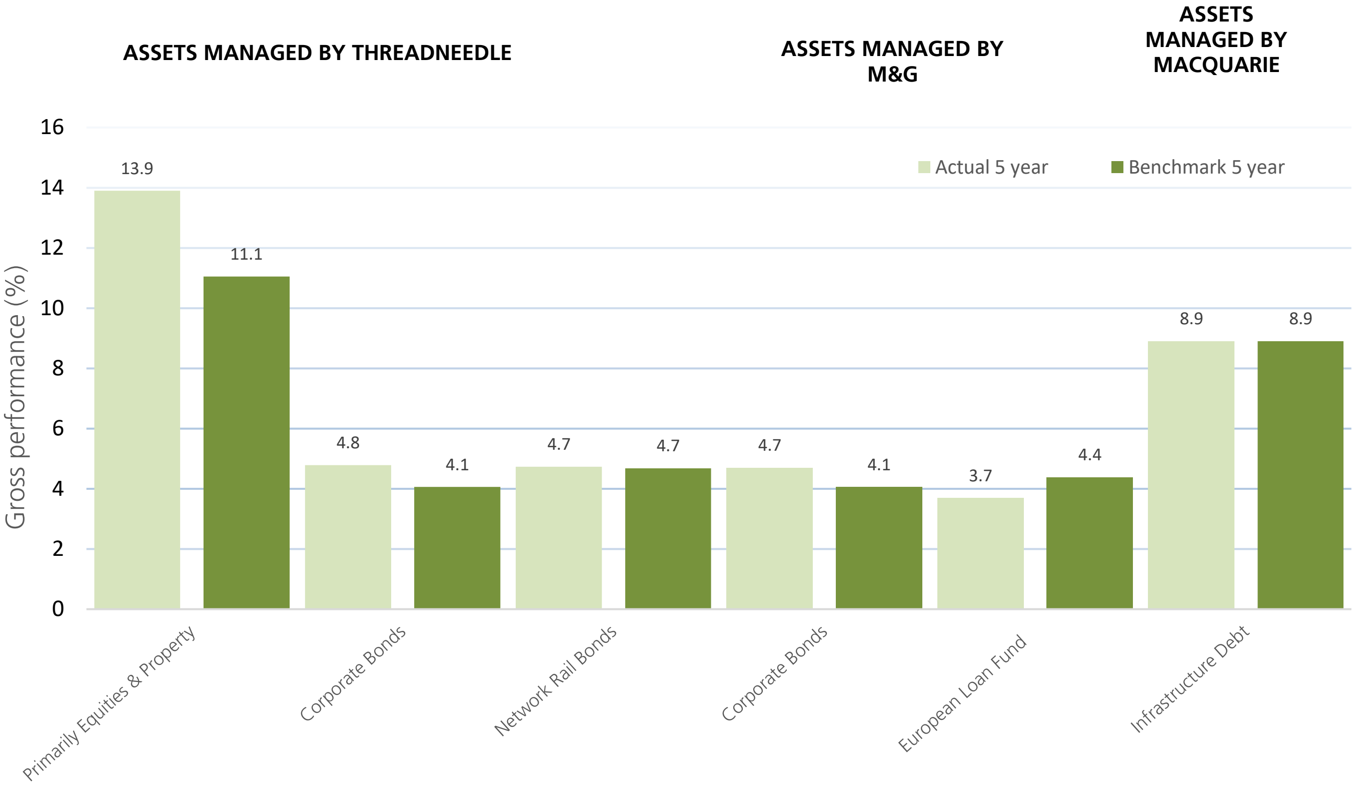
Source: Northern Trust and Insight Investment

ZPen annualised performance for the three years ended 30 June 2021



Source: Northern Trust and Insight Investment

ZPen annualised performance for the five years ended 30 June 2021



Source: Northern Trust

Five year performance for the LDI investments with Insight is not available as the Scheme's investment commenced in 2017.

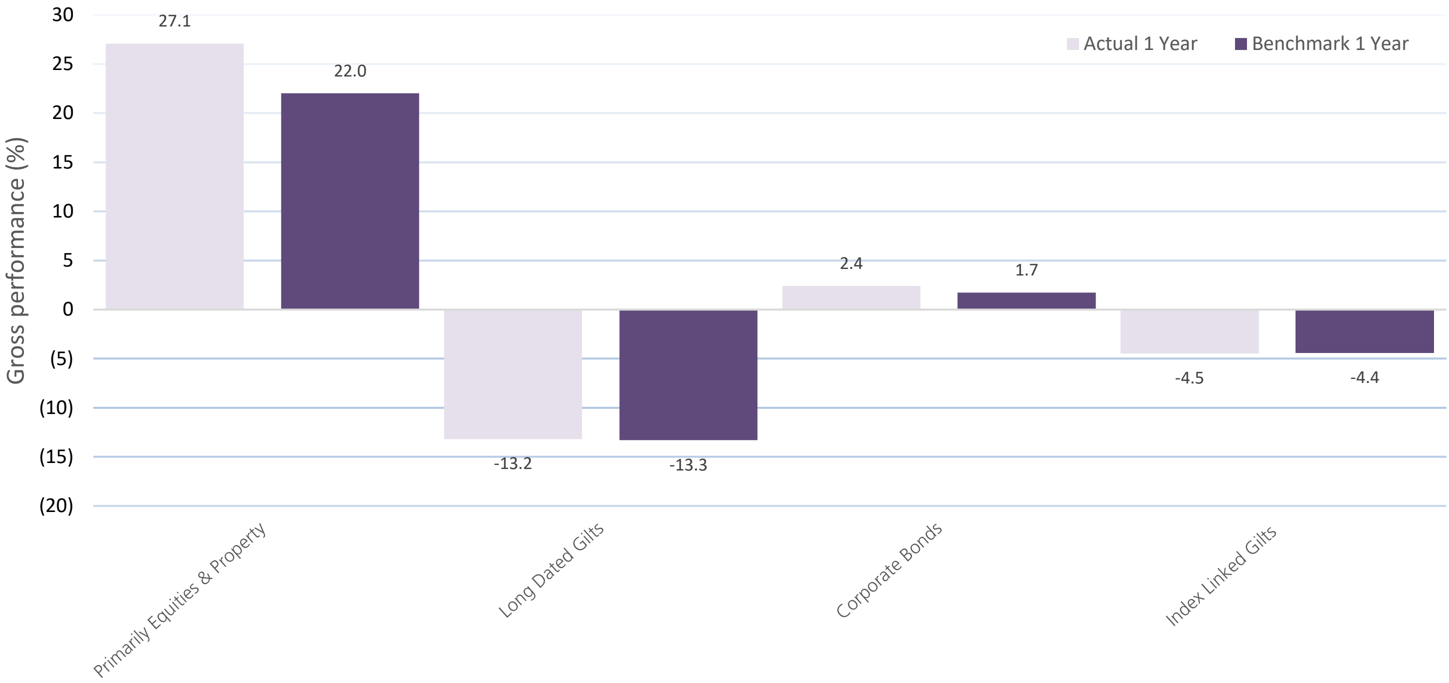
ZPen total performance* for year ended 30 June 2021

Source: Northern Trust

*3 and 5 year performance is annualised

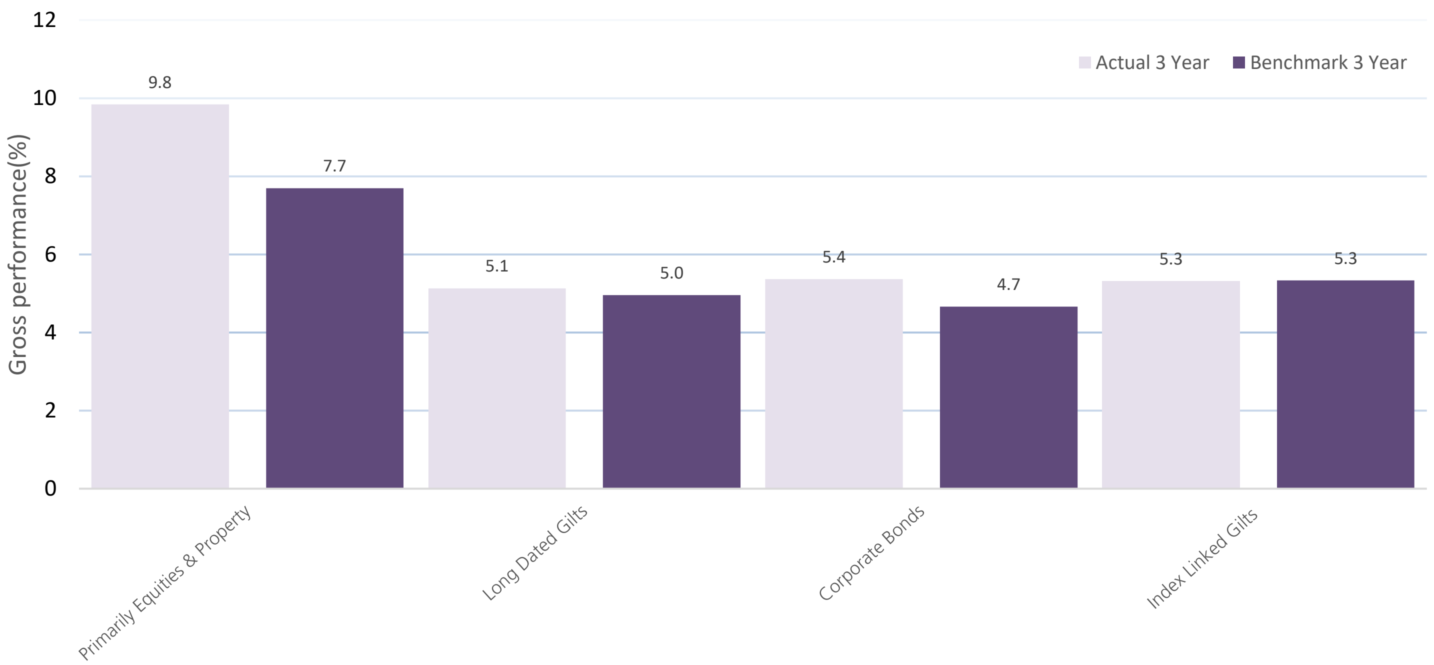
ZPen & ES Executives' performance figures are gross of fees.

ES Executives' performance for one year ended 30 June 2021



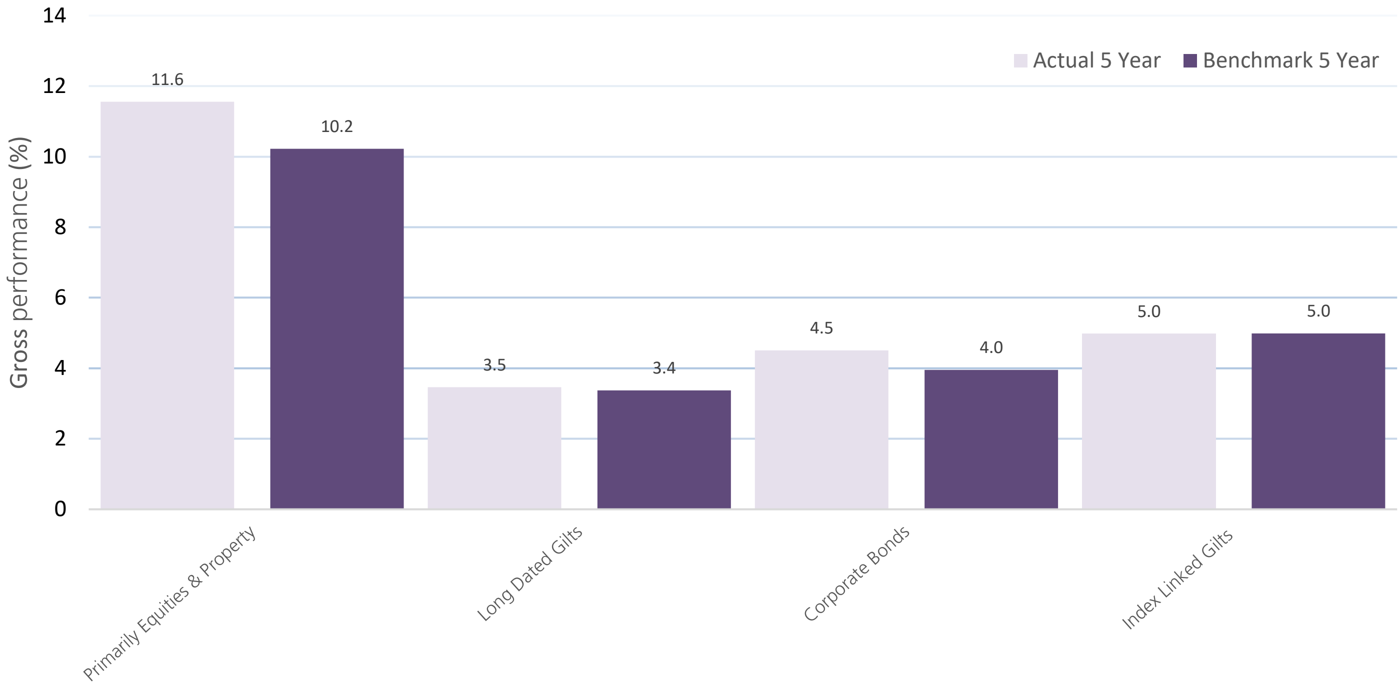
Source: Northern Trust

ES Executives' annualised performance for the three years ended 30 June 2021



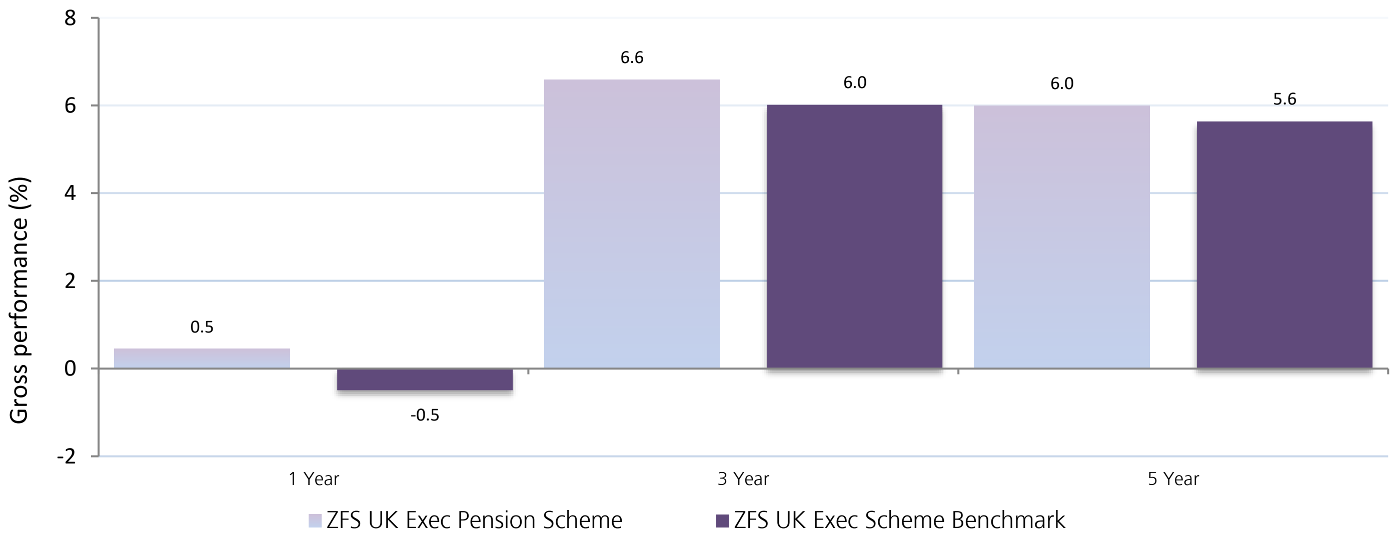
Source: Northern Trust

ES Executives' annualised performance for the five years ended 30 June 2021



Source: Northern Trust

ES Executives' total performance* for year ended 30 June 2021



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

DC Committee

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 *Until 1 March 2021*
Head of Customer, UK Claims, Zurich
Company nominated Trustee director


Hilary Newton *From 1 March 2021 until 1 November 2021*
Product Management and Inforce Manager, Zurich,
Company nominated Trustee director


Paul Keaveney *From 15 August 2020*
International Wholesale Practice Leader, Zurich
Member-nominated Trustee director


Tracey Anderson *Until 14 August 2020*
Head of UK Life & Retail Legal Team, 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 was completed in 2020 and implemented in April 2021.

As part of this review, the Trustee considered how best to incorporate responsible investment into the options available:

- Z Growth Fund, which is used in both default options, invests with Legal and General Investment Managers (LGIM), which was chosen because of the way it uses its size to engage with companies it invests in and influence them.
- The LGIM Future World Fund is available for those who want to invest in a fund which favours companies which are less carbon intensive or earn green revenues.
- The LGIM Ethical Fund is available for those who want to invest in companies with strong environmental, social and governance credentials and sustainability practices.

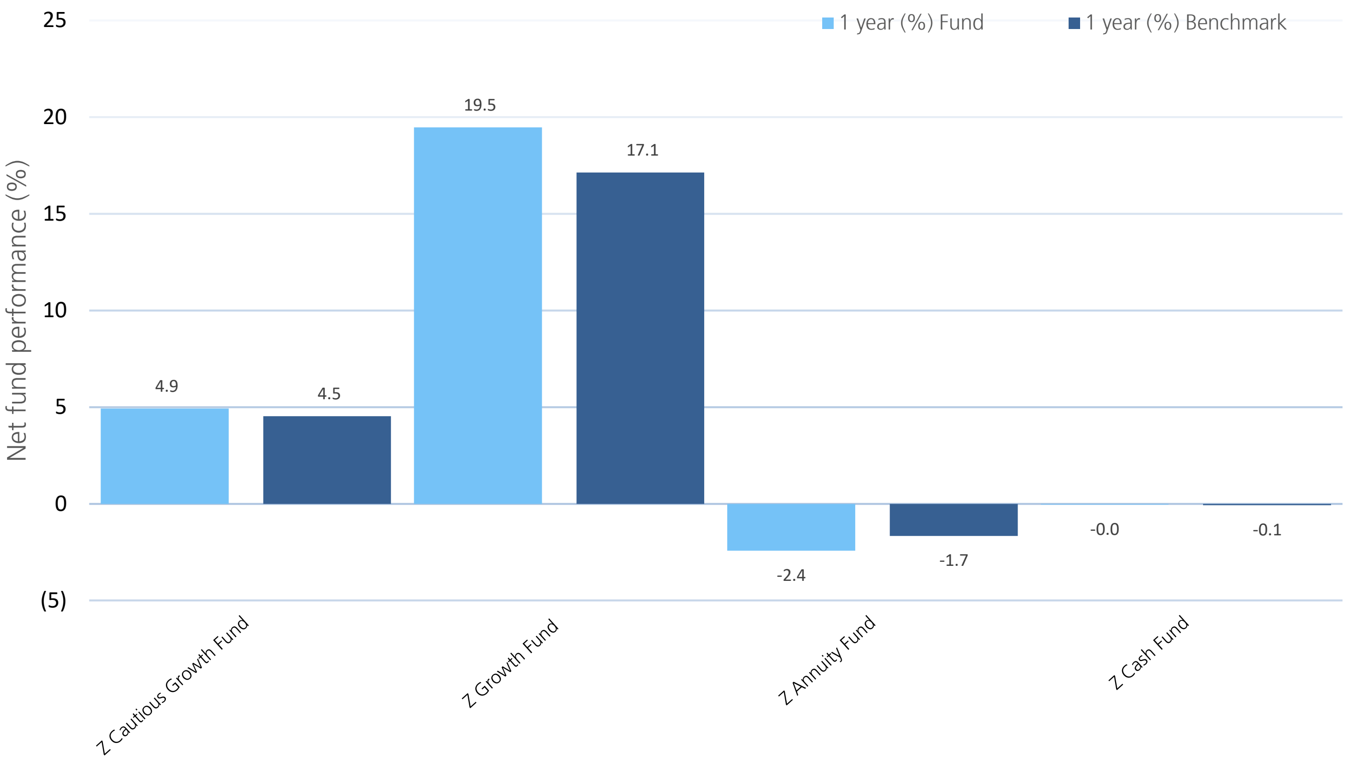
The investment changes also mean that most ZCashBuilder members will pay lower annual charges. The charges paid depend on the fund(s) the members are invested in and over a long time can build up and impact the pension savings you have at retirement. More information about the investment options and charges can be found:

- in the Chair's Statement on pages 36 to 52; This includes information on how the charges you pay can affect your fund value.
- In the Investment Guides available on www.zpen.info.

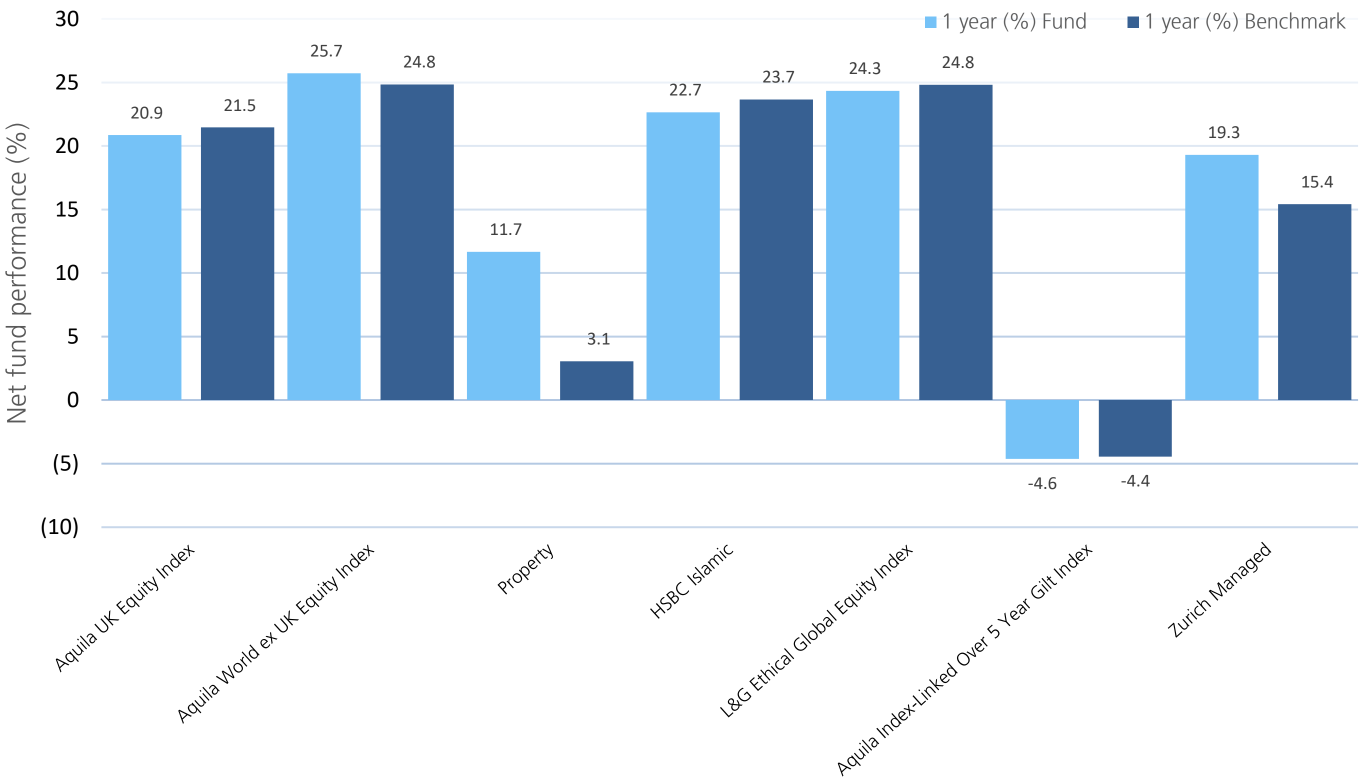
The DC Committee is also looking at the different ways it can provide members with relevant information to understand and manage their ZCashBuilder benefits. This will include a new Pensions Support programme of webinars, courses and information and guides which will be available on the website. The Trustee is always pleased to receive suggestions on what information its members would like to see, and how they would like to receive it.

ZCashBuilder performance for the year ended 30 June 2021

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

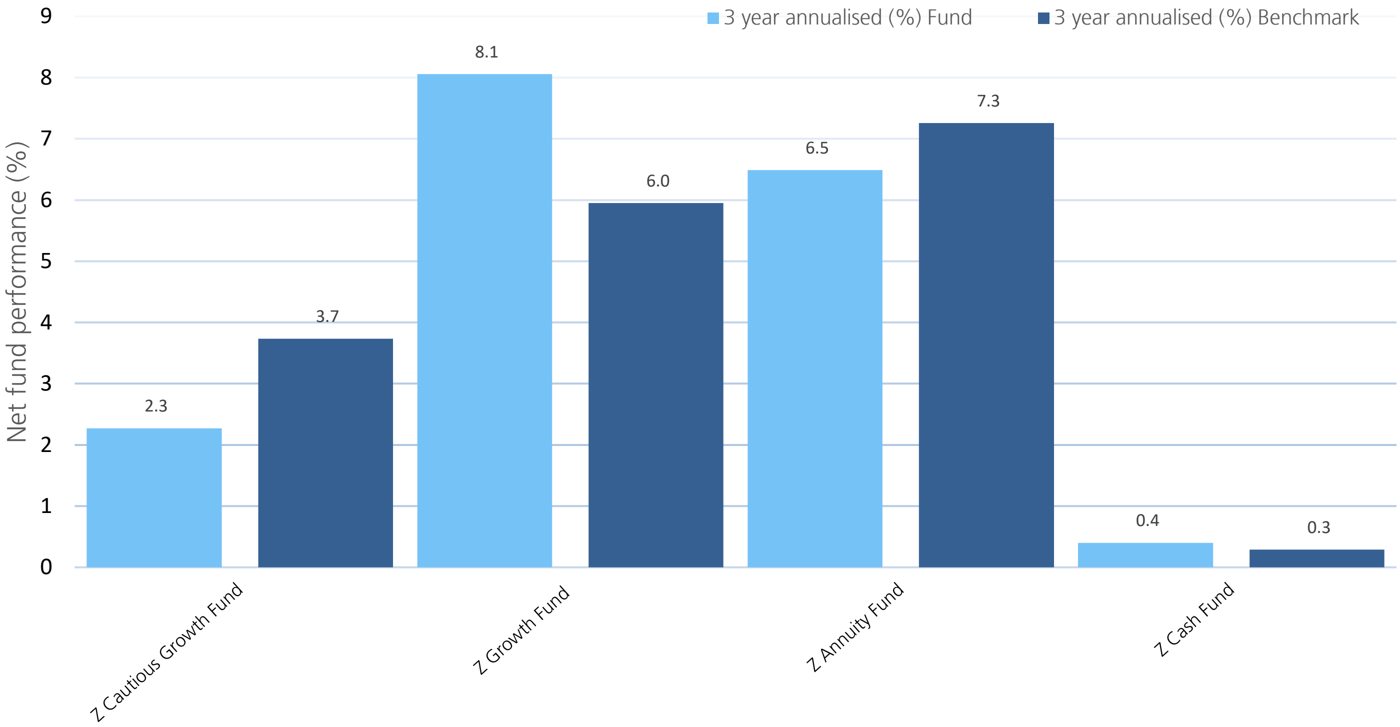


The investment performance of the self-select funds against the benchmark for the current year is shown below.

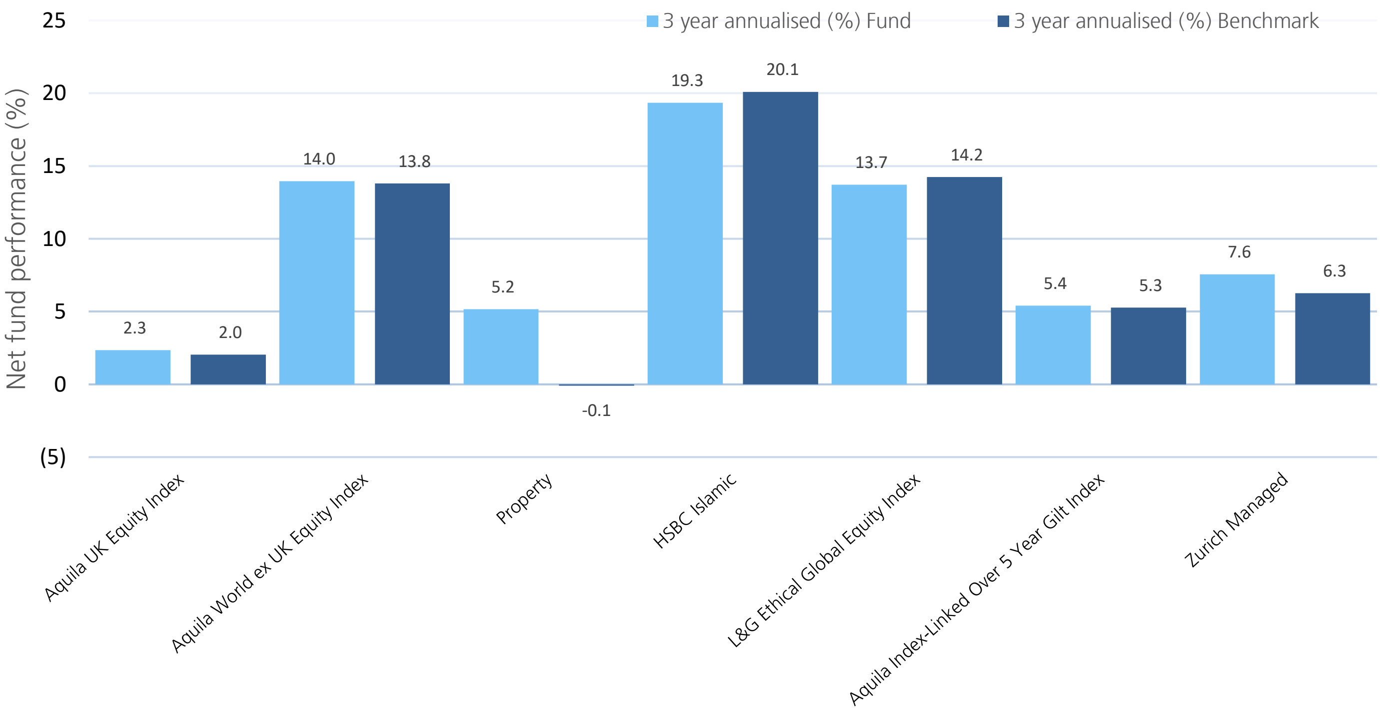


ZCashBuilder annualised performance for the 3 years ended 30 June 2021

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.
Performance for the LGIM Future World and Aquila Corporate Bond All Stocks Index funds is not available as the funds were launched in March 2021.
Members make their investment selections online at www.zpen.info.

Source: Scottish Widows Ltd

Zurich Financial Services UK Pension Scheme
Chair's Statement regarding DC[5] governance for the year ending 30 June 2021

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 2020 – 30 June 2021. 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.	A review of the default investment arrangements was carried out in 2020 and the resulting changes implemented in April 2021. More information on these changes is included in Section 1.	✓	Default Investments
Core financial transactions: The Trustee is required to make sure that core financial transactions (eg 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 considers that the core financial transactions have been processed promptly and accurately during the Scheme year.	✓	Core financial transactions
Value for Members: The Trustee 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's DC arrangements provide good value for members.	✓	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's DC arrangements provide good value for members and is expected to deliver good outcomes for members at retirement.**
- **The investment changes carried out in April 2021 reduced the charges for the majority of members and improved the value members receive for the charges they pay.**
- **The Trustee continues to look for ways to improve the value for members, including planning a suite of communication materials, developing a new member website and considering ways to support members in the approach to retirement.**

[5] Defined 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)[6] 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 (DCC[7]) including both Trustee and company nominated representatives.

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:

- Drawdown Lifestyle: for members with ZCashBuilder benefits only (DC only default)
- Cash Lifestyle: for members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (hybrid default)
- The Sterling Liquidity Fund was also classed as a default arrangement for the year ending 30 June 2021 as it was used as a default arrangement for members whose contributions were not able to be invested in the Zurich Property Fund when it temporarily closed between March – October 2020. On the reopening of the Property Fund all contributions that had been defaulted into the Sterling Liquidity Fund were transferred to the Property Fund. The Sterling Liquidity Fund is no longer a default option because it was replaced by Z Cash Fund in April 2021.

The Statement of Investment Principles

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). On 30 September 2020 the Trustee approved a new SIP for the Scheme's DC assets, including a section which forms the SIP for the default arrangements and is attached to this statement.
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 the default strategies are suitable for the majority of members. 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 (Drawdown Lifestyle) and members who are expected to take cash at retirement (Cash Lifestyle).

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.

Investment review

The default strategy and the performance of the default arrangement are reviewed at least every three years.
The latest comprehensive review was carried out by the DC Committee and ratified by the Trustee at its meeting on 30 September 2020. The work carried out by the Committee included:

- a review of the default strategies and their suitability for the membership.
- analysis of the membership demographics and modelling the expected fund values at retirement and how members are expected to take their benefits.

[6] 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
[7] Defined Contribution Committee

- input from the Trustee's investment adviser.
- a review of the performance of the default strategies and the underlying funds.
- consideration of the most appropriate way of incorporating responsible investment into the default arrangements.
- the most appropriate level of investment risk to be taken at different stages of a member's time to retirement.
- when members were expected to take their benefits.
- a review of the self-select options and take up by members of the differing options.

The changes arising from this review were implemented in April 2021.
This review had the following outcomes:

- The default strategy for members with ZCashBuilder benefits only would continue to target drawdown at retirement with a 25% allocation to cash.
- The default strategy for members with both final salary and ZCashBuilder benefits would continue to target 100% cash at retirement.
- Z Growth Fund replaced ZFundBuilder, as the growth fund for both default strategies. This is invested 100% in passive equities which increased the investment risk and reduced the charges from 0.52% to 0.29%.
- Z Cautious Growth Fund replaced ZFlexibleIncomePot for both lowering the investment risk in the years before retirement in the default strategies, and to provide a combination of growth and protection for those moving into drawdown in retirement. This fund is now 100% invested in passive funds which reduced the charges from 0.54% to 0.28%.
- To allow for the increased investment risk in the growth stage of the lifestyle strategies, both default arrangements will start switching to Z Cautious Growth Fund 10 years before the target retirement age. The switch from Z Growth Fund to Z Cautious Growth Fund takes place over 4 years.
- The default target retirement age for members in the Drawdown Lifestyle was moved to State Pension Age as the Committee decided this was closer to when members were likely to take their benefits. This change was not applied to those who had selected their own target retirement age, or those who were within 5 years of their target retirement age.

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 undertaken in 2020 included a review of the performance of the funds used in the default investment strategies.
Prior to the changes that took place in April 2021:

- ZFundBuilder had outperformed the benchmark over 1 and 3 years
- ZFlexibleIncomePot had outperformed over 1 year but had underperformed its benchmark over the longer term. The fund offered some protection against market falls and to achieve this, invested heavily in defensive assets, (ie government bonds). In August 2020 the benchmark was reduced from CPI+2% to a cash benchmark +2%.

2 Processing core financial transactions

The Trustee has received assurance from the Scheme's administrator (Railpen) 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.

- At least two persons involved with checking investment processes. Checks are carried out by Railpen before investment instructions are entered into the automated system for action by Scottish Widows.
- The Scheme management receives an independent assurance report on Railpen's controls. This report is also reviewed by the Scheme management team and any queries are raised with Railpen. The latest report stated that the controls tested were operating with sufficient effectiveness to provide reasonable assurance.

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 Railpen. 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 Railpen achieved an overall performance against SLA of 98.5%. In relation to the core financial transactions, 1,392 were completed with 14 being outside the SLA, giving a performance of over 99%.
- Where a transaction is completed outside SLA the Trustee asks for further information.
- There have been no material administration errors in relation to processing core financial transactions.
- Where Railpen'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 Railpen 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.

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, eg 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.

Default arrangements

The Scheme has the following default arrangements:

1. Drawdown Lifestyle: for members with ZCashBuilder benefits only (DC only default)
2. Cash Lifestyle: for members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (DB+DC default)
3. The Sterling Liquidity Fund was also classed as a default arrangement for the year ending 30 June 2021 as it was used as a default arrangement for members whose contributions were not able to be invested in the Zurich Property Fund when it temporarily closed between March – October 2020. On the reopening of the Property Fund all contributions that had been defaulted into the Sterling Liquidity Fund were transferred to the Property Fund. In April 2021 the Sterling Liquidity Fund was replaced by Z Cash Fund.

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 Z Growth Fund, Z Cautious Growth Fund and Z Cash Fund. The charges for these funds are shown in section 3.2 of this statement.

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.

On the next pages are the projected fund values which for a range of sample members show the projected fund value before and after charges for the default arrangements, and before and after the changes that took place in April 2021.

3.1 Default arrangements: effects of costs and charges on members' pots

The following pages show projected outcomes for the default arrangements, both before and after the changes that took place in April 2021 and some self-select funds. These notes apply to all the projections on the following pages.

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%.

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. The Trustee has used average transaction costs over the previous 3 years, which reflects available data and the fact that, in its view, disclosing average costs is the most appropriate and proportionate method of measurement, given the fluctuations in transaction costs during this timeframe.
- Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Charges are based on the projected pension pot values so are also shown in today's terms.
- 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.
- Regard has been given to the DWP Guidance "Reporting of costs, charges and other information: guidance for trustees and managers of occupational schemes" issued in October 2021.
- The assumptions are set by the Trustee each year, taking advice from the Scheme Actuary and are in line with AS TM1 (The Financial Reporting Council's Technical Memorandum 1)

Because of the changes which took place in April 2021 we show these projections for the default arrangements both before and after these changes.

Tables 1 & 2 show the assumed growth rate and charges for the funds used in the projections.

TABLE 1: Funds (before April 2021)	Growth (before taking account of inflation)	Charges*
ZFundBuilder	4.66%	0.64%
ZFlexibleIncomePot	2.43%	0.71%
ZRetirementLumpSum	1.0%	0.07%
BlackRock Sterling Liquidity Fund**	1.0%	0.29%

TABLE 2: Funds (after April 2021)	Growth (before taking account of inflation)	Charges*
Z Growth Fund	5.0%	0.33%
Z Cautious Growth Fund	3.5%	0.29%
Z Cash Fund	1.0%	0.07%

*These charges take into account the total member charge, shown in 3.2 below, plus an average of the transaction costs over the past 3 years.

** In April 2021 the BlackRock Sterling Liquidity Fund was replaced by Z Cash Fund.

Table 4 shows the projected fund value, both before and after charges, for the youngest member in the DC only default arrangement (now called the Drawdown Lifestyle). Some details of this sample member are shown in Table 3.

TABLE 3:	DC only youngest member
Starting age	19 years
Starting fund value	£1,800
Basic salary	£17,500
Future contributions:	12% until aged 60 years (old lifestyle), 12% until aged 67 (Drawdown Lifestyle). This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 4:	DC only default (before April 2021)		Drawdown Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£2,493.68	£2,479.18	£2,496.36	£2,468.29
Year 3	£6,844.13	£6,782.72	£6,870.85	£6,832.28
Year 5	£11,379.88	£11,212.81	£11,461.32	£11,366.10
Year 10	£23,582.50	£22,866.27	£23,953.75	£23,559.80
Year 15	£37,126.20	£35,395.32	£38,045.78	£37,087.75
Year 20	£52,158.38	£48,865.71	£53,942.28	£52,095.93

TABLE 4:	DC only default (before April 2021)		Drawdown Lifestyle (after April 2021)	
Year 25	£68,842.61	£63,348.21	£71,874.27	£68,746.31
Year 30	£87,360.46	£78,918.84	£92,102.39	£87,218.58
Year 35	£107,913.43	£95,659.36	£114,920.65	£107,712.10
Year 40	£120,068.11	£104,298.76	£139,211.55	£129,145.34
Year 45	£0.00	£0.00	£157,403.92	£144,751.71
Year 50	£0.00	£0.00	£0.00	£0.00

Using Year 40 as an example, this shows that after the April 2021 investment changes, the estimated total charges over 40 years have reduced from £15,700 to £10,000 even though the projected fund value is higher.

Table 6 shows the projected fund value, both before and after charges for the youngest member with both final salary and DC benefits in the default lifestyle for these members (now called the Cash Lifestyle). Some details of this sample member are shown in Table 5.

TABLE 5:	Hybrid (DB+DC) youngest member
Starting age	33 years
Starting fund value	£1,100
Basic salary	£20,900
Future contributions:	12% until aged 60 years (old lifestyle), 12% until aged 67 (Drawdown Lifestyle). This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 6:	DB+DC default (before April 2021)		Cash Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£1,938.38	£1,923.28	£1,940.48	£1,916.63
Year 3	£7,089.78	£7,032.43	£7,113.46	£7,075.84
Year 5	£12,460.59	£12,291.81	£12,541.87	£12,444.55
Year 10	£26,909.79	£26,126.76	£27,314.63	£26,883.70
Year 15	£42,946.98	£41,001.19	£43,978.98	£42,902.79
Year 20	£60,746.67	£56,993.21	£62,777.16	£60,674.69
Year 25	£75,467.51	£69,580.60	£83,711.30	£80,139.51
Year 30	£0.00	£0.00	£101,668.32	£96,543.25
Year 35	£0.00	£0.00	£110,594.28	£104,863.39
Year 40	£0.00	£0.00	£0.00	£0.00

Using Year 30 as an example this shows that after the April 2021 investment changes, the estimated total charges over 30 years have reduced from £5,800 to £3,500 even though the projected fund value is higher.

Table 8 shows the projected fund value both before and after charges for the youngest member in the Sterling Liquidity Fund when it was a default arrangement. This fund was no longer being used as a default option in April 2021 and is no longer available to members. For this reason there is no comparable fund projection for after April 2021 for this fund. Some details of this sample member are shown in Table 7.

TABLE 7:	BlackRock Sterling Liquidity Fund youngest member
Starting age	30 years
Starting fund value	£990
Basic salary	£35,800
Future contributions:	12% until aged 60 years. This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	NO

TABLE 8:	BlackRock Sterling Liquidity Fund	
	Before charges	After charges
Year 1	£2,370.78	£2,368.52
Year 3	£10,831.03	£10,803.60
Year 5	£19,045.48	£18,946.85
Year 10	£38,552.56	£38,093.59
Year 15	£56,673.45	£55,626.96
Year 20	£73,506.67	£71,682.91
Year 25	£89,143.71	£86,385.93
Year 30	£103,669.59	£99,850.03
Year 35	£0.00	£0.00
Year 40	£0.00	£0.00

Table 10 shows the projected fund value, both before and after charges, for a typical member in the DC only default arrangement (now called the Drawdown Lifestyle). Some details of this sample member are shown in Table 9.

TABLE 9:	DC only typical member
Starting age (median)	37 years
Starting fund value (median)	£17,000
Basic salary (average)	£47,700
Future contributions:	12% until aged 60 years (old lifestyle), 12% until aged 67 (Drawdown Lifestyle). This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 10:	DC only default (before April 2021)		Drawdown Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£18,776.28	£18,711.40	£18,796.60	£18,608.58
Year 3	£31,144.60	£30,793.10	£31,312.30	£31,109.76
Year 5	£44,039.68	£43,230.02	£44,445.96	£43,997.24
Year 10	£78,731.60	£75,945.77	£80,187.70	£78,658.07
Year 15	£117,236.22	£111,119.58	£120,506.06	£117,111.51
Year 20	£153,635.93	£142,860.48	£166,010.38	£159,794.25
Year 25	£0.00	£0.00	£207,446.53	£198,011.23
Year 30	£0.00	£0.00	£244,226.13	£231,533.03
Year 35	£0.00	£0.00	£0.00	£0.00
Year 40	£0.00	£0.00	£0.00	£0.00

Using Year 20 as an example, this shows that after the April 2021 investment changes, the estimated total charges over 20 years have reduced from £10,700 to £6,200 even though the projected fund value is higher

Table 12 shows the projected fund value, both before and after charges for a typical member with both final salary and DC benefits in the default lifestyle for these members (now called the Cash Lifestyle). Some details of this sample member are shown in Table 11.

TABLE 11:	Hybrid (DB+DC) typical member
Starting age (median)	49 years
Starting fund value (median)	£30,600
Basic salary (average)	£52,800
Future contributions:	12% until aged 60 years (old lifestyle), 12% until aged 67 (Drawdown Lifestyle). This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 12:	DB+DC default (before April 2021)		Cash Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£32,454.67	£32,358.13	£32,489.78	£32,173.03
Year 3	£46,642.45	£46,073.99	£46,920.50	£46,601.44
Year 5	£61,434.49	£60,193.14	£62,063.76	£61,382.74
Year 10	£93,067.31	£89,868.36	£102,334.33	£100,242.80
Year 15	£0.00	£0.00	£140,212.75	£136,273.55
Year 20	£0.00	£0.00	£0.00	£0.00
Year 25	£0.00	£0.00	£0.00	£0.00

TABLE 12:	DB+DC default (before April 2021)		Cash Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 30	£0.00	£0.00	£0.00	£0.00
Year 35	£0.00	£0.00	£0.00	£0.00
Year 40	£0.00	£0.00	£0.00	£0.00

Using Year 10 as an example, this shows that after the April 2021 investment changes, the estimated total charges over 10 years have reduced £3,200 to £2,000 even though the projected fund value is higher.

Table 14 shows the projected fund value both before and after charges for a typical member in the Sterling Liquidity Fund when it was a default arrangement. This fund was no longer being used as a default option in April 2021 and is no longer available to members. For this reason there is no comparable fund projection for after April 2021 for this fund. Table 13 contains Some details of this sample member

TABLE 13:	BlackRock Sterling Liquidity Fund typical member
Starting age (median)	46 years
Starting fund value (median)	£1,400
Basic salary (average)	£47,700
Future contributions:	12% until aged 60 years. This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	NO

TABLE 14:	BlackRock Sterling Liquidity Fund	
	Before charges	After charges
Year 1	£3,238.04	£3,234.95
Year 3	£14,508.19	£14,471.13
Year 5	£25,450.90	£25,318.56
Year 10	£51,436.86	£50,823.51
Year 15	£73,971.70	£72,627.14
Year 20	£0.00	£0.00
Year 25	£0.00	£0.00
Year 30	£0.00	£0.00
Year 35	£0.00	£0.00
Year 40	£0.00	£0.00

3.2 Levels of costs and charges

In addition to the default arrangements, 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 arrangements are shown in bold.

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.

TABLE 15: Funds no longer available (replaced in April 2021)	Admin charge (bps)	Fund charge (bps)	Total member charges (bps)	Transaction cost (bps)
ZFundBuilder	17.5	34.1	51.6	13.4
ZFlexibleIncomePot	17.5	36.5	54.0	6.4
ZPensionPurchasePot	17.5	10.4	27.9	-1.0
ZRetirementLumpSum	NIL	5.6	5.6	1.1
BlackRock Sterling Liquidity	17.5	9.4	26.9	1.4
Aquila 50/50 Global Equity Index	17.5	9.7	27.2	0.0
SW Mixed Investments	17.5	44.5	62.0	8.8
Corporate Bond Over 15 Year Index	17.5	10.5	28.0	-0.6

TABLE 16: Funds available from April 2021	Admin charge (bps)	Fund charge (bps)	Total member charges (bps)	Transaction cost (bps)
Z Growth Fund*	17.5	11.5	29	4.1
Z Cautious Growth Fund*	17.5	10.5	28	1.7
Z Annuity Fund	17.5	10.5	28	3.7
Z Cash Fund*	Nil	6	6	1.1
UK Equity Index	17.5	9.5	27	-2.9
World ex-UK Index	17.5	10.5	28	-0.9
Ethical Global Equity Index	17.5	26.5	44	0.0
L&G Future World	17.5	26.5	44	3.6
HSBC Islamic	17.5	36.5	54	2.5
Scottish Widows Managed	17.5	44.5	62	-4.7
Property	17.5	70.5	88	0.0
Corporate Bond All Stocks	17.5	8.5	26	0.0
Index Linked Over 5 years Gilt Index	17.5	9.5	27	-1.5

*Funds used in the default lifestyle strategies

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

3.3 Self-select options – effects of costs and charges on members

Below are the projected fund values, both before and after charges for a typical member in one of the self-select investment funds. The notes in Section 3.1 of this Statement apply to these projections and the assumed growth rates and charges are shown in the table below. These projections are over a 40 year period for the following funds:

- ZFundBuilder: was the most commonly used fund before the changes in April 2021 when members were transferred into Z Growth Fund.
- Z Growth Fund: is the most commonly used fund from April 2021.
- Property Fund: is the fund with the highest charges.
- Z Cash Fund is the fund with the lowest charges.

	Typical member
Starting age	25 years
Starting fund value (average)	£6,700
Basic salary (average)	£24,000
Future contributions	12% until aged 65 years. This assumes no employee contributions as the Scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	No

	Growth (before taking account of inflation)	Charges*
ZFundBuilder (before April 2021)	4.66%	0.64%
Z Growth Fund (after April 2021)	5.0%	0.33%
Property Fund	4.6%	0.102%
Z Cash Fund	1.0%	0.07%

*These charges take into account the total member charge plus an average of the transaction costs over the past 3 years.

	ZFundBuilder (before April 2021)		Z Growth Fund (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£7,587.50	£7,571.41	£7,595.71	£7,585.75
Year 3	£13,731.34	£13,596.07	£13,800.99	£13,716.59
Year 5	£20,136.85	£19,797.86	£20,312.67	£20,099.74
Year 10	£37,369.76	£36,111.86	£38,033.43	£37,230.64
Year 15	£56,496.56	£53,651.61	£58,023.27	£56,178.78
Year 20	£77,725.44	£72,509.20	£80,572.75	£77,136.96
Year 25	£101,287.39	£92,783.64	£106,009.63	£100,318.40
Year 30	£127,438.82	£114,581.39	£134,703.61	£125,958.93

	ZFundBuilder (before April 2021)		Z Growth Fund (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 35	£156,464.33	£138,016.91	£167,071.78	£154,319.42
Year 40	£188,679.78	£163,213.24	£203,584.59	£185,688.39
	Property Fund		**Z Cash Fund**	
	Before charges	After charges	Before charges	After charges
Year 1	£7,586.05	£7,560.27	£7,498.00	£7,496.34
Year 3	£13,719.08	£13,503.23	£12,998.01	£12,984.83
Year 5	£20,105.99	£19,567.11	£18,338.21	£18,306.78
Year 10	£37,254.02	£35,272.06	£31,019.76	£30,915.81
Year 15	£56,232.16	£51,788.06	£42,800.14	£42,589.94
Year 20	£77,235.72	£69,156.98	£53,743.41	£53,398.51
Year 25	£100,480.84	£87,422.87	£63,909.05	£63,405.68
Year 30	£126,206.77	£106,632.06	£73,352.31	£72,670.89
Year 35	£154,678.24	£126,833.25	£82,124.54	£81,249.15
Year 40	£186,188.29	£148,077.67	£90,273.41	£89,191.37

3.4 Legacy AVC funds: level of cost and charges

At 30 June 2021 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.

The ReAssure funds are not listed below as there are no admin, fund or transaction charges.

The Gresham funds are not listed below as these were no longer in use as at 30 June 2021 as the remaining member had taken their benefits.

Eagle Star	Admin charge (bps)	Total AMC (bps)	Transaction cost (bps)
With Profits	Nil	50	2.24
Global Select	Nil	117	18.34
Equity Managed	Nil	116	25.74
Managed	Nil	119	23.14
Secure	Nil	109	0.00
Eagle Star	**Admin charge (bps)**	**Total AMC (bps)**	**Transaction cost (bps)**
Zurich JPM Asia Equity	Nil	95	58.8

Zurich Long Dated Gilt	Nil	55	-4.1
Zurich Managed	Nil	56	-4.7
Zurich Property	Nil	83	0.0
Zurich Threadneedle American	Nil	69	39.2
Zurich Threadneedle Asia	Nil	72	44.8
Zurich Threadneedle European	Nil	68	81.8
Zurich Threadneedle Global Equity	Nil	82	41.1
Zurich Threadneedle Japan	Nil	67	14.1
Zurich JPM UK Specialist Equity	Nil	70.0	30.5
BlackRock Sterling Liquidity Fund	Nil	35	1.4
Threadneedle	**Admin charge (bps)**	**Total AMC (bps)**	**Transaction cost (bps)**
Multi-asset fund	Nil	36	13
UK Equity	Nil	30	133
Global Select	Nil	42	6
Aquila Over 15 yrs UK Gilt Index	Nil	15	-0.01

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 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 2021. 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 DC 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 director and strong support of an in-house executive pensions team.
- Members benefit from an employer contribution of 12% and a highly effective administration service with very good performance against Railpen's agreed SLAs and a low number of complaints.
- LCP, the Trustee's DC adviser, has assessed:
    - compared to schemes of a similar size members pay total charges that are either at or below median for most of the asset classes they are invested in.

- The fund range available to members compares well with schemes of a similar size.
- The quarterly performance monitoring carried out is in line with standard practice amongst medium to large own-trust schemes.
- There is close investment performance monitoring and the majority of funds have performed broadly in line with their benchmarks over the period.
- The level of information and online support present on the ZPen website goes beyond what is seen in many own-trust schemes.
- Members benefit from the provision of a dedicated member helpline which is less common for own-trust arrangements.
- The presence of a dedicated DC Committee is positive for governance purposes.
- The core company contribution of 12% compares well with industry body recommendations regarding contribution rates required to achieve an adequate income.
- The support services provided by the ZPen team and Pensions Support team go beyond what is commonly seen amongst own-trust schemes.

4.2 Legacy AVCs

The Trustee assessed each provider separately on 30 June 2021 and reached the following conclusions. LCP, the Trustee's DC adviser commented that:

- The charges are broadly similar to those across other AVC mandates
- It is positive that members are able to transfer into ZCashBuilder.

The Trustee will continue to monitor the performance of both the investments and administration services of its AVC providers.

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.

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.

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.

Threadneedle: the Trustee concluded that these funds are currently providing value for members. It was noted that there are no concerns regarding Threadneedle as an AVC provider and that the charges for these funds are low compared to other AVC arrangements.

AVCs: Additional Voluntary Contributions are contributions made by individuals to the Scheme to build up additional benefits at retirement. These are also sometimes called Additional Pension Contributions.

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 director 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 director, 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 process which was implemented when Hilary Newton, Derryn Yong and Liz Ryan were appointed during the Scheme year. The induction training took place on 1 September, 2 September and 29 September 2020.
- All Trustee directors are required to maintain a CPD (Continuing Professional Development) log with a minimum requirement of completing 15 hours per year. Each Trustee director 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 2021 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 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, eg one attends the Trustee Board and Funding Committee meetings and the other attends the DC Committee meetings.
- The Trustee's 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 at-retirement options (19 August 2020).
  - Long term journey planning (27 January 2021).
  - GMP Equalisation (23 March 2021).
  - Responsible Investment (11 May 2021).
  - Brexit restructuring (21 May 2021).
- The Trustee is supported by the Scheme management team providing technical and governance support and Scheme secretarial services.
- 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 has its 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 2020 interim BER took place on 20 November 2020 when the Trustee considered whether there had been a material change in board effectiveness, with a specific focus on Trustee board meetings and trustee board composition. This was in light of the move to virtual meetings as a result of the pandemic and the number of changes to the directors on the Trustee Board that had taken place over a relatively short time frame. Based on this the Trustee 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, training has been carried out through 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:

- A dedicated DC committee was set up in 2019 made up of representatives from the Trustee board and the Company. On establishment of the DC committee, it took responsibility from the Funding Committee for the investment of the DC assets. The DC 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 believes 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 14 December 2021 and signed on their behalf by:

D P SIMS

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 Company Zurich Financial Services (UKISA) Limited ("the Company") 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.

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.

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 many 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.

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.

The Funding Committee has begun planning for the next triennial valuation as at 30 June 2022 which will be a key piece of work for them during 2022 alongside setting a long-term objective and journey plan.

The DC Committee is also looking at the different ways it can provide members with the information they need to understand and manage their ZCashBuilder benefits. This will include a new Pensions Support programme of webinars and courses and information and guides which will be available on the website.

The signing of the Trustee report also confirms the Trustee's approval of the compliance statement on pages 13 to 14, and the implementation statements on pages 90 to 113.

The Trustee approves pages 4 to 52 and are signed on behalf of the Trustee:

Trustee director	David Sims
Signature	D P SIMS
Date	14 December 2021

Independent auditor's Report to the Trustee of the Zurich Financial Services UK Pension Scheme

Opinion

We have audited the financial statements of the Zurich Financial Services UK Pension Scheme for the year ended 30 June 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of twelve months from when the Scheme's financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report. 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements, our auditor's report thereon and our auditor's statement about contributions. The Trustee is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives raise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 13, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Trustee is responsible for assessing the 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 to cease operations, or has no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Trustee.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes).
- We understood how the Scheme is complying with these legal and regulatory frameworks by making enquiries of the Trustee. We corroborated our enquiries through our review of the Trustee's meeting minutes.
- We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Scheme has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. In our assessment we considered the risk of management override. Our audit procedures included testing manual journals including segregation of duties.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Trustee for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of Trustee's minutes.
- The Scheme is required to comply with UK pensions regulations. As such the Statutory Auditor has considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Scheme with these regulations as part of our audit procedures.

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

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Ernst & Young LLP
Statutory Auditor
Reading
United Kingdom

Date: 14 December 2021

Fund account for the year ended 30 June 2021

Amount in £'000		ZPen DB	ZPen DC	ESExec DB	2021 Total	Restated ZPen DB	ZPen DC	ESExec DB	Restated 2020 Total
Employer contributions	5	**41,454**	**39,440**	**47**	**81,941**	14,890	39,304	32	54,226
Employee contributions	5	**-**	**2,352**	**-**	**2,352**	-	2,044	-	2,044
Total contributions		**41,454**	**41,792**	**47**	**83,293**	14,890	41,348	32	56,270
Transfers from other plans	6	**1,081**	**2,436**	**-**	**3,517**	481	2,625	-	3,106
Other income	7	**1,904**	**-**	**-**	**1,904**	3,258	-	-	3,258
		44,439	**44,228**	**47**	**88,714**	18,629	43,973	32	62,634
Benefits paid or payable	8	**(180,879)**	**(8,629)**	**(8,535)**	**(198,043)**	(177,467)	(7,991)	(8,927)	(194,385)
Payments to and on account of leavers	9	**(66,543)**	**(16,513)**	**-**	**(83,056)**	(84,188)	(12,633)	(4,753)	(101,574)
Other payments	10	**(2,254)**	**-**	**-**	**(2,254)**	(1,541)	-	-	(1,541)
Administrative expenses	11	**(7,292)**	**(1)**	**(54)**	**(7,347)**	(4,772)	-	(46)	(4,818)
		(256,968)	**(25,143)**	**(8,589)**	**(290,700)**	(267,968)	(20,624)	(13,726)	(302,318)
Net (withdrawals)/ additions from dealings with members		**(212,529)**	**19,085**	**(8,542)**	**(201,986)**	(249,339)	23,349	(13,694)	(239,684)
Net returns on investments									
Investment income	12	**203,204**	**-**	**1,707**	**204,911**	198,240	-	1,864	200,104
Change in market value of investments	13	**6,188**	**65,493**	**(344)**	**71,337**	801,581	1,183	23,225	825,989
Investment management expenses	14	**(17,486)**	**-**	**(412)**	**(17,898)**	(11,723)	-	(300)	(12,023)
		191,906	**65,493**	**951**	**258,350**	988,098	1,183	24,789	1,014,070
Net (decrease)/increase in the fund		**(20,623)**	**84,578**	**(7,591)**	**56,364**	738,759	24,532	11,095	774,386
Opening net assets		**8,475,136**	**372,643**	**210,455**	**9,058,234**	7,736,377	348,111	199,360	8,283,848
Closing net assets		**8,454,513**	**457,221**	**202,864**	**9,114,598**	8,475,136	372,643	210,455	9,058,234

The notes on pages 65 to 85 form part of these financial statements.

See note 4 for details of the restated 2020 balances.

Statement of net assets available for benefits as at 30 June 2021

Amount in £'000		ZPen DB	ZPen DC	ESExec DB	2021 Total	Restated ZPen DB	ZPen DC	Restated ESExec DB	Restated 2020 Total
Investment assets									
Equities	13	**1,906,978**	**-**	**-**	**1,906,978**	1,856,038	-	-	1,856,038
Bonds	13	**6,575,192**	**-**	**104,406**	**6,679,598**	6,678,124	-	103,266	6,781,390
Pooled investment vehicles	16	**742,370**	**446,303**	**97,398**	**1,286,071**	732,231	360,710	101,951	1,194,892
Derivatives	17	**62**	**-**	**-**	**62**	99	-	-	99
Cash	20	**258,237**		**1,251**	**259,488**	168,480	-	6,384	174,864
Other investments	20	**40,701**	**-**	**373**	**41,074**	38,871	-	329	39,200
AVC investments	13,19	**-**	**7,699**	**-**	**7,699**	-	7,896	-	7,896
Interest in SLP	18	**760,000**	**-**	**-**	**760,000**	867,000	-	-	867,000
Annuities		**7,089**	**-**	**-**	**7,089**	7,822	-	-	7,822
Amounts receivable under reverse repurchase agreements	22	**424,991**	**-**	**-**	**424,991**	653,619	-	-	653,619
		10,715,620	**454,002**	**203,428**	**11,373,050**	**11,002,284**	**368,606**	**211,930**	**11,582,820**
Investment liabilities									
Bonds	13	**(421,877)**	**-**	**-**	**(421,877)**	(577,416)	-	-	(577,416)
Derivatives	17	**(1,878)**	**-**	**-**	**(1,878)**	(1,542)	-	-	(1,542)
Amounts payable under repurchase agreements	22	**(1,852,318)**	**-**	**-**	**(1,852,318)**	(1,941,338)	-	-	(1,941,338)
Other investment balances	20	**(29,840)**	**-**	**(138)**	**(29,978)**	(20,032)	-	(1,188)	(21,220)
		(2,305,913)	**-**	**(138)**	**(2,306,051)**	(2,540,328)	-	(1,188)	(2,541,516)
Total net investments		**8,409,707**	**454,002**	**203,290**	**9,066,999**	8,461,956	368,606	210,742	9,041,304
Current assets	26	**62,789**	**3,641**	**59**	**66,489**	27,107	4,333	112	31,552
Current liabilities	27	**(17,983)**	**(422)**	**(485)**	**(18,890)**	(13,927)	(296)	(399)	(14,622)
Net current assets		**44,806**	**3,219**	**(426)**	**47,599**	13,180	4,037	(287)	16,930
Total net assets available for benefits		**8,454,513**	**457,221**	**202,864**	**9,114,598**	8,475,136	372,643	210,455	9,058,234

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 sections, is dealt with in the funding benefits in ZPen & ES Executives' Sections of the Annual Report and these financial statements should be read in conjunction with this report.

The financial statements on pages 63 to 85 were approved by the Trustee and signed on its behalf by:

Trustee director David Sims

Signature D P SIMS

Date 14 December 2021

Notes to the financial statements

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 377, Darlington, DL1 9FP. The registered address for the Scheme changed to Unity Place, 1 Carfax Close, Swindon, SN1 1AP.

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") arrangement which is open to new members and is used as an auto-enrolment scheme by the participating employers.

The Scheme has two sections: the ZPen Section (with its associated sub sections ZPen Defined Benefit & Defined Contribution) and the ES Executives' Section. The assets in each section are kept completely separate in the financial statements. The diagram on page 9 provides a basic overview of the Scheme structure for further information.

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 Section 41(1) and (6) of the Pensions Act 1995 (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").

The financial statements have been prepared on the going concern basis. In assessing the appropriateness of the going concern basis of accounting, the Trustee considered a period of 12 months from the date that the financial statements are approved.

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.

When applicable, 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.

Notes to the financial statements (continued)

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.

Employer S75 debt contributions are accounted for when a reasonable estimate of the amount receivable can be determined.

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 or other Zurich group companies or payable to the pension arrangements 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.

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.

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.

Notes to the financial statements (continued)

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, at a bid or single price, and are actually traded on substantially all pricing days are included at the price provided by the manager at or before the year end.

- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the 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.

- 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. This takes into account prevailing interest rates, the credit risk associated with the asset and market-corroborated credit spreads for instruments with similar credit risk profiles. The approach used is stochastic as payments are contingent on the Scheme's funding level.

Notes to the financial statements (continued)

- 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.

- Annuities have been valued by an Actuarial adviser at the amount of the related obligation, determined using the most recent Scheme funding valuation assumptions updated for market conditions at the reporting date.

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.

Bonds that have been purchased and simultaneously agreed to sell back to the counterparty at a later date, as part of a reverse repurchase contract, are recognised as a liability in the financial statements.

4. Restatement of prior year balances

Net investments

ZPen DB

Amounts in £'000	As previously reported 30-Jun-20 ZPen DB	Reclassifications 30-Jun-20 ZPen DB	As restated 30-Jun-20 ZPen DB
Investment assets			
Equities	1,856,038	-	1,856,038
Bonds	6,100,708	577,416	6,678,124
Pooled investment vehicles	732,231	-	732,231
Derivatives	99	-	99
Cash	-	168,480	168,480
Other investments	207,351	(168,480)	38,871
AVC investments	-	-	-
Interest in SLP	867,000	-	867,000
Amounts receivable under reverse repurchase agreements	-	653,619	653,619
Annuity policies (restated as noted below)	-	7,822	7,822
Investment liabilities			
Bonds	-	(577,416)	(577,416)
Derivatives	(1,542)	-	(1,542)
Amounts payable under repurchase agreements	(1,287,719)	(653,619)	(1,941,338)
Other investment balances	(20,032)	-	(20,032)
Total net investments	**8,454,134**	**7,822**	**8,461,956**

In accordance with the SORP, financial assets and liabilities should not be offset unless there is a legally enforceable right to set-off the assets and liabilities and the Scheme intends either to settle on a net basis, or to realise the asset and liabilities simultaneously. This means that the total asset value and the total liabilities should be disclosed separately on the face of the Statement of Net Assets. As this was not the case in the prior year financial statements, these were restated as noted above.

Notes to the financial statements (continued)

ESExec DB – other investments reallocation to cash

Amounts in £'000	As previously reported 30-Jun-20 ESExec DB	Reclassifications 30-Jun-20 ESExec DB	As restated 30-Jun-20 ESExec DB
Investment assets			
Cash	**-**	**6,384**	**6,384**
Other investments	**6,713**	**(6,384)**	**329**
	6,713	**-**	**6,713**

In line with best practice, in addition to other investments on the face of the Statement of Net Assets, cash has now been disclosed separately. As this was not the case in the prior year financial statements, these were restated as noted above.

Annuity policies

Annuity polices were not included in the Statement of Net Assets in the past on the grounds of materiality. However, the Trustee have obtained a valuation of these policies and these have now been included.

Amount in £'000	01-Jul-19	30-Jun-20
Net assets of the Scheme as previously stated	**8,276,026**	**9,050,412**
Effect of restatement - valuation of annuity policies	**7,822**	**7,822**
Net assets of the Scheme as restated	**8,283,848**	**9,058,234**

Amount in £'000	2020
Net increase in fund as previously reported	**774,386**
Effect of restatement - valuation of annuity policies	**-**
Net increase in fund as restated	**774,386**

5. Contributions

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Employer contributions								
Normal	**-**	**39,440**	**-**	**39,440**	-	39,304	-	39,304
Other contributions	**5,000**	**-**	**-**	**5,000**	5,000	-	-	5,000
Augmentation	**783**	**-**	**-**	**783**	3,949	-	-	3,949
Section 75 debt	**29,717**	**-**	**-**	**29,717**	-	-	-	-
Group life premium	**2,254**	**-**	**-**	**2,254**	1,541	-	-	1,541
Expense contributions	**3,700**	**-**	**47**	**3,747**	4,400	-	32	4,432
	41,454	**39,440**	**47**	**80,941**	14,890	39,304	32	54,226
Employee contributions								
Additional voluntary contributions	**-**	**2,352**	**-**	**2,352**	-	2,044	-	2,044
	-	**2,352**	**-**	**2,352**	-	2,044	-	2,044
Total	**41,454**	**41,792**	**47**	**83,293**	14,890	41,348	32	56,270

Employer normal contributions includes £13.5m (2020: £13.1m) contributions in respect of salary sacrifice arrangements made available to active members by the employer.

Other contributions relate to £5m (2020: £5m) paid to the Scheme by Zurich Employment Services Limited in January 2021. The agreed payment schedule runs until January 2026 and is in respect of Openwork Services Ltd's exit as a participating employer in 2018.

Notes to the financial statements (continued)

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

A participating employer, Dunbar Assets Ltd, withdrew from the Scheme on 30 April 2021. The Section 75 debt was determined by the Scheme actuary at £29.7m. This debt was settled in cash during the year.

Expense Contributions of £3.7m to ZPen DB and £47k to the ES Executives' Section are paid annually to cover Scheme expenses as required by the Schedule of Contributions dated 13 September 2020.

6. Transfers from other plans

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Individual transfers in from other schemes	1,081	2,436	-	3,517	481	2,625	-	3,106
	1,081	2,436	-	3,517	481	2,625	-	3,106

Transfers into ZPen DB are received in respect of individuals within the ZPen DC arrangement forming a part of a retirement lump sum of hybrid members.

Transfers into ZPen DC (ZCashBuilder) are individual transfers from other schemes outside of the Zurich Group.

7. Other income

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Claims on term insurance policies	1,844	-	-	1,844	2,958	-	-	2,958
VAT recovery	60	-	-	60	300	-	-	300
	1,904	-	-	1,904	3,258	-	-	3,258

The Scheme has insurance with Zurich Assurance Limited to cover death in service benefits.
The VAT recovery relates to true-up claims for the previous financial years.

8. Benefits paid or payable

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Pensions	(157,143)	-	(8,535)	(165,678)	(150,689)	-	(8,360)	(159,049)
Commutation of pensions/lump sum retirement benefits	(20,096)	(8,629)	-	(28,725)	(21,939)	(7,991)	(567)	(30,497)
Lump sum death benefits	(2,087)	-	-	(2,087)	(2,661)	-	-	(2,661)
Taxation where lifetime or annual allowance exceeded	(1,553)	-	-	(1,553)	(2,178)	-	-	(2,178)
	(180,879)	(8,629)	(8,535)	(198,043)	(177,467)	(7,991)	(8,927)	(194,385)

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.

9. Payment to and on account of leavers

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Individual transfers out to other schemes	(66,543)	(16,513)	-	(83,056)	(84,188)	(12,633)	(4,753)	(101,574)
	(66,543)	(16,513)	-	(83,056)	(84,188)	(12,633)	(4,753)	(101,574)

Notes to the financial statements (continued)

10. Other payments

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Premiums on term insurance policies	**(2,254)**	**-**	**-**	**(2,254)**	(1,541)	-	-	(1,541)
	(2,254)	**-**	**-**	**(2,254)**	(1,541)	-	-	(1,541)

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

11. Administrative expenses

All administrative expenses are borne by the Scheme, specifically the ZPen DB arrangement. Settlement of the administrative expenses is made initially by the Zurich group and recharged quarterly to the Scheme.

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Trustee Training	**(4)**	**-**	**-**	**(4)**	(5)	-	-	(5)
Trustee Fees	**(158)**	**-**	**-**	**(158)**	(172)	-	-	(172)
Auditor fees	**(142)**	**-**	**-**	**(142)**	(111)	-	-	(111)
Systems costs	**(524)**	**-**	**-**	**(524)**	(486)	-	-	(486)
Actuarial Fees	**(467)**	**-**	**(36)**	**(503)**	(796)	-	(40)	(836)
Payroll & Admin costs	**(320)**	**-**	**(3)**	**(323)**	(310)	-	(3)	(313)
Legal fees	**(598)**	**-**	**(12)**	**(610)**	(115)	-	-	(115)
Staff costs & Overheads	**(1,513)**	**-**	**-**	**(1,513)**	(1,531)	-	-	(1,531)
Industry Fees & PPF	**(3,553)**	**-**	**(3)**	**(3,556)**	(1,208)	-	(3)	(1,211)
Internal communication	**(8)**	**-**	**-**	**(8)**	(31)	-	-	(31)
Bank charges	**(5)**	**(1)**	**-**	**(6)**	(7)	-	-	(7)
	(7,292)	**(1)**	**(54)**	**(7,347)**	(4,772)	-	(46)	(4,818)

12. Investment income

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	Restated ZPen DB	ZPen DC	ESExec DB	Restated 2020 Total
Dividends from equities	**29,687**	**-**	**-**	**29,687**	29,150	-	-	29,150
Income from bonds	**117,059**	**-**	**1,264**	**118,323**	111,608	-	1,443	113,051
Annuity income	**650**	**-**	**25**	**675**	629	-	31	660
Interest on cash deposits	**11**	**-**	**-**	**11**	569	-	-	569
Income from SLP	**60,000**	**-**	**-**	**60,000**	60,000	-	-	60,000
Net (payments) from repurchase agreements	**(8,627)**	**-**	**-**	**(8,627)**	(7,458)	-	- -	(7,458)
Other investment income	**4,424**	**-**	**418**	**4,842**	3,742	-	390	4,132
	203,204	**-**	**1,707**	**204,911**	198,240	-	1,864	200,104

Income from the SLP relates to the asset backed contribution (ABC) arrangement. More details are shown in note 18.
Prior year reclassifications have been made to the Income from bonds and Interest on cash deposits lines of £396k. The income was originally shown as Interest on cash deposits but a subsequent review identified it as income from bonds.

Notes to the financial statements (continued)

13. Reconciliation of net investments

ZPen DB

Amount in £'000	Restated Opening value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
Equities	1,856,038	759,775	(1,187,276)	478,441	**1,906,978**
Bonds	6,100,708	1,752,999	(1,269,672)	(430,720)	**6,153,315**
Derivatives	(1,443)	6,658	(17,701)	10,670	**(1,816)**
Interest in SLP	867,000	-	-	(107,000)	**760,000**
Pooled investment vehicles	732,231	655,627	(703,135)	57,647	**742,370**
Annuities	7,822	-	-	(733)	**7,089**
Repurchase agreements	(1,287,719)	18,615,778	(18,755,387)	-	**(1,427,327)**
	8,274,637	21,790,837	(21,933,171)	8,305	**8,140,609**
Cash and cash equivalents	187,319			(2,117)	**269,098**
ZPen DB net investments	8,461,956			6,188	**8,409,707**

All figures above for bonds, repurchase agreements and cash and cash equivalents are shown net.

ZPen DC

Amount in £'000	Opening value	Purchases	Sales	Change in market value	Closing value
Post 2007 ZCashBuilder Investments	360,710	128,593	(107,502)	64,502	**446,303**
AVC Investments	7,896	605	(1,793)	991	**7,699**
ZPen DC net investments	368,606	129,198	(109,295)	65,493	**454,002**

ESExec DB

Amount in £'000	Opening value	Purchases	Sales	Change in market value	Closing value
Bonds	103,266	19,342	(6,329)	(11,873)	**104,406**
Pooled investment vehicles	101,951	24,830	(40,912)	11,529	**97,398**
ESExec net investments	205,217	44,172	(47,241)	(344)	**201,804**
Cash and cash equivalents	5,525			-	1,486
ESExec net investments	210,742			(344)	**203,290**

14. Investment management expenses

Amount in £'000	**ZPen DB**	**ZPen DC**	**ESExec DB**	**2021 Total**	ZPen DB	ZPen DC	ESExec DB	2020 Total
Administration	**(78)**	**-**	**-**	**(78)**	(109)	-	-	(109)
Management	**(9,455)**	-	**(219)**	**(9,674)**	(9,213)	-	(232)	(9,445)
Custody	**(310)**	-	**(8)**	**(318)**	(266)	-	(7)	(273)
Performance measurement	**(45)**	-	**(12)**	**(57)**	(45)	-	(11)	(56)
Performance fees	**(5,644)**	-	**(132)**	**(5,776)**	(636)	-	(50)	(686)
Other advisory fees	**(1,954)**	-	**(41)**	**(1,995)**	(1,454)	-	-	(1,454)
	(17,486)	**-**	**(412)**	**(17,898)**	(11,723)	-	(300)	(12,023)

An increase in the performance fee line is as a result of the favourable investment performance achieved by Threadneedle Asset Management Ltd.

Notes to the financial statements (continued)

15. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 13. Direct transaction costs incurred are analysed as follows;

Amount in £'000	**ZPen DB Equities**	**2021 Total**	ZPen DB Equities	2020 Total
Futures	(874)	(874)	(1,151)	(1,151)
Commissions	(752)	(752)	(759)	(759)
Total	**(1,626)**	**(1,626)**	(1,910)	(1,910)

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.

16. Pooled investment vehicles

Amount in £'000	**ZPen DB**	**ZPen DC**	**ESExec DB**	**2021 Total**	ZPen DB	ZPen DC	ESExec DB	2020 Total
Equities	**38,979**	**384,916**	**34,154**	**458,049**	29,798	37,041	36,626	103,465
Bonds	**408,323**	**34,641**	**55,426**	**498,390**	377,716	4,075	58,168	439,959
Diversified growth	**-**	**4,498**	**-**	**4,498**	-	299,175	-	299,175
Property	**280,490**	**3,247**	**7,818**	**291,555**	257,223	3,241	7,157	267,621
Cash	**14,578**	**19,001**	**-**	**33,579**	67,494	17,178	-	84,672
Total	**742,370**	**446,303**	**97,398**	**1,286,071**	732,231	360,710	101,951	1,194,892

The Trustee implemented a number of changes in April 2021 to its DC offering after reviewing members' investment options and default strategies. These changes affected the asset allocations of the default funds and most notably the Z Growth Fund which now invests solely in equities.

17. Derivatives

ZPen DB Amount in £'000	**ZPen DB** Assets	**Liabilities**	**2021 Total**	ZPen DB Assets	Liabilities	2020 Total
Exchange traded						
Futures	**-**	**(1,824)**	**(1,824)**	-	(1,081)	(1,081)
Over-the-counter contracts						
Forward foreign currency	**62**	**(54)**	**8**	99	(461)	(362)
Total	**62**	**(1,878)**	**(1,816)**	99	(1,542)	(1,443)

Objectives and policies for holding derivatives

To manage risk, the Trustee has authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

Forwards: The Scheme has overseas investments which means 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:

Notes to the financial statements (continued)

Forward foreign currency

Type Amount in £'000	Expires within	Currency bought	Currency sold	Asset	Fair value Liability
Sell GBP for JPY (1 contract)	1 month	314,926	(2,050)	4	-
Sell EUR for GBP (2 contracts)	1 month	10,031	(11,700)	-	(17)
Sell GBP for USD (6 contracts)	1 month	15,011	(10,809)	57	-
Sell USD for GBP (3 contracts)	1 month	5,074	(7,050)	-	(29)
Sell GBP for EUR (3 contracts)	1 month	2,757	(2,369)	-	(2)
Sell USD for SEK (1 contract)	1 month	1,291	(151)	-	(1)
Sell USD for EUR (1 contract)	1 month	888	(1,058)	-	(3)
Sell GBP for DKK (1 contract)	1 month	808	(93)	-	-
Sell GBP for SEK (1 contract)	1 month	660	(56)	-	-
Sell GBP for NOK (1 contract)	1 month	523	(44)	-	-
Sell USD for CHF (1 contract)	1 month	518	(563)	-	(2)
Sell USD for DKK (1 contract)	1 month	419	(67)	-	-
Sell USD for CAD (1 contract)	1 month	230	(186)	-	-
Sell GBP for CHF (1 contract)	1 month	210	(164)	-	-
Sell JPY for USD (2 contracts)	1 month	278	(30,764)	1	-
Sell EUR for USD (1 contract)	1 month	90	(76)	-	-
Total				**62**	**(54)**

Futures contracts

Type Amount in £'000	Expires within	Economic exposure	Fair value Asset	Liability
FUT SEP 21 LIF LONG GILT	one year	(201,373)	-	(1,824)
Total		**(201,373)**	**-**	**(1,824)**

18. Interest in (SLP) Scottish Limited Partnership

Special contributions were made to ZPen DB 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 generates an annual income stream for the ZPen DB Section 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).

SLP was valued by an independent pricing agent (Barnett Waddingham LLP) as at 30 June 2021 as £760m (2020: £867m). 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. The value of the SLP reduced by £107m relative to the prior year, this reflects one less payment of £60m, the change in market conditions and the likelihood of how long the payments will continue if the ZPen Section hits pre-determined funding levels.

Should the SLP arrangement fail to operate as expected (e.g. due to changes in future legislation), Zurich Financial Services (UKISA) Limited, the Principal Company, has agreed to procure that the employers become responsible for continuing payment of contributions of £60m per annum (payable by 30 June each year) or £70m per annum if the payments are not guaranteed by Zurich Insurance Company Ltd (ZIC) (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.

Notes to the financial statements (continued)

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 Company's ability to affect the value of the partnership interest by changing the level of Scheme funding over the life of the partnership. However, in view of the security of the cash flows over the partnership life the Trustee 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 and 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.

19. 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 DB were allowed to make additional contributions into ZPen DC. 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.

20. Cash and other investment balances

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Investment assets								
Cash-sterling	**105,884**	**-**	**531**	**106,415**	88,779	-	5,112	93,891
Cash-foreign currency	**11,853**	**-**	**-**	**11,853**	31,747	-	-	31,747
Variation margin	**6,184**	**-**	**-**	**6,184**	5,701	-	-	5,701
Income receivable	**31,296**	**-**	**373**	**31,669**	29,862	-	329	30,191
Income tax recoverable	**2,691**	**-**	**-**	**2,691**	2,438	-	-	2,438
Balances due from brokers	**140,500**	**-**	**720**	**141,220**	47,954	-	1,272	49,226
Collateral	**530**	**-**	**-**	**530**	870	-	-	870
	298,938	**-**	**1,624**	**300,562**	207,351	-	6,713	214,064
Investment liabilities								
Balances due to brokers	**(29,840)**	**-**	**(138)**	**(29,978)**	(20,032)	-	(1,188)	(21,220)
	(29,840)	**-**	**(138)**	**(29,978)**	(20,032)	-	(1,188)	(21,220)
	269,098	**-**	**1,486**	**270,584**	187,319	-	5,525	192,844

21. Defined contribution assets

ZPen DC (ZCashBuilder) Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the 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:

Amount in £'000	2021 Total	2020 Total
Not allocated to members	**2,351**	2,346
Allocated to members	**451,651**	366,260
	454,002	368,606

Notes to the financial statements (continued)

22. Repurchase Agreements

Amount in £'000	**2021 Total**	2020 Total
Amounts receivable under reverse repurchase agreements	**424,991**	653,619
Amounts payable under repurchase agreements	**(1,852,318)**	(1,941,338)
	(1,427,327)	(1,287,719)

Bonds with fair value of £1,853m have been sold subject to repurchase contracts and therefore continue to be recognised in the financial statements (2020: £1,945m). There are 25 (2020:27) repurchase agreements, with maturity dates between July 2021 and June 2022.

Bonds with a fair value of £422m were received as collateral in respect of reverse repurchase agreements (2020: £577m). As these were sold, the liability to buy them back is disclosed as Bonds sold short in the Statement of Net Assets. There are 4 (2020: 5) reverse repurchase agreements, with maturity dates between October and November 2021.

23. 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 or liabilities 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.

The Scheme's investments have been included at fair value within these categories as follows, figures are shown as net:

Category **Amount in £'000**	**1**	**2**	**3**	**2021 Total**
ZPen DB				
Equities	1,902,008	4,970	-	1,906,978
Bonds	-	5,605,300	548,015	6,153,315
Derivatives	(1,816)	-	-	(1,816)
Interest in SLP	-	-	760,000	760,000
Pooled Investment Vehicles	-	742,370	-	742,370
Repurchase agreements	-	(1,427,327)	-	(1,427,327)
Annuities	-	-	7,089	7,089
Cash and other net investment balances	151,724	117,374	-	269,098
ESExec DB				
Bonds	-	104,406	-	104,406
Pooled Investment Vehicles	-	97,398	-	97,398
Cash and other net investment balances	903	583	-	1,486
ZPen DC				
Post 2007 ZCashBuilder Investments	-	446,303	-	446,303
AVC Investments	-	7,699	-	7,699
	2,052,819	**5,699,076**	**1,315,104**	**9,066,999**

Notes to the financial statements (continued)

Category Amount in £'000	1	2	3	Restated 2020 Total
ZPen DB				
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)
Annuities	-	-	7,822	7,822
Cash and other net investment balances	154,269	33,050	-	187,319
ESExec DB				-
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				-
Post 2007 ZCashBuilder Investments	-	357,469	3,241	360,710
AVC Investments	-	7,896	-	7,896
	2,001,357	**5,524,563**	**1,515,383**	**9,041,304**

The Interest in the Scottish Limited Partnership (SLP) was independently priced by Barnett Waddingham as at 30 June 2021. The valuation was based on a number of assumptions and economic variables. More details are shown in note 18.

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 MSC.

The pooled investments shown in category 3 in 2020 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 in March 2020. 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 taken across the wider industry. However, the Trustee regarded the market values as comparable to fair value. The property funds were reopened in September and October 2020 (For ZPen DB/ES Executives and ZPen DC respectively) following the removal of the market uncertainty clause and have been trading frequently ever since and therefore have been reclassified to level 2 in 2021.

The annuities shown in category 3 have been valued by an Actuarial adviser at the amount of the related obligation, determined using the most recent Scheme funding valuation assumptions updated for market conditions at the reporting date.

The derivatives shown in category 1 are exchange traded, which means an active price was available when valuing the derivatives. In the prior year the derivatives were in category 2 as it had not been identified that the derivatives were exchange traded, and therefore category 2 was selected.

Notes to the financial statements (continued)

24. Investment risks

Types of risk relating to investments

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

Credit risk: the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

- Currency risk: the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial instrument 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 instrument 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:

	Credit risk	Market risk			2021	2020
Amount in £'000		**Currency**	**Interest rate**	**Other price**		
ZPen DB						
Equities	○	◐	○	●	**1,906,978**	1,856,038
Bonds	●	◐	●	○	**6,153,315**	6,100,708
Derivatives	◐	◐	◐	◐	**(1,816)**	(1,443)
Interest in SLP	●	○	◐	◐	**760,000**	867,000
Pooled investment vehicles	●	◐	◐	◐	**742,370**	732,231
Repurchase agreements	◐	○	●	○	**(1,427,327)**	(1,287,719)
Annuities	●	○	●	●	**7,089**	7,822
Cash and cash equivalents	●	◐	○	○	**269,098**	187,319
ZPen DC						
Post 2007 ZCashBuilder Investments	●	◐	◐	◐	**446,303**	360,710
AVC Investments	●	◐	◐	◐	**7,699**	7,896
ESExec DB						
Bonds	●	○	●	○	**104,406**	103,266
Pooled investment vehicles	●	◐	◐	◐	**97,398**	101,951
Cash and cash equivalents	●	○	○	○	**1,486**	5,525
					9,066,999	9,041,304

○ Hardly/not at all

◐ Partially

● Significantly

Notes to the financial statements (continued)

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 are 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 Company. 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 23.

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 below, the notes explain how the risk is managed and mitigated for the different classes:

Amount in £'000	**2021** **Total**	Restated 2020 Total
ZPensionBuilder section		
Bonds	**6,153,315**	6,100,708
Derivatives	**(1,816)**	(1,443)
SLP	**760,000**	867,000
Pooled Investment Vehicles	**742,370**	732,231
Annuities	**7,089**	7,822
Repurchase agreements	**(1,427,327)**	(1,287,719)
Cash and other net balances	**269,098**	187,319
Total	**6,502,729**	6,605,918
ESExec section		
Bonds	**104,406**	103,266
Pooled Investment Vehicles	**97,398**	101,951
Cash and other net investment balances	**1,486**	5,525
Total	**6,706,019**	6,808,838

Notes to the financial statements (continued)

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 S&P Global Ratings 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. 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 Company, agreeing to procure that the employers become responsible for continuing payment of contributions of at least £60m per annum or £70m per annum if the payments are not guaranteed by ZIC (payable by 30 June each year as explained in Note 18).

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

Direct credit risk arising from pooled investment vehicles, which are unrated, 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, including AVC investments, comprise unit linked insurance contracts and authorised unit trusts.

Amount in £'000	2021	Reclassified 2020
ZPen DB		
Unit linked insurance contracts	**280,490**	257,223
Open ended investment companies	**461,880**	475,008
ESExec DB		
Unit linked insurance contracts	**97,398**	101,951
ZPen DC		
Unit linked insurance contracts	**454,002**	368,532
	1,293,770	1,202,714

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.

Notes to the financial statements (continued)

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 23.

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:

Amount in £'000	**2021 Exposure**	2020 Exposure
Australian dollar (AUD)	1	1
Brazilian real (BRL)	19,088	10,462
Canadian dollar (CAD)	12,839	8,876
Chinese Yuan Renminbi (CNH)	6,812	-
Czech koruna (CZK)	53	53
Danish krone (DKK)	16,033	19,468
Euro (EUR)	259,934	279,219
Hong Kong dollar (HKD)	60,892	67,476
Hungarian forint (HUF)	3,266	4,056
Indonesian rupiah (IDR)	10,813	14,393
Japanese yen (JPY)	145,375	158,058
New Taiwan dollar (TWD)	28,264	20,479
Norwegian krone (NOK)	5,288	4,474
Philippine peso (PHP)	2,334	5,687
Polish zloty (PLN)	2,993	1,986
South African rand (ZAR)	5,290	6,469
South Korean won (KRW)	36,131	34,649
Swedish krona (SEK)	16,527	15,234
Swiss franc (CHF)	56,862	73,326
Thai baht (THB)	2,428	7,355
United States dollar (USD)	749,990	711,184
Total	**1,441,213**	1,442,905

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.

Notes to the financial statements (continued)

Other price risk

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

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. The Property funds were suspended from dealing between March and September 2020, therefore making it illiquid during that period, 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.

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.

During the Scheme year ended June 2021, the Trustee reviewed the ZCashBuilder funds offered to the members and revised the offering. For more information about the review please refer to page 33.

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 Widow's platform. The list of white labelled funds (funds with names selected by the Trustee) and other self-select funds are as follows:

- Z Annuity Fund (White Labelled)
- Z Cash Fund (White Labelled)
- Z Cautious Growth Fund (White Labelled)
- Z Growth Fund (White Labelled)
- SW Aquila UK Equity Index 2
- SW Aquila World ex UK Index 2
- 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 LGIM Future World 2
- SW Aquila Corporate Bond All Stocks Index 2

The Trustee along with the aid of its investment adviser have decided the asset allocation of the above white labelled funds and monitors 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 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.

Notes to the financial statements (continued)

Credit risk

ZCashBuilder is subject to direct credit risk in relation to Scottish Widows through its holdings in the list of funds on page 34. 2021: £446m (2020: £361m)

Scottish Widows Ltd is regulated by the Financial Conduct Authority and maintains separate unrated 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.

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 Company agreed to use the Reserve Fund to pay out the ZPen DC Property Fund assets for one retiring member. The trading suspension was lifted on 26 October 2020. As at 30 June 2021 the ZPen DC Property Fund value was £3.2m.

25. Concentration of investments

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

Amount in £'000	2021		2020	
	Value	**%**	**Value**	**%**
ZPen DB				
SLP	**760,000**	**8.34%**	867,000	9.58%
Total	**760,000**		867,000	

26. Current assets

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Other debtors	**2,254**	**212**	**-**	**2,466**	1,541	279	-	1,820
Cash balances	**60,535**	**3,429**	**59**	**64,023**	25,566	4,054	112	29,732
	62,789	**3,641**	**59**	**66,489**	27,107	4,333	112	31,552

As at 30th June 2021, 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 £2.3m.
The ZPen DC cash balance includes a balance of £3.4m designated to members (2020: £4.0m).

27. Current liabilities

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total	ZPen DB	ZPen DC	ESExec DB	2020 Total
Unpaid benefits	**(1,233)**	**(422)**	**-**	**(1,655)**	(798)	(296)	-	(1,094)
Tax payable	**(2,852)**	**-**	**(210)**	**(3,062)**	(2,472)	-	(204)	(2,676)
Accrued expenses	**(6,534)**	**-**	**(111)**	**(6,645)**	(6,426)	-	(121)	(6,547)
Amounts due to employer	**(7,364)**	**-**	**(164)**	**(7,528)**	(4,231)	-	(74)	(4,305)
	(17,983)	**(422)**	**(485)**	**(18,890)**	(13,927)	(296)	(399)	(14,622)

Amounts due to employer relate to Zurich Employment Services. More details are shown in Note 29.

Notes to the financial statements (continued)

28. Guaranteed minimum pensions (GMP) equalisation

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. A subsequent ruling stated that schemes providing 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 its advisers, the implication of these rulings on the Scheme and the equalisation of GMPs 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. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

29. Related party transactions

Related party transactions and balances comprise:

Key Management Personnel

- Contributions accrued under ZCashBuilder (note 5), in accordance with the Trust Deed and Rules, include amounts in respect of four Trustee directors (2020: three) and pensions paid (note 8) in respect of four Trustee directors (2020: four).
- Fees and expenses of £158k (2020: £172k) were paid to professional/paid Trustee directors 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 11, the directors of Zurich Financial Services UK Pension Trustee Ltd and key management of the Scheme had no material transactions with the Scheme.

Company 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 0.15% to 1.19% of the fund value. The change in market value of these investments is net of this charge.
- Contributions made to 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 2021 was £2m (2020: £3m).
- 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.
- 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 2021 are disclosed in note 26, as balances due to employer.
- 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 per annum from Zurich (Scotland) Limited Partnership where the other partners are companies in the Zurich group including Zurich Employment Services Limited and Zurich UK General Services Limited.
- Zurich Assurance Limited held 66.0% and Zurich Financial Services UK Pension Scheme 34.0% of the participating shares in the Threadneedle India Fund. The Scheme held an investment of £24m (2020:£20m) as at 30 June 2021.

Notes to the financial statements (continued)

- Zurich Insurance Company Limited and a number of subsidiaries held 29.5% and Zurich Financial Services UK Pension Scheme 70.5% of the participating shares in the M&G Managed European Loan Fund Limited. The Scheme held an investment of £398m (2020:£365m) as at 30 June 2021.
- As at 30 June 2021, 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 £2.3m.

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.

30. Employer related investments

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

The Scheme held less than 0.01% (2020: 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 – Z Growth, Z Cautious Growth, SW LGIM Future World, SW L&G Ethical Equity and SW Aquila World ex-UK Equity).

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

We have examined the summary of contributions to the Zurich Financial Services UK Pension Scheme for the Scheme year ended 30 June 2021 which is set out on page 87.

In our opinion contributions for the Scheme year ended 30 June 2021 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the Scheme actuary on 20 April 2018 and 17 September 2020.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on page 87 have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedules of contributions.

Respective responsibilities of Trustee and the auditor

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 the employers in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedules of contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or the opinions we have formed.

Ernst & Young LLP

Statutory Auditor

Reading

Date 14 December 2021

Summary of Contributions for the year ended 30 June 2021

During the year ended 30 June 2021, the contributions payable to the Scheme were as follows:

Amount in £'000	ZPen DB	ZPen DC	ESExec DB	2021 Total
Contributions required by the schedules of contributions				
Normal contributions	-	39,440	-	39,440
Group life premium	2,254	-	-	2,254
Other contributions	5,000	-	-	5,000
Expense contributions	3,700	-	47	3,747
	10,954	39,440	47	50,441
Other contributions				
Augmentations	783	-	-	783
Section 75 debt	29,717	-	-	29,717
Additional voluntary	-	2,352	-	2,352
Total as per note 5 to the financial statements	41,454	41,792	47	83,293

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 14 December 2021 and is signed on their behalf by:

Trustee director	David Sims
Signature	D P SIMS
Date	14 December 2021

Actuarial certification of schedule of contributions

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:	Susanna Morran	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

Actuarial certification of schedule of contributions (continued)

ES Executives' Section 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:	Susanna Morran	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 ("the Scheme") DB Implementation Statement

14 December 2021

Background

In 2019, the government published regulations[8] 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 legislation[9] 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.

During the year ended 30 June 2021 the Trustee had a single SIP document which covered both the ZPen Section (including DB & defined contribution (DC) arrangements) and ES Executives' Section until 30 September 2020. From 30 September separate DB and DC SIPs were in place.

The SIPs in force during the Scheme year ended 30 June 2021 were prepared in accordance with all relevant legislation in-force at the date of the approvals. The DB 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) 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

At its meeting on 25 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' Section) and DC assets (ZCashBuilder and legacy AVCs), and to set up a Working Group to progress this.

The reasons for these changes were to:

- make the SIPs more accessible to members by removing much of the detailed technical content into an Investment Policy Implementation Document
- update the SIPs to meet the new legal requirements
- have a separate SIP for the default arrangement within ZCashBuilder

During the drafting process:

- each SIP was drafted separately and reviewed by the Working Group, Eversheds Sutherland (Trustee's legal adviser) and Hymans Robertson (Trustee's investment adviser)
- final drafts were agreed and circulated to the Funding Committee (DB SIP) and DC Committee (DC SIP including the default SIP).

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

[8] Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019
[9] 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)

- 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").

The key outcomes of the review of the DB SIP were:

- the aims and objectives were updated
- the sections on risks was expanded
- the section on ESG was expanded
- there were no changes to the principles behind the policies within the SIP although some of the wording was updated.

Please note that this Statement applies to the policies set out in the DB SIP approved on 30 September 2020.

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

	Scheme year start 1 July 2020	Scheme year end 30 June 2021
In-force (covering both the ZPen (including DB & DC arrangements) and ES Executives' Sections)	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 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 December 2020 the Trustee agreed to refine the investment strategy for the ZPen Section by allocating 2.5% of the section's assets to a new asset class, middle market loans. The new allocation is to be funded by reducing the long-term target for equities from 30% to 27.5%. The allocation to middle market loans gives the section exposure to medium sized companies. Its equity and investment grade corporate bond portfolios give the section exposure to mainly large companies that are able to access public capital markets.
- In June 2021 the Trustee agreed a de-risking strategy for the ES Executives' Section, reducing the allocation to growth assets from 20% to 5%. This includes entirely selling the section's real estate assets of 3.5%. The proceeds of the growth reduction has been used to increase exposure to corporate bonds (from 28% to 35%) and gilts (from 52% to 60%). The revised strategic asset allocation still leaves the funding ratio (on a technical provision basis) comfortably over 100% while reducing market risk.

- 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 on both strategy changes, 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 processes to leverage market expertise in order to review the Trustee's investment analyst's proposals. The DB IPID was updated to reflect the amendments to the strategic asset allocation for both sections.

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. 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 policies set out in the DB SIP.

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 benefits the Scheme provides as and when they fall due, as set out in the Trust Deed and Rules and
- to manage the investment risk relative to the agreed levels to which the Trustee is prepared to expose the Scheme.

The Trustee believes by fulfilling its objectives and by adhering to the policies in the DB 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.

The Trustee has an Integrated Risk Management (IRM) policy that it adheres to. Risk monitoring has been reported to the Trustee board via the Funding Committee on a quarterly basis. Any investment strategy decisions are taken in the context of IRM, this includes the investment strategy refinements referred to in the previous section.

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

During the Scheme year, the Trustee has focused on climate change risks and opportunities as a result of the responsible investment (RI) strategy development as well as changing regulatory requirements. In May 2021 the Trustee directors attended a climate change training session in order to prepare them for the upcoming regulatory changes. The climate change regulations under Section 175(2A) of the Pensions Act 1995 require pension schemes with assets exceeding £5bn to comply with the Task Force on Climate-

Related Financial Disclosures (TCFD) recommendations, applicable from 1 October 2021. In order to comply with the regulations the Trustee agreed and published a DB climate change policy in June 2021, describing governance, strategy and risk management of climate change risks and opportunities. The DB climate change policy can be found on www.zpen.info. The Trustee also agreed to a 25% weighted average carbon intensity (WACI) reduction target over 5 years for its equity and corporate bond portfolios. The first TCFD report will be published on the Scheme's website before the end of January 2023 for the Scheme year ending 30 June 2022.

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 2021:

Policy & response

DB assets: ZPen & ES Executives' Sections

Selecting Managers

During the Scheme year the Trustee has agreed to appoint Ares Management ("Ares") as its middle market loans manager. Zurich Investment Management conducted a thorough asset management selection process, this analysis was in accordance with its service agreement with the Trustee. Ares presented to the Funding Committee on 25 November 2020 (see Engagement with Managers). The Funding Committee agreed that Ares was the most suitable Manager for the middle market loans mandate and were satisfied with its approach to responsible investment practices and consideration of ESG factors. The Funding Committee therefore approved Ares as the middle market loans manager.

Financially material considerations

During the Scheme year, the Trustee continued to operate its restriction list with regard to companies exposed to coal and oil for directly held equities and bonds. The restriction list is updated on a quarterly basis and has been shared with the equity and bond Managers. There were no exceptions noted to the restriction list during the Scheme year. The Trustee strengthened its investment guidelines relating to the private debt asset classes to extend the assets that can be restricted. In November 2020 the Funding Committee approved an investment guideline change for the M&G European Loan fund to include ESG restrictions that are consistent with the Trustee's restriction list. In May 2021 the Funding Committee approved an investment guideline change for the Macquarie infrastructure debt portfolio to include restrictions that are broadly in line with the Trustee's restriction list.

As described in the 'RI Strategy' section, the Trustee has progressed on its journey to addressing climate risk by setting a WACI target for its equity and corporate bond portfolio and by agreeing its DB climate change policy.

Voting & Stewardship

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 annual responsible investment meetings (page 6), key individual company voting records were challenged.

Taking into account the periodic reviews and the responses given to the questions raised during the annual responsible investment meeting, 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.

Engagement

The Trustee continues to meet with its Managers on a regular basis 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'.

The Trustee responded to a number public policy consultations during the Scheme year, including two items related to ESG and stewardship. Guy Opperman MP, the Minister for Pensions and Financial Inclusion, wrote to the Trustee requesting Scheme specific information, this included the SIP, implementation statement and proxy voting policies. The Trustee also responded to a consultation on the social risks and opportunities by occupational pension schemes. The Trustee understands the importance of engaging on public policy and reviews all relevant consultations, responding when appropriate for the Scheme's circumstances.

Non-financial matters
The restriction list to exclude the investment in the debt and equity of companies involved in the manufacture of UN-sanctioned weapons is updated on a quarterly basis and has been shared with the equity and bond Managers quarterly. There were no exceptions noted to the restriction list during the Scheme year.

Member engagement
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.

The realisation of investments
The Trustee operates an investment re-balancing process which is set out in the DB IPID. The management of the re-balancing process is delegated to the ZPen Finance and Investment team. During the Scheme year the majority of re-balancing took place with monthly outflows (mainly to fund the pensions payroll) to reduce unnecessary transaction costs. Active re-balancing took place when liquid asset classes exposures were outside the agreed limits. Any active re-balancing transactions were communicated with the Funding Committee within the standing investment management agenda item.

The expected return from investment and performance measurements
The Trustee continues to monitor the performance of the DB assets on a quarterly basis. The Funding Committee considers the performance of the assets and takes additional actions if necessary. During the Scheme year the performance of one of the equity portfolios led to the Funding Committee requesting the portfolio manager to attend a meeting to discuss the performance. The meeting took place at a regular Funding Committee meeting in November 2020, the Funding Committee were satisfied with the explanation given by the portfolio manager and continued to monitor performance more closely in future quarters. The performance has since improved and has shown a good recovery during 2021.

Turnover
The Trustee maintained its position of not setting specific targets on transaction costs. The Trustee commissioned a report from an external provider to provide analysis on the DB asset's transaction costs and turnover for the Scheme year. At the time of signing the implementation statement this report has not yet been received by the Trustee for review, the Funding Committee will consider the report and any actions it may take with its Managers in early 2022.

Duration
None of the agreements with the Managers ceased during the Scheme year.

Incentives
There were no changes to the current fee arrangements during the Scheme year. The Funding Committee approved the fee arrangement with Ares and concluded it meant that the Manager was remunerated in such a way that it is incentivised to act in accordance with the Trustee's policies and in the best interest of the Scheme and its beneficiaries.

Engagement with Managers

The Trustee engages with the Managers regularly. This includes engagements through the Funding Committee and meetings with Trustee and ZPen team representatives. The Trustee has found direct meetings with Managers is the most effective ways to engage on responsible investment and voting records.

Annual Responsible Investment meetings – 3-17 February 2021

The annual Responsible Investment meetings consisted of five attendees representing the Trustee. This included the nominated Trustee for responsible investment, the Scheme's responsible investment champion, the ZPen Finance and Investment Manager, the Trustee's investment analyst and a member of the Funding Committee. 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:

- Responsible investment updates through 2020 (including policy changes/personnel)
- TCFD requirements
- Specific examples of voting and engagement
- Current RI reporting disclosures

The focus this year was on the upcoming TCFD requirements. The Scheme's requirements were discussed in respect of different asset classes and ways of measuring the Scheme's climate change risks and opportunities. Specific engagement examples and voting activities were also challenged with the respective Managers. From each meeting conclusions were drawn and next steps determined to follow up on, this was fed back to the Funding Committee and the Trustee board.

As a result of the Trustee's decision to commit to the WACI target, a number of further meetings were held with CTI and M&G to discuss and agree the implementation of the target.

Ares meeting – 25 November 2020

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

- Overview of Ares
- Overview of ESG integration
- Zurich mandates

The Funding Committee were satisfied with Ares' approach to ESG integration when considering the entire lifecycle of an investment. Ares confirmed that as a lender there is not the same influence on companies compared to private equity, however being the sole lender, which is their preferred position, provides some leverage.

Exercise of voting rights

Voting policy

The Trustee operates a proxy voting policy, 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.
- 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 Manager's 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 all of its Managers during the Scheme year, with RI as a key topic for the majority of meetings.

The Scheme has two types of equity structures within the ZPen & ES Executives' sections.
- Segregated mandates in segregated custody accounts (DB)
- Pooled mandates in segregated custody accounts (DB)

The table below sets out the portfolios that contain equities.

Across ZPen DB & the ES Executives' Section all equity assets are held by CTI. There are approximately £2.0bn of equities held in total, the majority of these equities at the Scheme year end were held through segregated mandates, and small holding of equities were held via pooled funds. 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 annual responsible investment meetings, 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 96-99.

DB assets	**% of Scheme equity assets**
Fund 1 (ZPen)	98.2%
Fund 5.1 (ES Executives')	1.8%

Fund 1

CTI's statistics showed the following:

- **556 meetings in total**
  - 10 did not vote because CTI had sold out of the holding prior to the AGM. 98.2% meetings were voted.

  - 280 had at least one vote against management (which we class as a vote against management's recommendation – either an abstain or against)

- **7,199 individual resolutions**
  - 6,509 'for'
  - 439 'against' or 'withhold'
  - 3 'one year' votes submitted for US Say on Pay items
  - 237 'abstain'
  - 11 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:

- **499 meetings in total**
  - 244 had at least one vote against management (which we class as a vote against management's recommendation – either an abstain or against).

- **6,507 individual resolutions**
  - 6,012 'for'
  - 322 'against' or 'withhold'
  - 4 'one year' votes submitted for US Say on Pay items
  - 169 'abstain'

Significant votes[10]

Company name	Melrose Industries Plc
Date of vote	21-Jan-21
Summary of the resolution	Approve Remuneration Policy
How you voted	Against
Rationale for the voting decision	Poor response to engagement
Outcome of the vote	Dissent from 18% 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; Deemed significant.

Company name	Cineworld Group Plc
Date of vote	25-Jan-21
Summary of the resolution	Approve Remuneration Policy
How you voted	Against
Rationale for the voting decision	Poor response to engagement
Outcome of the vote	Dissent from 31% of shareholders

[10] Significant votes provided by CTI

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; Deemed significant.

Company name	Elementis Plc
Date of vote	13-May-21
Summary of the resolution	Director Elections
How you voted	Abstain
Rationale for the voting decision	Concluding intervention to request this director to step down
Outcome of the vote	Dissent from 4% 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; Deemed significant.

Company name	St. James's Place Plc
Date of vote	14-May-21
Summary of the resolution	Director Elections
How you voted	Abstain
Rationale for the voting decision	Ethnic Diversity Concerns
Outcome of the vote	Dissent from 1% 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; Deemed significant.

Company name	Azul SA
Date of vote	29-Apr-21
Summary of the resolution	Approve Remuneration of Executive Directors and/or Non-Executive Directors
How you voted	Against
Rationale for the voting decision	Climate change laggard
Outcome of the vote	Dissent from 47% 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

Zurich Financial Services UK Pension Scheme ("the Scheme") DC Implementation Statement

14 December 2021

Background
In 2019, the government published regulations[11] 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 legislation[12] 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.

During the year ended 30 June 2021 the Trustee had a single SIP document which covered both the ZPen Section (including DB & DC arrangements) and ES Executives' Section until 30 September 2020. From 30 September 2020 a separate DC SIP was in place and this Statement covers the policies included in the DC SIP (incorporating the default SIP).

The SIPs in force during the Scheme year ended 30 June 2021 were 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 DC (defined contribution) assets (ZCashBuilder and the legacy AVC arrangements) and the Trustee's policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

Investment changes: April 2021
The Trustee carried out a review of the DC investment options in 2020 and agreed a number of changes, primarily to the default arrangements, which were implemented in April 2021. More information on these changes can be found in the Chair's Statement on page 36.

Review of the SIP during the year
At its meeting on 25 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' Section) and DC assets (ZCashBuilder and legacy AVCs), and to set up a Working Group to progress this.

The reasons for these changes were to:

- make the SIPs more accessible to members by removing much of the detailed technical content into an Investment Policy Implementation Document
- update the SIPs to meet the new legal requirements
- have a separate SIP for the default arrangement within ZCashBuilder

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

During the drafting process:

- each SIP was drafted separately and reviewed by the Working Group, Eversheds Sutherland (Trustee's legal adviser) and Hymans Robertson (Trustee's investment adviser)
- final drafts were agreed and circulated to the Funding Committee (DB SIP) and DC Committee (DC SIP including the default SIP).

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

- 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").

The key outcomes of the review of the SIP were:

- A separate DC SIP was produced including separate sections covering:
    1. the default arrangements,
    2. the options outside the default arrangements and
    3. the policies that apply to both (1) and (2) above.
- The aims and objectives were updated to reflect those agreed as part of the 2020 investment review.
- The section on risks was expanded
- The section on ESG was expanded
- A glossary was included at the end to explain some of the terms used in the SIP
- There were no changes to the principles behind the policies within the SIP although some of the wording was updated.

No changes were required to the SIP following the investment changes made in April 2021, as the detail of the DC investments is now included in the Investment Policy Implementation Document (IPID).

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

	As at 1 July 2020	**As at Scheme year end 30 June 2021**
In-force (covering both the ZPen (including DB & DC arrangements) and ES Executives' Sections)	SIP dated 10 September 2019	
DB assets; ZPen and ES Executives' Sections		DB SIP dated 30 September 2020
DC assets; ZCashBuilder (including the default arrangements) and legacy AVCs.		DC SIP dated 30 September 2020

3 How has the SIP been followed during the year?

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

3.1 Investment aims and objectives for the default arrangements

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*

To meet these aims and objectives the Trustee has established the following default options:

1. A lifestyle strategy for DC only members which targets 25% cash and 75% drawdown at retirement;
2. A lifestyle strategy for members with both DB and DC benefits which targets cash at retirement.

The Sterling Liquidity Fund was also classed as a default arrangement for the year ending 30 June 2021 as it was used as a default arrangement for members whose contributions were not able to be invested in the Zurich Property Fund when it temporarily closed between March – October 2020. On the reopening of the Property Fund all contributions that had been defaulted into the Sterling Liquidity Fund were transferred to the Property Fund. The Sterling Liquidity Fund is no longer a default option because it was replaced by Z Cash Fund in April 2021.

The Trustee completed its review of the DC investment arrangements (which are made available via Scottish Widows, the Scheme's investment platform provider) on 30 September 2020 and implemented the changes in the week commencing 12 April 2021. This included a number of changes to the default investment arrangements, which are set out in more detail in the Chair's Statement.

Based on the review, the Trustee concluded that drawdown remained an appropriate retirement target for the majority of members of ZCashBuilder and that a cash target remains appropriate for members with both DB and DC benefits.

Key steps during the investment review included:

- Analysis of membership between those members with DC only benefits and members with DB and DC benefits: this enabled the Trustee to treat these two groups separately when considering the default strategies.
- Projecting fund values at retirement to consider how members may choose to take their benefits at retirement.
- Considering the level of risk at different stages in the lifestyle strategies based on the expected needs of members, including consideration of a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes, as well as how these risks can be mitigated (see section 3.3 for more detail). As a result of these considerations:
  - the growth phase for both default arrangements (Z Growth Fund) is invested in global equities to generate capital growth whilst members are still some years from retirement.
  - when members reach 10 years from their target retirement age the default strategies gradually move into Z Cautious Growth Fund which contains a mix of passively managed global equities and bonds with the aim of continuing to provide some growth whilst also offering some protection from market volatility.
- Selecting passively managed funds for Z Growth Fund and Z Cautious Growth Fund to enable the Trustee to provide diversification of assets, cost effective exposure to markets and value for members.
- Selecting a fund manager in line with the Trustee's DC investment belief on incorporating ESG into the default arrangements.

Based on the outcome of this analysis, the Trustee concluded that the default arrangements have been designed to be in the best interests of the majority of members and reflects the demographic of those members.

3.2 Investment aims and objectives for the investment options outside the default arrangements

The Trustee has agreed the following investment objectives for the Scheme's DC fund choices:

- To provide a range of funds and lifestyle strategies with the aim of helping members optimise their retirement income.
- To ensure the investment strategy structure and design is based on the membership profile, where practical to do so
- To provide a range of lifestyle strategies which:
  1. are designed to generate income and capital growth whilst members are some years from retirement with the aim of helping members optimise their retirement income
  2. in the period approaching retirement protect the capital value of investments as well as protecting members from volatility
  3. are aligned to how members are able to take their benefits and consistent with the pension flexibilities enabled by the 'freedom and choice' regulations.
- To provide a range of alternative investment options which:
  1. recognise that members have different needs and objectives
  2. enables members to invest in funds which provide real capital growth over the long term
  3. provides the ability for members to invest responsibly, or in funds with certain ESG characteristics
  4. is appropriate for members' attitude to risk and proximity to retirement as members' investment needs and risk appetite change
  5. caters for the needs of certain groups within the memberships that have ethical or religious beliefs
  6. offers members a choice between active and passively managed funds.

To meet these aims and objectives the Trustee carried out analysis of the Scheme's membership at the time of the last strategy review which concluded in September 2020. As part of the strategy review, the Trustee considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes, as well as how these risks can be mitigated (see section 3.3 for more detail).

As a result the Trustee offers the following options:

- 3 lifestyle strategies which:
  - target the 3 options at retirement: drawdown, annuity purchase and cash.
  - use a passive global equity fund in the growth phase (Z Growth Fund) with the aim of generating growth whilst members are some time from retirement.
  - start switching to a lower risk fund 10 years from the target retirement age. This fund (Z Cautious Growth Fund) contains a mix of passively managed global equities and bonds with the aim of continuing to provide some growth whilst also offering some protection from market volatility.
  - have an allocation of 25% cash at retirement to reflect the expectation members will take 25% of their benefits as the tax-free cash sum.
- a range of 13 investment funds which:
  - covers a range of asset classes and risk profiles to meet differing member needs and objectives over time.
  - includes funds catering for members religious or ethical beliefs and a fund targeting 'climate friendly' firms.

- has a range of funds aiming to provide longer term growth including equity funds, property and mixed asset funds.
- include access to both active and passively managed funds.

3.3 How have the other policies been met over the year?

Policies on choosing and realising investments, the kind of investments to be held and the balance between different kinds of investments

<u>To meet its policies for the default investment arrangements</u> the Trustee:

- Completed a review of the DC investment arrangements on 30 September 2020 and implemented these changes in the week commencing 12 April 2021. The changes included:
  - increasing the level of investment risk and expected return in the growth stage of the lifestyle strategies
  - lengthening the switching period over which members are moved into less risky assets from 5 to 10 years.
  - using passively managed pooled funds to reduce the charges paid by members.
- Obtained and considered written advice from a regulated investment adviser at the following meetings as it carried out its investment review:
  - 11 March 2020
  - 29 April 2020
  - 2 June 2020
  - 2 September 2020
- Uses a fund structure which allows it to make changes to the underlying funds, if required, with minimum disruption.
- Is invested in pooled funds which offer daily dealing funds as far as possible to enable members to readily realise and change their investments.

<u>To meet its policies for the investment options outside the default investment arrangements</u> the Trustee:

- reviewed the range of investment funds and lifestyle strategies which are made available to members. As part of this review:
  - written advice was obtained and considered from a regulated investment adviser on the investment funds available to members.
  - the investment funds available to members include a range of asset classes to meet differing levels of risk.
  - the Legal and General Investment Managements (LGIM) Future World Fund was made available for members wanting to invest in a fund focussed on climate change.
  - two funds were removed where a similar fund was available. This was to simplify the range of investment funds.
- Continues to invest in pooled funds which offer daily dealing funds as far as possible to enable members to readily realise and change their investments.

Policies on managing risk and expected returns:

The DC SIP outlines the key risks considered by the Trustee and the steps taken by the Trustee to mitigate each risk. The Trustee realises that in relation to DC benefits, the investment risk ultimately sits with the members, and acknowledges that it is not possible to mitigate all the risks at the same time.

<u>To meet its policies</u> the Trustee:

- took advice from its investment advisers when considering the level of investment risk and expected return that is appropriate for each stage of the lifestyle strategies and selected investment funds in line with this.
- creating a blended fund for Z Cautious Growth Fund as the most cost-effective way of achieving the desired level of investment risk and expected return.
- makes available a range of pooled funds which:
  - are passively managed to reduce the risk of underperformance.

  - cover different asset classes to diversify risks and offer diversification to members.
  - include currency hedging in the global equity fund to reduce currency risk.
- uses Scottish Widows as its platform provider. Scottish Widows is regulated by the Financial Conduct Authority and Prudential Regulation Authority and has to maintain adequate financial resources to ensure it can meet its liabilities as they fall due.
- offers lifestyle strategies targeted at each of the 3 options available to members at retirement.
- receives quarterly updates on the fund performance and regular reports on the fund managers, the platform provider and the performance of the default strategies against their objectives.
- the funds used in the lifestyle strategies, including the two default arrangements, use structures which enable the Trustee to make changes to the underlying funds with the minimum disruption, should the need arise.

Policy on 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.

Selecting managers:
The Trustee considered responsible investment as part of its investment review which concluded in September 2020, including how to incorporate it into the default arrangements and investments options available outside the default arrangements. The outcome of this was the selection of a number of funds invested with LGIM because of the way it engages in stewardship activities and uses its size to engage with companies and influence them. This includes funds used within both the default arrangements and the other investment options.

Financially material considerations:
The Trustee recognises that in using pooled funds it has delegated consideration of stock-specific issues to the fund manager and that 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:

- 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.
- is supported by a Responsible Investment Champion who has access to resources and the global Zurich network of expertise
- has nominated a responsible investment Trustee who also sits on the DC Committee.
- received training on responsible investment in May 2021.
- agreed a DC Climate Change policy in June 2021. This policy was reviewed by the investment and legal advisers and is expected to be formally reviewed at least every three years. Due to the DC assets being managed via pooled funds, and the Trustees' limited influence over the stock selection the Trustee agreed not to set a climate change target for DC assets at this stage, but to continue engaging with Scottish Widows and asset managers to ensure climate change risks and opportunities are taken into consideration in the investment process.

***Voting, stewardship and engagement*:**
The DC assets, both before and after the changes that took place in April 2021, are all in pooled funds so the Trustee has adopted a policy of delegating voting decisions and engagement with companies to the fund managers, who are expected to exercise the voting rights attached to individual investments in accordance with their own house policy. The Trustee:

- selected LGIM as a fund manager for Z Growth Fund because of the way it engages in stewardship activities and uses its size to engage with companies and influence them. LGIM produce a quarterly ESG Impact Report which details its key activities over the period including engagement campaigns, key votes and work with policy makers.
- is engaged with its platform provider Scottish Widows as they own the primary relationship with the asset managers. This included a meeting on 13 May 2021 to discuss Scottish Widow's

responsible investment policies and the information it will be able to provide to the Trustee regarding managers exercising voting rights.
- reviews engagement activity undertaken by the fund managers as part of its broader monitoring activity.

Taking into account the responses given to the questions raised during the annual responsible investment meeting with Scottish Widows, the Trustee is satisfied that the Scottish Widows' voting policy is aligned with its own guiding principles.
The Trustee responded to a number public policy consultations during the Scheme year, including two items related to ESG and stewardship. Guy Opperman MP, the Minister for Pensions and Financial Inclusion, wrote to the Trustee requesting Scheme specific information, this included the SIP, implementation statement and proxy voting policies. The Trustee also responded to a consultation on the social risks and opportunities by occupational pension schemes. The Trustee understands the importance of engaging on public policy and reviews all relevant consultations, responding when appropriate for the Scheme's circumstances.
Further details on some significant votes are included on pages 111-113.

Engaging with managers: SW meeting – 13 May 2021
Because the Trustee uses Scottish Widows as a platform provider, the Trustee does not have direct relationship with the DC fund managers; that relationship is held by Scottish Widows. The Trustee has found that direct meetings with Scottish Widows is the most effective way to engage on responsible investment and voting records.

On 13 May 2021, a meeting was held with Scottish Widows and ZPen team representatives including discussions on the following:
- Scottish Widows' approach to responsible investment and the work it is doing
- What reporting Scottish Widows can provide to the Trustees in relation to voting.

Member engagement:
The DC Committee includes company representatives and ZPen team members who are able to collate and present member feedback.
- In August 2020 Caroline Taylor joined the DC Committee to replace Kevin Watts. Caroline is the National Secretary of Community and also sits on the Employee Consultation Board.
- A member of the Pensions Support team (part of the ZPen team) attends each DC Committee meeting and feeds back member views collated during webinars and other contact with members.

As part of the DC investment review, the Trustee acknowledged that members will have differing views on responsible investment and decided to offer a range of global equity funds so members who wish to can select the fund which best reflects their views on responsible investment. These funds are:
- Z Growth Fund: a passively managed global equity fund which does not select stocks on responsible investment criteria but the underlying fund manager uses it size to engage with companies and influence them.
- LGIM Future World Fund: favours companies which are less carbon intensive or which earn green revenues. The fund excludes companies in controversial weapons and pure coal as well as those that are excluded by LGIM on the basis they do not meet the requirements of LGIM's Climate Impact Pledge. It can also choose to exclude companies that fail to meet LGIM's standard on low carbon transition and corporate governance standards.
- LGIM Ethical Fund: seeks to invest in global companies that demonstrate sustainability practices, but excludes firms in tobacco, weapons systems, components for controversial weapons and coal companies.

Policy on asset managers
<u>To meet its policies</u> the Trustee:
- is invested in pooled funds which offer daily dealing funds as far as possible to enable members to readily realise and change their investments.

- was notified in March 2020 that the Zurich Property Fund would be temporarily closed to all transactions with immediate effect. This was a result of the UK going into lockdown and affected many other property funds. An announcement was put on the ZPen website to notify members and affected members were written to directly. When the Property Fund reopened in October 2020, again an announcement was put on the ZPen website and affected members were written to directly.

- receives quarterly reports on fund performance against benchmark, including updates from its investment adviser on any issues with individual funds or fund managers.

  - ZFlexibleIncomePot was reviewed as part of the DC investment review which completed on 30 September 2020 as it had underperformed its benchmark over a three-year period. This had previously been raised with the fund manager who explained that the fund held a high proportion of defensive assets in order to meet its objective of limiting any fall in value should markets fall. This had worked during the periods of high market volatility in 2020, however, given the longer-term underperformance of this fund, and the charges being paid by members, it was agreed to replace ZFlexibleIncomePot with Z Cautious Growth Fund as part of the DC investment review.

- recognises that in using passively managed pooled funds, the amount held in each fund is dictated by the index and the manager has limited freedom to minimise transaction costs and turnover of assets within each fund.

- worked with its investment advisers and Scottish Widows to minimise the transaction costs incurred as a result of the changes to the default investment options made in April 2021. By seeking opportunities to match sales and purchases the Trustee was able to switch approximately 50% of ZFundBuilder in March 2021 and avoid the costs of purchasing units in the fund underlying Z Growth Fund.

- receives and monitors transaction cost information on all funds with DC assets, including legacy AVC funds. This information is reported in the Chair’s Statement.

- does not have an arrangement with the fund managers to provide incentives because the charges are met by the members through the Annual Management Charge.

- carries out an annual Value for Members assessment to ensure the funds continue to provide members with good value for the charges paid. The outcome of the value for members assessment is reported in the Chair’s Statement.

Exercise of voting rights

The Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee does not direct how individual votes are exercised and the Trustee itself has not used proxy voting services over the year.

In this Section we have sought to include voting data on all of the Plan’s funds that hold equities, which are the BlackRock, LGIM, JPM, and Threadneedle funds listed in the table below:

- The tables below show the key funds with equity holdings, and managers, both before and after the investment changes that took place in April 2021 and some significant votes and engagement work undertaken by the equity managers.

1 July 2020 – 12 April 2021	Fund	Manager	% of ZFundBuilder assets	% ZCashBuilder assets (@ 31 March 2021)
ZFundBuilder	Aquila UK Equity Index	BlackRock	38%	28.05%
	Aquila US Equity Index	BlackRock	12.25%	9.04%
	Threadneedle European equities	Threadneedle Asset Management	12.25%	9.04%
	Threadneedle Asian equities	Threadneedle Asset Management	5.5%	4.06%
	Threadneedle Japanese equities	Threadneedle Asset Management	5.5%	4.06%
	JPM Emerging Markets equities	JPM	2.5%	1.85%
	Zurich Property	Threadneedle Asset Management	14.0%	10.33%
	Aquila Over 15 years Corporate Bond	BlackRock	6.0%	4.43%
	Aquila Over 15 years UK Gilts	Blackrock	2.0%	1.48%
	Zurich Deposit and Treasury	Schroder	2.0%	1.48%
13 April – 30 June 2021	**Fund**	**Manager**	**% of fund assets**	**% ZCashBuilder assets (@ 30 June 2021)**
Z Growth Fund Z Cautious Growth Fund	LGIM 30/70 Global equity currency hedged	LGIM	100% Z Growth Fund 55% Z Cautious Growth Fund	79.92%

According to its Q2 2021 ESG Impact Report, over the period **LGIM**

- voted on resolutions at 314 UK companies, with 55% of the votes being against at least one resolution.
- voted on resolutions at 2,837 companies, with 2,199 of these including a vote against the management.
- engaged with 91 companies

According to its report covering the 12 months to 30 June 2021 in the US **BlackRock Investment Stewardship:**

- voted on resolutions at 13,190 companies across 71 markets
- voted against 255 directors and 319 companies for climate-related concerns that could negatively affect long term shareholder value
- supported 35% of shareholder proposals (297 out of 843)

Description of the voting process

BlackRock

"The team and its voting and engagement work continuously evolves in response to changing governance related developments and expectations. Our voting guidelines are market-specific to ensure we take into account a company's unique circumstances by market, where relevant. We inform our vote decisions through research and engage as necessary. Our engagement priorities are global in nature and are informed by BlackRock's observations of governance related and market developments, as well as through dialogue with multiple stakeholders, including clients. We may also update our regional engagement priorities based on issues that we believe could impact the long-term sustainable financial performance of companies in those markets.

We welcome discussions with our clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them. As outlined in our Global Principles, BlackRock determines which companies to engage directly based on our assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of our engagement being productive. Our voting guidelines are intended to help clients and companies understand our thinking on key governance matters. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. We inform our vote decisions through research and engage as necessary.

If a client wants to implement their own voting policy, they will need to be in a segregated account. BlackRock's Investment Stewardship team would not implement the policy ourselves, but the client would engage a third-party voting execution platform to cast the votes."

LGIM

LGIM's voting and engagement activities are driven by ESG professionals and its assessment of the requirements in these areas seeks to achieve the best outcome for all its clients. LGIM's voting policies are reviewed annually and take into account feedback from its clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of LGIM's Investment Stewardship team. The views expressed by attendees during this event form a key consideration in developing LGIM's voting and engagement policies. LGIM also takes into account client feedback received at regular meetings and/or ad-hoc comments or enquiries.

All voting decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This helps ensure LGIM's stewardship approach is consistent throughout the engagement and voting process, and that engagement is fully integrated into the voting decision process, which aims to provide consistent messaging to companies.

LGIM's Investment Stewardship team uses Institutional Shareholder Services' ("ISS") 'ProxyExchange' electronic voting platform to electronically vote. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. The use of ISS' recommendations are to augment LGIM's own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services to supplement the research reports received from ISS for UK companies when making specific voting decisions.

To ensure LGIM's proxy provider votes are in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards that all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to its voting judgement. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by the service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

JPM

JP Morgan votes in line with their voting policy as they are given voting rights (in their role as mangers) by their clients.

JP Morgan uses a third party corporate governance data provider, ISS ProxyExchange, to receive meeting notifications, provide company research, process its votes and obtain voting recommendations. The recommendations provided by ISS ProxyExchange form only the starting point for JP Morgan's proprietary thinking, and all of its voting decisions are made on a case-by-case basis by in-house specialists in conjunction with the Analyst and/or Fund Manager in reference to the JP Morgan Asset Management Corporate Governance Policy and Voting Guidelines.

Threadneedle Asset Management

Threadneedle believes that Annual General Meetings ("AGM") provide an important opportunity for review of and engagement with companies. Ahead of shareholder meetings and voting action, where practical, Threadneedle engages with companies through consultations and directly with their core holdings. Where engagement is not possible ahead of an AGM, Threadneedle looks to follow-up with companies where possible afterwards.

Although Threadneedle subscribes to proxy advisors' research, votes are determined under Threadneedle's own custom voting policy which is regularly updated. The Responsible Investment ("RI") team assesses the application of the policy and makes final voting decisions in collaboration with Threadneedle's portfolio managers and analysts. Votes are cast identically across all mandates for which Threadneedle have voting authority. All of Threadneedle's voting decisions are available for inspection on its website seven days after each company meeting. Threadneedle utilises the proxy voting research of ISS and Glass Lewis & Co., which is made available to their investment professionals, and the RI team will also consult on many voting decisions.

Exercise of voting rights: significant votes

Commentary on the most significant votes over the period, from the Scheme's asset managers who hold listed equities is set out on pages 111-113.

Company name	Rio Tinto plc
Fund manager	LGIM
Date of vote	4 May 2021
Summary of the resolution	Resolution 15: to set, disclose and implement short- and medium-term targets, to publish and implement a phase out policy and to report on progress.
How you voted	For the management proposed climate change resolution.
Rationale for the voting decision	LGIM has engaged with HSBC on its climate change policies and disclosures for a number of years and joined a collaborative engagement around the shareholder proposal ahead of the 2021 AGM.
Outcome of the vote	Engagement between company and institutional shareholders led to the preferred outcome of a single resolution supported by managed and proxy advisors. The resolution received overwhelming support.
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"?	The topic of the proposal was in line with LGIM's climate change policy stance and campaign to push for a net zero economy globally.

Company name	ExxonMobil Corporation
Fund manager	LGIM
Date of vote	26 May 2021
Summary of the resolution	Supported an activist investor who proposed an alternative slate of directors as the experience and skills of the proposed candidates would, in LGIM's view make a positive contribution to board effectiveness and oversight.
How you voted	For the four activist proposed director nominees For a number of ESG shareholder proposals
Rationale for the voting decision	LGIM have had multiple engagements with the company but remain dissatisfied with the strength of the company's climate targets and strategy along with the levels of transparency around sustainability and the levels of board oversight, (with the combined chair/CEO role)
Outcome of the vote	Three of four of the proposed directors were appointed.

	A majority of shareholders voted for a report on climate related lobbying.
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"?	A high profile example of a climate-related proxy contest, where a minority shareholder managed to galvanise sufficient support to replace a third of the board.

Company name	Danone
Fund manager	BIS (BlackRock)
Date of vote	17 March 2021
Summary of the resolution	Following activist investor pressure, the Board announced some changes to the Chairman/CEO structure and new appointments.
How you voted	In support of the management.
Rationale for the voting decision	BIS had engaged several times with Danone as the situation evolved to understand the Board's efforts and to make clear its expectation that the company continued to improve its board governance to provide a strong foundation on which new executive management could take the business forward.
Outcome of the vote	The resolution was passed.
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	BIS is encouraged by how the company has chosen to effect change in its governance structure while maintaining its commitment to a sustainable business model. BIS will continue to monitor progress as the company integrates new leadership and will continue to engage to ensure appropriate attention is given to governance and strategic priorities that further the interests of its clients as long-term shareholders.
On which criteria have you assessed this vote to be "significant"?	An example of a company being constructive engaged in and receptive to shareholder feedback leading to initiating change from within.

Demonstrating engagement and stewardship:

Company name	Volkswagen AG
Fund manager	Threadneedle Asset Management (TAM)
Topics	Corporate Governance and Sustainability

Why did TAM engage?	As part of its broader ESG risk assessment of the company where TAM's research had showed leading practices in certain areas but significant, and risky, gaps in others.
How did TAM engage?	Analysts, Responsible Investment team and portfolio managers met with the company's investor relations team.
What did TAM learn?	The company has a unique ownership structure with circa 90% of the voting rights owned by three main shareholders. This makes it extremely hard for minority shareholders to effect change. Therefore, through engagement, TAM were able to explain its concerns directly to the company. Despite the unusual governance structure, Volkswagen continues to be at the forefront of all regulatory changes and is leading the charge in the transition to electric vehicles.
What was the outcome?	TAM will continue to engage with the company as it attempts to quantify the positive climate impact of its products for the end user. Volkswagen's products will be crucial for a successful energy transition, but TAM will continue to monitor the company's corporate governance arrangements.