Zurich Financial Services UK Pension Scheme

Annual report and financial statements

Year ended 30 June 2022

Pension Schemes Registry reference no: 10089264

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Introduction

The annual report and financial statements for the Zurich Financial Services UK Pension Scheme (the "Scheme") describes how the Trustee has managed the Scheme and any changes which have happened in the reporting period. The reporting period is for the twelve months to 30 June 2022.

It includes:

- Audited accounts and auditor's statement
- Details of the Trustee directors and the Trustee's advisers and asset managers
- An update on Scheme funding, including the actuary's certification of the adequacy of the schedule of contributions
- An investment report, including how the investments have performed
- The Chair's Statement regarding DC governance
- DB and DC implementation statements
- A link to the Scheme's first Responsible Investment report addressing Task Force on Climate-Related Financial Disclosures (TCFD) recommendations

If you have any comments or queries, please contact Claire Calo (the Scheme Secretary) at the address shown in the Trustee directors and advisers page.

Trustee directors and advisers

Trustee directors

Company nominated
D P Sims (Chair)
A E Brettell (resigned 12 October 2022)
C Jochum
K Pluto (resigned 31 December 2022)
L Ryan
L Staunton (appointed 12 October 2022)
S Henderson (appointed 1 January 2023)

Independent
BESTrustees Limited (represented by Catherine Redmond and Clive Gilchrist)

Member nominated
D Yong (resigned 14 April 2022)
H Newton (resigned 31 October 2021)
N J Evans (re-appointed 1 August 2022)
P Keaveney (appointed 1 November 2021)
S Reason (appointed 1 August 2022)
T P Culling

Trustee company secretary

Zurich Corporate Secretary (UK) Limited

Secretary to the Trustee

C Calo

Scheme Actuary

(up to 12 August 2021)
S Morran FIA
Barnett Waddingham LLP

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.

(from 12 August 2021)
M Potter FIA
Hymans Robertson LLP

Auditor

Ernst & Young LLP

Covenant advisers

PricewaterhouseCoopers LLP

Administrators

ZCashBuilder & DB pensioner payroll
Railpen Limited

ZPen DB & ES Executives' DB
Zurich UK Pensions and Benefits (the "ZPen team")

Solicitors

Eversheds Sutherland (International) LLP

Bankers

ZCashBuilder
The Royal Bank of Scotland plc

ZPen DB & ES Executives' DB
Lloyds Bank plc

Investment Managers

ZCashBuilder
Lloyds Banking Group plc (Scottish Widows Limited)

ZPen DB
Threadneedle Asset Management Limited
M&G Investment Management Limited
Insight Investment Management (Global) Limited
Macquarie Group Limited
Ares Management Limited (from 15 September 2021)

ES Executives' DB
Threadneedle Asset Management Limited

AVC providers
Zurich Assurance Limited
Scottish Widows Limited
ReAssure Limited
Threadneedle Asset Management Limited

Custodian, investment performance & compliance monitoring
The Northern Trust Company

Investment advisers

ZCashBuilder
Lane Clark & Peacock LLP

ZPen DB and ES Executives' DB
Hymans Robertson LLP

Investment analyst

Zurich Insurance Company Limited, Investment Management

GMP Equalisation adviser

Aon Solutions UK Limited (appointed 22 March 2022)

Address for general information and individual benefit enquiries

The ZPen team
UK Pensions and Benefits
PO Box 377
Darlington
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ZPen DB and ES Executives' members
zpenteam@uk.zurich.com
ZCashBuilder members
zcashbuilderteam@railpen.co.uk
Members with pensions in payment
zurichteam@railpen.com

Trustee's report

How the Scheme is managed

The Trustee

The Zurich Financial Services UK Pension Scheme (the "Scheme") is set up under trust, which ensures legal separation of the Scheme's assets from those of the Zurich Insurance Group. In this document, when we refer to Company, we mean Zurich Financial Services (UKISA) Limited, the Scheme's sponsoring company. When we refer to employers, we mean the Scheme's participating employers, including the Scheme's sponsoring company.

The Trustee company, Zurich Financial Services UK Pension Trustee Limited (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 the beneficiaries. 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 at least:

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

The Trustee can operate with vacancies, which does happen from time to time when people leave.

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 (MNDs).

The selection process was last run in 2022 as

- the term of office for one MND expired on 1 August 2022, and
- Derryn Yong resigned from the Trustee board on 14 April 2022

Following a competency based interview process, the selection panel decided to re-appoint Neil Evans and appoint Sam Reason as member nominated Trustee directors for a term of four years with effect from 1 August 2022. Rod McKie was also appointed as a reserve member Trustee director (RMD). An RMD can be appointed as an MND if one of the current MNDs leaves mid-term.

Other changes to the Trustee directors

In October 2021, Hilary Newton resigned from the Trustee board and was replaced by Paul Keaveney who was selected in the previous MND nomination and selection process as an RMD.

In October 2022, Amy Brettell resigned as a company-nominated Trustee director (CND) and has been replaced by Lizzie Staunton.

In December 2022, Katja Pluto resigned as a CND and has been replaced by Sally Henderson.

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 or working groups to consider, amongst other things, discretionary, administrative and investment issues.

How the Scheme is structured

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 Apex Corporate Trustees (UK) Limited (formerly known as Capita Trust Nominees No.1 Limited).

The share held by Apex Corporate Trustees (UK) 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.

Scheme structure

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

<table>
<tr><th colspan="3">Zurich Financial Services UK Pension Scheme</th></tr>
<tr><th colspan="2">ZPen Section</th><th>ES Executives' Section</th></tr>
<tr><th>Defined benefit (DB)</th><th>Defined contribution (DC)</th><th>Defined benefit (DB)</th></tr>
<tr><td>includes:
ZPensionBuilder (ZPB)
and legacy schemes/tiers:
ES Tier
AD Tier
ZI Tier
Tier 2000
Gresham Trust</td><td>includes:
ZCashBuilder (ZCB)
and legacy arrangements:
Pre 2007 AVCs
and some former
Supplementary Scheme
benefits</td><td></td></tr>
</table>

The sponsoring company

Zurich Financial Services (UKISA) Limited ("UKISA")

Participating employers

Oak Underwriting PLC
Tennyson Insurance Limited
Zurich Global Corporate UK Limited
Zurich UK General Services Limited
Zurich UK General Employee Services Limited
Zurich Employment Services Limited
Employee Services Limited

Overview of the Scheme year

Trustee meetings

The Trustee directors meet as a full board at least five times a year. 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 below. Meetings are held either virtually or in person.

	Trustee board*		Funding Committee		DC Committee	
	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend
David Sims	9	9	4	4	-	-
Amy Brettell	6	9	-	-	-	-
Tim Culling	9	9	-	-	5	5
Neil Evans	7	9	3	4	-	-
BESTrustees	9	9	4	4	5	5
Christian Jochum	9	9	3	4	-	-
Paul Keaveney	7	8	-	-	4	5
Hilary Newton	-	2	-	-	2	2
Katja Pluto	7	9	-	-	-	-
Liz Ryan	8	9	-	-	-	-
Derryn Yong	6	6	-	-	-	-

***** Quarterly board meetings, risk day, additional meetings

Scheme events

COVID-19

During the year, the Trustee has continued to monitor the employer covenant in light of the COVID-19 pandemic. No significant issues were identified and the Trustee's suppliers and advisers continued to operate effectively under their business continuity plans.

Russian invasion of Ukraine

The invasion of Ukraine by Russia has resulted in a period of uncertainty for the global economy and financial markets, in turn creating significant volatility in the valuation of investment assets. The Trustee has kept and will continue to keep the situation under review over the coming months, including implications for investment strategy and risk management. In addition, through the Trustee's regular covenant updates, no material impact to the covenant was identified.

Bond market volatility

Global financial markets were highly volatile in September and October 2022. This instability was associated with the reaction to the UK government's mini-budget, as well as increasing concerns around the potential pace of monetary policy tightening in the US. The volatility had an impact on UK pension schemes with liability driven investment (LDI) portfolios. This came about when the market movements resulted in schemes selling government bonds in order to meet emergency collateral calls on their LDI portfolios. The Trustee has a conservative approach towards the use of leverage and took actions to protect the Scheme from the volatility. The Scheme remained well collateralised and did not receive any emergency collateral calls.

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.

Articles of association

On 29 July 2022 UKISA passed a special resolution to adopt changes to the Articles of Association for the Trustee company. The changes give flexibility for an MND to be appointed for a term of office of more than three years, which was necessary to align the terms of appointment for the four MNDs in August 2026.

New transfer regulations

With effect from 30 November 2021, the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021, introduced a system of red and amber flags, giving trustees the power to refuse transfers where they consider there to be a heightened risk it may be part of a scam. Whilst these regulations have increased processing times due to the additional information that must be obtained and assessed, and introduced additional processing steps, such as the requirement for some members to seek guidance from MoneyHelper, they will help protect members from scams.

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 2022. 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.

There were no discretionary increases during the Scheme year.

Category	Date	Increase
ZPensionBuilder (ZPB)		
ZPB (former ES tier)	1 July 2021	2.9%
	1 July 2022	5.0%
ZPB (former Tier 2000)	1 July 2021	2.9%
	1 July 2022	5.0%
ZPB (former ZI tier)	1 October 2021	3.9%
ZPB (former AD tier)	1 January 2022	5.0%
ZPB (former AD Isle of Man)	1 January 2022	5.0%
Legacy tiers		
ES tier	1 July 2021	3.0%
	1 July 2022	5.0% (7.5% for retirements or leavers before 1/10/2000)
Tier 2000	1 July 2021	2.9%
	1 July 2022	5.0%
ES Exec	1 July 2021	3.0%
	1 July 2022	5.0%
ZI tier	1 October 2021	3.9%
AD tier	1 January 2022	5.0% (7.1% for retirements before 1/10/2000)
AD Isle of Man	1 January 2022	5.0% (5.5% for retirements before 1/10/2000)
Guaranteed Minimum Pension (GMP) accrued from 6 April 1988*		
All tiers except AD & AD Isle of Man	From 6 April 2021	0.5%
	From 6 April 2022	3.0%

* 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. The Company has agreed to pay £3.7m per annum towards the Scheme expenses with the annual Pension Protection Fund levy for the ZPen Section reimbursed as an additional payment once the invoice is settled by the Scheme.

Scheme membership

The change in membership of the Scheme during the year is given below.

Section Membership Status	ZPen DC Active	ZPen DC Preserved	ZPen DB Preserved	ZPen DB Pensioners	ES Exec DB Pensioners
Balance at start of year	**4,450**	**4,597**	**18,180**	**12,540**	**101**
Retrospective adjustments	(26)	74	(1,134)*	506**	-
Joiners	556	-	-	-	-
Leavers with preserved benefits	(504)	511	(7)	-	-
Leavers transferred out	-	(126)	(87)	-	-
Leavers with no benefits	(2)	-	-	(4)	-
Deaths	(1)	(2)	(8)	(257)	(2)
Retirements	(26)	(61)	(616)	703	-
Partial benefits taken	-	-	-	30	-
Opt-Out	(1)	-	-	-	-
Dependant pensioners	-	-	-	103	1
Commutation	-	-	-	(20)	-
Balance at 30 June 2022	**4,446**	**4,993**	**16,328**	**13,601**	**100**
of which:					
Hybrid members***	1,111	1,100	-	-	-
Members with protection	2	-	-	-	-

The figures above show a gross movement in the Scheme's membership.

Included within ZPen DB pensioners are 1,556 (2021: 1,496) dependant members and 470 (2021: 478) annuitants.

Included within ES Exec DB pensioners are 17 (2021: 17) dependant members and 7 (2021: 8) annuitants.

*The retrospective adjustments are mainly as a result of a different presentation of the hybrid members since the June 2022 financial year. Previously, hybrid members have been added to both ZPen DB and ZPen DC categories.

** The relatively high pensioners retrospective adjustment is driven by the accrual reversal from the previous financial year.

*** 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 (2021: Active 1,263, Preserved 1,040)

Compliance Statement

Tax status of the Scheme

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

Scheme investments

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

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 ("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 the preparation of the financial statements 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 adequate 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 towards 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.

Scheme funding

Actuarial liabilities

<u>ZPen Section</u>

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 2021, 30 June 2020 and the full valuation as at 30 June 2019 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 £554m as at 30 June 2022 and is included in the total audited value of the assets for the ZPen Section of £6,669m.

<u>ES Executives' Section</u>

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 the next page 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 as at 30 June 2022 is currently underway.

Method

The actuarial method used in the calculation of the Technical Provisions is the Projected Unit Method.

The key assumptions used in the calculation of the Technical Provisions as at the 30 June 2019 valuation were 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:		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 report

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 (SAA)). The Committee considers the investment strategy for the 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.

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 last Scheme year the Trustee has continued its focus on climate change risks and opportunities in response to changing regulatory requirements and the development of its responsible investment (RI) strategy. 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 TCFD recommendations, applicable from 1st October 2021. In order to comply with the regulations the Trustee has agreed and published a TCFD report, describing governance, strategy, metrics and targets, and risk management of climate change risks and opportunities. The TCFD report can be found at www.zpen.info/Library/Responsible Investments. The Trustee continues to monitor the progress on its 25% weighted average carbon intensity (WACI) reduction target over 5 years for its equity and corporate bond portfolios.

Financially material considerations

Within the Scheme's mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to the respective Managers[1]. 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, 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 (Investment Management Agreement). After a period of engaging with the Manager, if

[1] The term "Managers" refers to the Scheme's asset managers

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 non-financial matters in its 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 2019 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. During the Scheme year, the middle market loans (MML) fund managed by Ares was launched in September 2021. The Trustee intends to subscribe to £175m of investments in line with the section's approved SAA. Up to 30 June 2022, the MML fund is worth £42m, this covers thirteen capital calls from Ares.

The Trustee has set target hedging ratios for interest rates and inflation (on a technical provisions basis) at 90% and 80% respectively. The target hedging ratios were set on a glide path that was due to finish in June 2023, however due to market conditions, the rise in gilt yields meant a trigger was reached to accelerate the glide path. Following this, the Funding Committee agreed to further accelerate the hedging ratios to their agreed target as soon as reasonably practical. Interest rates and inflation represent a market risk for the Scheme on an economic basis, and hedging reduces these risks. The revised investment guidelines were signed in July 2022.

ES Exec 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 42% pensioners as at 30 June 2022). 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 have been used to increase exposure to corporate bonds (from 28% to 35%) and gilts (from 52% to 60%). The transactions to meet the Trustee's revised SAA took place during July and August 2021. 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 shown here.

Distribution of investments

The table below shows the ZPen DB SAA as at 30 June 2022.

Asset Manager	Assets	Current SAA	Target SAA
Columbia Threadneedle Investments (CTI)	Equities	26.9%	27.5%
Insight	Liability Driven Investment	32.6%	30.0%
CTI M&G	Corporate bonds	17.0%	17.0%
Macquarie	Infrastructure debt	10.0%	10.0%
M&G	Loans	5.0%	5.0%
CTI	Property	4.4%	5.0%
CTI*	Network rail bonds	3.4%	3.0%
Ares	Middle market loans	0.7%	2.5%

*From 11 October 2022 network rail bonds are managed by Insight.

Due to the rising gilt yields the liability driven investment portfolio operated marginally beneath the agreed SAA tolerance at the Scheme year end. The Trustee was satisfied this position was consistent with the policies set out in the DB SIP.

The Funding Committee reviewed ZPen section'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.

The table below shows the ES Executives' DB SAA as at 30 June 2022.

Asset Manager	Assets	Current SAA
CTI	Equities	5.0%
CTI	Corporate bonds	35.0%
CTI	Index linked gilts	33.0%
CTI	Conventional gilts	27.0%

The assets were held in line with the current SAA at the Scheme year end.

Management and custody of investments

The Trustee has delegated management of investments to professional investment managers detailed on the Trustee directors and advisers page. 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 in note 17, on 31 July 2014 the ZPen DB Section 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 nor the investment performance information and is therefore not included in the distribution of investments table.

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.

As at 30 June 2022, the ZPen Section had thirty-eight investments in infrastructure debt totalling £511m (2021: £548m).

The Trustee is cognisant of the additional credit risk arising on these assets due to the COVID-19 pandemic and the more recent market conditions. 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 CTI 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 July 2022, the interest rate and inflation hedging ratio targets of 90% and 80% respectively were reached. In September 2022, the UK Government announced a mini-budget that led to a crash in the bond markets. The crash was exacerbated by LDI positions meaning that pension schemes were forced to sell government bonds in order to meet collateral calls. The Bank of England stepped in with a pledge to restart quantitative easing and buy up to £65bn of government bonds to stabilise the market. The Scheme's LDI portfolio has been exposed to the volatile market movements, but due to the conservative approach taken by the Trustee towards the use of leverage in its LDI mandate the Scheme's LDI portfolio has remained very well collateralised.

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 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 SAA agreed by the Trustee is shown in the distribution of investments section. The Trustee monitors the asset allocation on a quarterly basis to ensure assets are invested within agreed SAA ranges.

The market volatility, primarily following on from Russia's invasion of Ukraine, had an impact on the performance of all asset classes over the Scheme year. The LDI portfolio saw the largest decrease. The Bank of England increased interest rates to 1.25% in June, taking the target rate to a 13-year high, the intention being to bring inflation back under control via higher interest rates. The 20 year index-linked gilt yield rose significantly over the final quarter of the Scheme year. As the Trustee hedges interest rate and inflation (as described in the LDI section), the assets fell significantly, corresponding with decreases to the liabilities. 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. The equity portfolio significantly underperformed its benchmark over the Scheme year, driven by the rotation from quality growth to value stocks. The Trustee continues to monitor performance closely and regularly discusses performance with all asset managers.

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

ZPen DB and ES Exec DB Performance

Asset Manager	Annualised gross return over:	1 year %	3 years %	5 years %
	ZPen DB	**-18.5**	**-1.3**	**1.7**
	Benchmark	*-17.0*	*-1.6*	*1.4*
	Growth assets			
CTI	**Equities & Property**	**-7.0**	**8.1**	**8.2**
	Benchmark	*-2.3*	*6.4*	*6.4*
M&G	**European Loan Fund**	**-5.1**	**0.1**	**1.3**
	Benchmark	*-4.4*	*1.2*	*2.6*
	Matching assets			
CTI	**Corporate Bonds**	**-13.2**	**-1.4**	**0.6**
	Benchmark	*-12.9*	*-1.9*	*0.2*
M&G	**Corporate Bonds**	**-12.5**	**-1.3**	**0.6**
	Benchmark	*-12.9*	*-1.9*	*0.2*
CTI	**Network Rail Bonds**	**-3.7**	**0.6**	**2.4**
	Benchmark	*-3.8*	*0.3*	*2.2*
Macquarie	**Infrastructure Debt**	**-12.5**	**0.6**	**3.3**
	Benchmark	*-12.5*	*0.6*	*3.3*
Insight	**Liability Driven Investments**	**-23.6**	**-5.8**	**n/a**
	Benchmark	*-23.4*	*-5.6*	*n/a*
Ares	**Middle Market Loans**	**n/a***	**n/a**	**n/a**
	Benchmark	*n/a*	*n/a*	*n/a*
	ES Exec DB	**-11.1**	**0.3**	**2.3**
	Benchmark	*-10.3*	*0.0*	*2.1*
	Growth assets			
CTI	**Equities & Property**	**-13.7**	**3.2**	**4.6**
	Benchmark	*-4.0*	*4.5*	*5.5*
	Matching assets			
CTI	**Corporate Bonds**	**-13.5**	**-1.6**	**0.5**
	Benchmark	*-13.1*	*-2.0*	*0.0*
CTI	**Long Dated Gilts**	**-12.1**	**-1.6**	**1.3**
	Benchmark	*-11.2*	*-1.5*	*1.4*
CTI	**Index Linked Gilts**	**-6.8**	**-0.1**	**2.1**
	Benchmark	*-6.7*	*-0.1*	*2.1*

Source: Northern Trust and Insight Investment

*Performance for the Middle Market Loans fund is not available, the fund was launched in September 2021.
The liability driven investment performance is reported as a non-leveraged return, this is so the returns are consistent with the benchmark the portfolio is measured against.

Russian exposure

ZPen DB has some exposure to Russian equities (c.£2.4m as at 30 June 2022) as well as indirect exposure through the European Loan Funds with M&G. M&G and the largest lenders (which include M&G) have appointed financial and legal advisers to evaluate the options available for lenders in order to navigate potential sanction risk and ultimately drive value recovery.

ZCashBuilder performance

Fund Provider	Annualised net return over:	1 year %	3 years %	5 years %
	Default funds			
Scottish Widows	**Z Cautious Growth Fund**	**-11.2**	**-2.5**	**-0.8**
	Benchmark	*-11.3*	*-1.5*	*0.7*
Scottish Widows	**Z Growth Fund**	**-6.5**	**3.9**	**4.9**
	Benchmark	*-6.1*	*2.9*	*4.1*
Scottish Widows	**Z Annuity Fund**	***-20.0***	***-4.0***	***-0.4***
	Benchmark	*-20.0*	*-3.4*	*-0.2*
Scottish Widows	**Z Cash Fund**	***0.3***	***0.3***	***0.4***
	Benchmark	*0.4*	*0.2*	*0.3*
	Self-select funds			
Scottish Widows	**Aquila Corporate Bond All Stocks Index**	**-13.5**	**n/a**	**n/a**
	Benchmark	*-13.7*	*n/a*	*n/a*
Scottish Widows	**Aquila Index-Linked Over 5 Year Gilt Index**	**-23.3**	**-6.6**	**-1.8**
	Benchmark	*-23.2*	*-6.4*	*-1.6*
Scottish Widows	**Aquila UK Equity Index**	**-0.8**	**1.8**	**2.6**
	Benchmark	*1.1*	*2.6*	*3.3*
Scottish Widows	**Aquila World ex UK Equity Index**	**-4.4**	**8.7**	**9.2**
	Benchmark	*-3.0*	*9.1*	*9.3*
Scottish Widows	**HSBC Islamic**	**-2.5**	**13.2**	**13.0**
	Benchmark	*-2.0*	*13.9*	*13.7*
Scottish Widows	**L&G Ethical Global Equity Index**	**0.4**	**10.1**	**9.8**
	Benchmark	*0.9*	*10.6*	*10.3*
Scottish Widows	**LGIM Future World**	**-0.7**	**n/a**	**n/a**
	Benchmark	*-0.3*	*n/a*	*n/a*
Scottish Widows	**Property**	**26.0**	**11.7**	**9.3**
	Benchmark	*15.5*	*4.1*	*4.5*
Scottish Widows	**Zurich Managed**	**-1.5**	**5.2**	**5.5**
	Benchmark	*-6.8*	*2.5*	*3.2*

Source: Scottish Widows

The Trustee approves the above report.

Sign on behalf of the Trustee by:

Trustee director D P SIMS

Name David Sims

Chair's Statement regarding DC governance for the year ending 30 June 2022

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
- investment returns after charges
- a 'value for members' assessment'; and
- Trustee knowledge and understanding.

The statement covers the period from 1 July 2021 – 30 June 2022. 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.	✓	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

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)[2] 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[3]) 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 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.
- 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.

[2] 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
[3] Defined Contribution Committee

- 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. There have been no changes made in the year ending 30 June 2022.

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 99%. In relation to the core financial transactions, 1,070 were completed with 16 being outside the SLA, giving a performance of over 98%.
- 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 appropriate, 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 considered 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. These processes are being reviewed as part of the implementation of the new administration system with a view to some actions being resolved when the new system is in place.
- 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)

These defaults 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.

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

The following pages show projected outcomes for the default arrangements 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 4 years. The Trustee has used average transaction costs over the previous 4 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:
  - Longer term 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 its advisers and are in line with AS TM1 (The Financial Reporting Council's Technical Memorandum 1)

Table 1 shows the assumed growth rate and charges for the funds used in the projections.

TABLE 1: Funds	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 4 years.

TABLE 2:	DC only youngest member
Starting age	18 years
Starting fund value	£1,400
Basic salary	£18,300
Future contributions:	12% until aged 67. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 3:	Drawdown Lifestyle	
	Before charges	After charges
Year 1	£2,132.24	£2,107.35
Year 3	£6,683.09	£6,646.65
Year 5	£11,458.63	£11,366.61
Year 10	£24,454.71	£24,060.96
Year 15	£39,114.89	£38,144.31
Year 20	£55,652.27	£53,768.68
Year 25	£74,307.21	£71,102.67
Year 30	£95,350.85	£90,333.34
Year 35	£119,089.06	£111,668.24
Year 40	£145,866.88	£135,337.62

Table 3 shows the projected fund value, both before and after charges, for the youngest member in the DC only default arrangement (the Drawdown Lifestyle). Some details of this sample member are shown in Table 2.

Using Year 40 as an example, this shows that the estimated total charges over 40 years are £10,529.26.

Year 45	£170,059.50	£156,233.48
Year 50	£188,664.41	£171,863.81

TABLE 4:	Hybrid (DB+DC) youngest member
Starting age	34 years
Starting fund value	£30,500
Basic salary	£26,600
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	YES

TABLE 5:	Cash Lifestyle	
	Before charges	After charges
Year 1	£31,325.43	£31,026.80
Year 3	£39,333.99	£39,051.77
Year 5	£47,737.98	£47,158.92
Year 10	£70,608.44	£68,963.09
Year 15	£96,407.39	£93,153.09
Year 20	£122,999.63	£117,656.99
Year 25	£144,303.09	£136,938.99
Year 30	£0.00	£0.00
Year 35	£0.00	£0.00
Year 40	£0.00	£0.00

Table 5 shows the projected fund value, both before and after charges for the youngest member with both final salary and DC benefits in the default arrangement (the Cash Lifestyle). Some details of this sample member are shown in Table 4.

Using Year 20 as an example this shows that the estimated total charges over 20 years are £5,342.64

TABLE 6:	DC only typical member
Starting age (median)	39 years
Starting fund value (median)	£36,900
Basic salary (average)	£43,800
Future contributions:	12% until aged 67 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 7:	Drawdown Lifestyle	
	Before charges	After charges
Year 1	£38,371.00	£38,002.08
Year 3	£50,905.77	£50,548.34
Year 5	£64,059.45	£63,314.36
Year 10	£99,855.67	£97,648.58
Year 15	£140,235.49	£135,739.67
Year 20	£185,182.76	£177,436.65
Year 25	£223,411.65	£212,214.49
Year 30	£253,848.88	£239,544.15
Year 35	£0.00	£0.00
Year 40	£0.00	£0.00

Table 7 shows the projected fund value, both before and after charges, for a typical member in the DC only default arrangement (the Drawdown Lifestyle). Some details of this sample member are shown in Table 6.

Using Year 20 as an example, this shows that after the estimated total charges over 20 years are £7,746.11.

TABLE 8:	Hybrid (DB+DC) typical member
Starting age (median)	49 years
Starting fund value (median)	£43,000
Basic salary (average)	£48,700
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	YES

TABLE 9:	Cash Lifestyle	
	Before charges	After charges
Year 1	£44,619.00	£44,190.63
Year 3	£58,510.38	£58,100.14
Year 5	£72,113.12	£71,299.79
Year 10	£104,782.62	£102,733.39
Year 15	£0.00	£0.00
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

Table 9 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 (the Cash Lifestyle). Some details of this sample member are shown in Table 8.

Using Year 10 as an example, this shows that the estimated total charges over 10 years are £2,049.23.

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 10:	Admin charge (bps)	Fund charge (bps)	Total member charges (bps)	Transaction cost (bps)
Z Growth Fund*	17.5	11.5	29.0	3.3
Z Cautious Growth Fund*	17.5	10.5	28.0	2.6
Z Annuity Fund	17.5	10.5	28.0	0.0
Z Cash Fund*	Nil	6.0	6.0	5.9
UK Equity Index	17.5	9.5	27.0	8.2
World ex-UK Index	17.5	10.5	28.0	1.9
Ethical Global Equity Index	17.5	26.5	44.0	0.0
L&G Future World Fund	17.5	26.5	44.0	3.6
HSBC Islamic	17.5	36.5	54.0	1.6
Scottish Widows Managed Fund	17.5	44.5	62.0	4.1
Property	17.5	70.5	88.0	0.0
Corporate Bond All Stocks	17.5	8.5	26.0	3.3
Index Linked Over 5 years Gilt Index	17.5	9.5	27.0	5.7

*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 on the right. These projections are over a 40 year period for the following funds:

- Z Growth Fund: is the most commonly used fund.
- 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)	£8,800
Basic salary (average)	£30,500
Future contributions	12% until aged 67 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*
Z Growth Fund	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 4 years.

	Z Growth Fund	
	Before charges	After charges
Year 1	£9,935.89	£9,924.97
Year 3	£17,835.75	£17,743.43
Year 5	£26,125.66	£25,893.94
Year 10	£48,685.70	£47,817.06
Year 15	£74,134.47	£72,142.68
Year 20	£102,841.88	£99,134.07
Year 25	£135,225.19	£129,083.34
Year 30	£171,755.09	£162,314.67
Year 35	£212,962.52	£199,187.71
Year 40	£259,446.44	£240,101.54

	Property Fund		Z Cash Fund	
	Before charges	After charges	Before charges	After charges
Year 1	£9,923.27	£9,890.90	£9,808.09	£9,805.47
Year 3	£17,729.02	£17,458.98	£16,789.56	£16,768.92
Year 5	£25,857.90	£25,187.36	£23,568.20	£23,519.23
Year 10	£47,682.92	£45,232.15	£39,665.61	£39,504.91
Year 15	£71,837.18	£66,355.34	£54,619.13	£54,295.38

Year 20	£98,569.27	£88,614.98	£68,510.06	£67,979.98
Year 25	£128,154.28	£112,072.19	£81,413.88	£80,641.40
Year 30	£160,896.72	£136,791.42	£93,400.76	£92,356.14
Year 35	£197,133.54	£162,840.55	£104,535.85	£103,194.99
Year 40	£237,237.68	£190,291.13	£114,879.67	£113,223.43

3.4 Legacy AVC funds: level of cost and charges

At 30 June 2022 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.

Zurich Assurance Limited (Eagle Star)	Admin charge (bps)	Total AMC (bps)	Transaction cost (bps)
With Profits	Nil	50	7.45
Global Select	Nil	117	25.34
Equity Managed	Nil	116	25.78
Managed	Nil	119	32.03
Secure	Nil	109	0.00
Scottish Widows (Supplementary Scheme)			
Zurich Long Dated Gilt	Nil	55	-2.7
Zurich Managed	Nil	56	4.1
Zurich Property	Nil	83	0.0
Zurich Threadneedle American	Nil	69	29.1
Zurich Threadneedle Asia	Nil	72	49.2
Zurich Threadneedle European	Nil	68	61.3
Zurich Threadneedle Global Equity	Nil	82	36.1
Zurich Threadneedle Japan	Nil	67	29.6
BlackRock Sterling Liquidity Fund	Nil	35	1.6
Threadneedle			
Multi-asset fund	Nil	36	10.3*
Global Select	Nil	42	5.1*
Aquila Over 15 yrs UK Gilt Index	Nil	15	0.01

*These figures are for the 12 months ending 31 December 2021, which are the only ones available from Threadneedle.

4 Investment returns

The investment returns for the default arrangements and self-select funds, after deduction of charges and transaction costs is shown below. When preparing these returns the Trustee has taken account of the relevant statutory guidance.

	1 year performance (%)	1 year benchmark (%)	Relative performance
Z Growth Fund*	-6.49	-6.12	-0.37
Z Cautious Growth Fund*	-11.19	-11.33	0.14
Z Annuity Fund	-20.00	-19.95	-0.05
Z Cash Fund*	0.33	0.35	-0.02
UK Equity Index	-0.78	1.07	-1.85
World ex-UK Index	-4.43	-2.96	-1.47
Ethical Global Equity Index	0.35	0.86	-0.51
L&G Future World Fund	-0.72	-0.27	-0.45
HSBC Islamic	-2.48	-1.98	-0.50
Scottish Widows Managed Fund	-1.47	-6.76	5.29
Property	25.98	15.46	10.52
Corporate Bond All Stocks	-13.51	-13.67	0.16
Index Linked Over 5 years Gilt Index	-23.31	-23.25	-0.06

	3 year performance (%)	3 year benchmark (%)	Relative performance
Z Growth Fund*	3.93	2.88	1.05
Z Cautious Growth Fund*	-2.55	-1.55	-1.00
Z Annuity Fund	-4.00	-3.44	-0.56
Z Cash Fund*	0.30	0.24	0.06
UK Equity Index	1.77	2.58	-0.81
World ex-UK Index	8.74	9.14	-0.40
Ethical Global Equity Index	10.10	10.59	-0.49
L&G Future World Fund	N/A	N/A	N/A
HSBC Islamic	13.19	13.92	-0.73
Scottish Widows Managed Fund	5.22	2.54	2.68
Property	11.68	4.11	7.57
Corporate Bond All Stocks	N/A	N/A	N/A
Index Linked Over 5 years Gilt Index	-6.58	-6.45	-0.13

*Funds used in the default lifestyle strategies

5 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).

5.1 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 2022. 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 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.

5.2 Legacy AVCs

The Trustee assessed each provider separately on 30 June 2022 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: there have been a number of instances where Scottish Widows did not meet its SLAs for administration services, including in relation to some core financial transactions and the assessment for administration performance was downgraded to reflect this. However, the Trustee concluded that these funds are currently providing value for members who 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: some issues have been experienced with the administration service and the assessment for administration performance was downgraded to reflect this. However, 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.

6 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.

- 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. tor
- At 30 June 2022 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 accredited professional trustees who have supported the Scheme for some time and are 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:
  - Security of DC assets and the new rules from the FCA on guidance/advice (16 July 2021)
  - Cyber security (30 September 2021)
  - Valuation (9 November 2021)

  - Liability driven investments (11 March 2022)
  - Company metrics, IAS19, Capital add on etc (27 April 2022).

- 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 induction training for new Trustee directors include:
  - Attending external and internal training courses
  - Being allocated an existing Trustee director as a 'buddy' to provide support and answer questions.
  - Reserve member Trustee directors attend the DC Committee meetings as an introduction to the Trustee and how it works.

During the year, the reserve member Trustee director became a Trustee director and attended an external training course in February 2022. Internal training was carried out on his appointment as reserve member Trustee director and in September 2022, with other new Trustee directors.

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.

On 16 November 2021 the Trustee carried out its triennial Board Effectiveness Review (BER) by discussing the results of a questionnaire circulated to all Trustee directors and regular Trustee meeting attendees. The design and coverage of the BER questionnaire draws on the questionnaire used by Zurich with the Company Boards and TPR guidance on board evaluation.

The questionnaire results were discussed at the meeting on 16 November 2021, including a discussion around the risk of group think and how the Trustee skills and diversity matrix can be used as a tool to support selection of Trustee directors. Overall, the directors and attendees felt the Trustee Board has the necessary skills and behaviours to fulfil its roles and responsibilities as a Trustee and that the Board is operating 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.

7 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.
- The Trustee produced an investment governance framework setting out how the Trustee meets its key roles and responsibilities and which regulations apply. The framework is split between DB and DC arrangements and

includes the relationships between the Trustee Board, respective Committees and the key advisers involved in investment decision making.

8 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 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.

This statement was approved by the Trustee on 27 January 2023 and signed on their behalf by:

D P SIMS

David Sims

Chair: Zurich Financial Services UK Pension Trustee Limited

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.

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 2022 which comprise the Fund Account, the Statement of Net Assets available for benefits and the related notes 1 to 31, 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 FRS 102 '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 2022, 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 12 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 rise 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 11, 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 considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.
- 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 of controls. Our audit procedures included verifying cash balances and investment balances to independent confirmations, testing manual journals on a sample basis and also those journals where there is an increased risk of override, and an assessment of segregation of duties. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- 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 its 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, we have considered the experience and expertise of the engagement team, including the use of specialists where appropriate, 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

Date 27 January 2023

Financial statements

Fund account for the year ended 30 June 2022

Amount in £'000		ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Employer contributions	4	**8,922**	**40,013**	**47**	**48,982**	41,454	39,440	47	80,941
Employee contributions	4	**-**	**2,861**	**-**	**2,861**	-	2,352	-	2,352
Total contributions		**8,922**	**42,874**	**47**	**51,843**	41,454	41,792	47	83,293
Transfers from other plans	5	**253**	**3,030**	**-**	**3,283**	1,081	2,436	-	3,517
Other income	6	**563**	**-**	**-**	**563**	1,904	-	-	1,904
		9,738	**45,904**	**47**	**55,689**	44,439	44,228	47	88,714
Benefits paid or payable	7	**(189,482)**	**(7,432)**	**(8,704)**	**(205,618)**	(180,879)	(8,629)	(8,535)	(198,043)
Payments to and on account of leavers	8	**(55,053)**	**(14,083)**	**-**	**(69,136)**	(66,543)	(16,513)	-	(83,056)
Other payments	9	**-**	**-**	**-**	**-**	(2,254)	-	-	(2,254)
Administrative expenses	10	**(4,233)**	**-**	**(7)**	**(4,240)**	(7,292)	(1)	(54)	(7,347)
		(248,768)	**(21,515)**	**(8,711)**	**(278,994)**	(256,968)	(25,143)	(8,589)	(290,700)
Net (withdrawals)/ additions from dealings with members		**(239,030)**	**24,389**	**(8,664)**	**(223,305)**	(212,529)	19,085	(8,542)	(201,986)
Net returns on investments									
Investment income	11	**206,955**	**-**	**1,567**	**208,522**	203,204	-	1,707	204,911
Change in market value of investments	12	**(1,734,221)**	**(34,698)**	**(22,792)**	**(1,791,711)**	6,188	65,493	(344)	71,337
Investment management expenses	13	**(19,597)**	**-**	**(342)**	**(19,939)**	(17,486)	-	(412)	(17,898)
		(1,546,863)	**(34,698)**	**(21,567)**	**(1,603,128)**	191,906	65,493	951	258,350
Net (decrease)/increase in the fund		**(1,785,893)**	**(10,309)**	**(30,231)**	**(1,826,433)**	(20,623)	84,578	(7,591)	56,364
Opening net assets		**8,454,513**	**457,221**	**202,864**	**9,114,598**	8,475,136	372,643	210,455	9,058,234
Closing net assets		**6,668,620**	**446,912**	**172,633**	**7,288,165**	8,454,513	457,221	202,864	9,114,598

Statement of net assets available for benefits as at 30 June 2022

Amount in £'000		ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Investment assets									
Equities	12	1,643,923	-	-	1,643,923	1,906,978	-	-	1,906,978
Bonds	12	5,435,399	-	101,313	5,536,712	6,575,192	-	104,406	6,679,598
Pooled investment vehicles	15	1,106,753	441,571	69,193	1,617,517	742,370	446,303	97,398	1,286,071
Derivatives	16	3,912	-	-	3,912	62	-	-	62
Cash	19	127,224		2,218	129,442	258,237		1,251	259,488
Other investments	19	37,280		323	37,603	40,701	-	373	41,074
AVC investments	12,18	-	5,646	-	5,646	-	7,699	-	7,699
Interest in SLP	17	554,000	-	-	554,000	760,000	-	-	760,000
Annuities		7,089	-	-	7,089	7,089	-	-	7,089
Amounts receivable under reverse repurchase agreements	21	404,455	-	-	404,455	424,991	-	-	424,991
		9,320,035	447,217	173,047	9,940,299	10,715,620	454,002	203,428	11,373,050
Investment liabilities									
Bonds	12	(397,866)	-	-	(397,866)	(421,877)	-	-	(421,877)
Derivatives	16	(348)	-	-	(348)	(1,878)	-	-	(1,878)
Amounts payable under repurchase agreements	21	(2,264,985)	-	-	(2,264,985)	(1,852,318)	-	-	(1,852,318)
Other investment balances	19	(14,487)	-	-	(14,487)	(29,840)	-	(138)	(29,978)
		(2,677,686)	-	-	(2,677,686)	(2,305,913)	-	(138)	(2,306,051)
Total net investments		6,642,349	447,217	173,047	7,262,613	8,409,707	454,002	203,290	9,066,999
Current assets	25	40,120	809	51	40,980	62,789	3,641	59	66,489
Current liabilities	26	(13,849)	(1,114)	(465)	(15,428)	(17,983)	(422)	(485)	(18,890)
Net current assets		26,271	(305)	(414)	25,552	44,806	3,219	(426)	47,599
Total net assets available for benefits		6,668,620	446,912	172,633	7,288,165	8,454,513	457,221	202,864	9,114,598

The financial statements summarise the transactions of the Scheme and deal with the net assets 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 ZPen DB Section, is dealt with in the report on actuarial liabilities in the Scheme funding section of this report, and these financial statements should be read in conjunction with this report.

The accompanying notes form part of these financial statements.

The financial statements were approved by the Trustee on 27 January 2023 and were signed on its behalf by:

Trustee director D P SIMS

Name David Sims

Notes to the financial statements

1. Identification of the financial statements

The 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 office for the Scheme changed to Unity Place, 1 Carfax Close, Swindon, SN1 1AP on 12 November 2021.

The Scheme has two defined benefit sections ("ZPen DB" & "ES Executives'") which are no longer open to new members and closed to future accrual, and a defined contribution arrangement ("ZPen DC") which is open to new members and is used as an auto-enrolment scheme by the participating employers.

The assets in each section are kept completely separate in the financial statements.

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 the 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.

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 when the liability is discharged. This is normally when the transfer value is paid 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.

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.

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 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 an 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.
- 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.

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.

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. Contributions

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Employer contributions								
Normal	**-**	**40,013**	**-**	**40,013**	-	39,440	-	39,440
Other contributions	**5,000**	**-**	**-**	**5,000**	5,000	-	-	5,000
Augmentation	**222**	**-**	**-**	**222**	783	-	-	783
Section 75 debt	**-**	**-**	**-**	**-**	29,717	-	-	29,717
Group life premium	**-**	**-**	**-**	**-**	2,254	-	-	2,254
Expense contributions	**3,700**	**-**	**47**	**3,747**	3,700	-	47	3,747
	8,922	**40,013**	**47**	**48,982**	41,454	39,440	47	80,941
Employee contributions								
Additional voluntary contributions	**-**	**2,861**	**-**	**2,861**	-	2,352	-	2,352
	-	**2,861**	**-**	**2,861**	-	2,352	-	2,352
	8,922	**42,874**	**47**	**51,843**	41,454	41,792	47	83,293

Employer normal contributions includes £14.2m (2021: £13.5m) contributions in respect of salary sacrifice arrangements made available to active members by the employer.

Other contributions relate to £5m (2021: £5m) paid to the Scheme by Zurich Employment Services Limited in January 2022. The agreed payment schedule runs until January 2026 and is in respect of Openwork Services Ltd.'s exit as a participating employer in 2018.

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 prior 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 certified on 17 September 2020.

Up to the year ended 30 June 2021, group life premium has been recorded on a cash rather than an accrual basis. It was changed since the current financial year resulting in no cost and contributions received.

5. Transfers from other plans

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Individual transfers in from other schemes	**253**	**3,030**	**-**	**3,283**	1,081	2,436	**-**	3,517
	253	**3,030**	**-**	**3,283**	1,081	2,436	**-**	3,517

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

Transfers into ZCashBuilder are individual transfers from other schemes outside of the Zurich Group.

6. Other income

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Claims on term insurance policies	**206**	**-**	**-**	**206**	1,844	-	-	1,844
VAT recovery	**357**	**-**	**-**	**357**	60	-	-	60
	563	**-**	**-**	**563**	1,904	-	-	1,904

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.

7. Benefits paid or payable

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Pensions	**(164,780)**	**-**	**(8,704)**	**(173,484)**	(157,143)	-	(8,535)	(165,678)
Commutation of pensions/lump sum retirement benefits	**(23,361)**	**(7,396)**	**-**	**(30,757)**	(20,096)	(8,629)	-	(28,725)
Lump sum death benefits	**(642)**	**(36)**	**-**	**(678)**	(2,087)	-	-	(2,087)
Taxation where lifetime or annual allowance exceeded	**(699)**	**-**	**-**	**(699)**	(1,553)	-	-	(1,553)
	(189,482)	**(7,432)**	**(8,704)**	**(205,618)**	(180,879)	(8,629)	(8,535)	(198,043)

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

8. Payment to and on account of leavers

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Individual transfers out to other schemes	**(55,053)**	**(14,083)**	**-**	**(69,136)**	(66,543)	(16,513)	-	(83,056)
	(55,053)	**(14,083)**	**-**	**(69,136)**	(66,543)	(16,513)	-	(83,056)

9. Other payments

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Premiums on term insurance policies	**-**	**-**	**-**	**-**	(2,254)	-	-	(2,254)
	-	**-**	**-**	**-**	(2,254)	-	-	(2,254)

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

Up to the year ended 30 June 2021, group life premium has been recorded on a cash rather than an accrual basis. It was changed since the current financial year resulting in no cost and contributions received.

10. 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	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Trustee Training	**(24)**	**-**	**-**	**(24)**	(4)	-	-	(4)
Trustee Fees	**(150)**	**-**	**-**	**(150)**	(158)	-	-	(158)
Auditor fees	**(137)**	**-**	**-**	**(137)**	(142)	-	-	(142)
Systems costs	**(677)**	**-**	**-**	**(677)**	(524)	-	-	(524)
Actuarial Fees	**(594)**	**-**	**-**	**(594)**	(467)	-	(36)	(503)
Payroll & Admin costs	**(386)**	**-**	**(3)**	**(389)**	(320)	-	(3)	(323)
Legal fees	**(478)**	**-**	**-**	**(478)**	(598)	-	(12)	(610)
Staff costs & Overheads	**(1,331)**	**-**	**-**	**(1,331)**	(1,513)	-	-	(1,513)
Industry Fees & PPF	**(447)**	**-**	**(4)**	**(451)**	(3,553)	-	(3)	(3,556)
Internal communication	**(3)**	**-**	**-**	**(3)**	(8)	-	-	(8)
Bank charges	**(6)**	**-**	**-**	**(6)**	(5)	(1)	-	(6)
	(4,233)	**-**	**(7)**	**(4,240)**	(7,292)	(1)	(54)	(7,347)

11. Investment income

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Dividends from equities	**37,843**	**-**	**-**	**37,843**	29,687	-	-	29,687
Income from bonds	**110,100**	**-**	**1,285**	**111,385**	117,059	-	1,264	118,323
Annuity income	**669**	**-**	**26**	**695**	650	-	25	675
Interest on cash deposits	**116**	**-**	**-**	**116**	11	-	-	11
Income from SLP	**60,000**	**-**	**-**	**60,000**	60,000	-	-	60,000
Net (payments) from repurchase agreements	**(7,767)**	**-**	**-**	**(7,767)**	(8,627)	-	-	(8,627)
Other investment income	**5,994**	**-**	**256**	**6,250**	4,424	-	418	4,842
	206,955	**-**	**1,567**	**208,522**	203,204	-	1,707	204,911

Income from the SLP relates to the asset backed contribution (ABC) arrangement. More details are shown in note 17.

12. Reconciliation of net investments

ZPen DB

Amount in £'000	Opening value	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	**Closing value**
Equities	1,906,978	970,295	(946,374)	(286,976)	**1,643,923**
Bonds	6,153,315	971,145	(789,434)	(1,297,493)*	**5,037,533**
Derivatives	(1,816)	9,678	(17,575)	13,277	**3,564**
Interest in SLP	760,000	-	-	(206,000)	**554,000**
Pooled investment vehicles	742,370	577,109	(254,361)	41,635	**1,106,753**
Annuities	7,089	-	-	-	**7,089**
Repurchase agreements	(1,427,327)	24,670,635	(25,103,838)	-	**(1,860,530)**
	8,140,609	27,198,862	(27,111,582)	(1,735,557)	**6,492,332**
Cash and other investment balances	269,098			1,336	**150,017**
ZPen DB net investments	**8,409,707**			**(1,734,221)**	**6,642,349**

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

* The 20-year index linked gilt yields and conventional gilt yields pushed upwards during 2022 due to the rise in inflation to a 40 year high. The Scheme's liability driven investment (LDI) portfolio hedges interest rates and inflation (on a technical provisions basis) at 90% and 80% respectively, therefore the yield increases triggered a decrease in the liabilities of the Scheme, and the majority of the liability decrease has been reflected in a corresponding decrease in assets within the LDI portfolio (which primarily holds bonds).

ZPen DC

Amount in £'000	Opening value	Purchases	Sales	Change in market value	**Closing value**
Post 2007 ZCashBuilder Investments	446,303	73,281	(43,579)	(34,434)	**441,571**
AVC Investments	7,699	46	(1,835)	(264)	**5,646**
ZPen DC net investments	454,002	73,327	(45,414)	(34,698)	**447,217**

ESExec DB

Amount in £'000	Opening value	Purchases	Sales	Change in market value	**Closing value**
Bonds	104,406	91,885	(82,693)	(12,285)	**101,313**
Pooled investment vehicles	97,398	17,853	(35,551)	(10,507)	**69,193**
	201,804	109,738	(118,244)	(22,792)	**170,506**
Cash and other investment balances	1,486			-	2,541
ESExec DB net investments	203,290			(22,792)	**173,047**

13. Investment management expenses

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Administration	**(37)**	**-**	**-**	**(37)**	(78)	-	-	(78)
Management	**(13,399)**	-	**(217)**	**(13,616)**	(9,455)	-	(219)	(9,674)
Custody	**(294)**	-	**(4)**	**(298)**	(310)	-	(8)	(318)
Performance measurement	**(45)**	-	**(11)**	**(56)**	(45)	-	(12)	(57)
Performance fees	**(3,748)**	-	**(102)**	**(3,850)**	(5,644)	-	(132)	(5,776)
Other advisory fees	**(2,074)**	-	**(8)**	**(2,082)**	(1,954)	-	(41)	(1,995)
	(19,597)	**-**	**(342)**	**(19,939)**	(17,486)	-	(412)	(17,898)

14. Investment transaction costs

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

ZPen DB Amount in £'000	Equities	2022 Total	Equities	2021 Total
Futures	**(1,055)**	**(1,055)**	(874)	(874)
Commissions	**(831)**	**(831)**	(752)	(752)
	(1,886)	**(1,886)**	(1,626)	(1,626)

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 is not a requirement for the Trustee to quantify such indirect transaction costs.

15. Pooled investment vehicles

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Equities	**33,006**	**379,253**	**8,332**	**420,591**	38,979	384,916	34,154	458,049
Bonds	**424,410**	**32,670**	**60,861**	**517,941**	408,323	34,641	55,426	498,390
Diversified growth	**-**	**4,611**	**-**	**4,611**	-	4,498	-	4,498
Property	**386,002**	**4,304**	**-**	**390,306**	280,490	3,247	7,818	291,555
Cash	**263,335**	**20,733**	**-**	**284,068**	14,578	19,001	-	33,579
	1,106,753	**441,571**	**69,193**	**1,617,517**	742,370	446,303	97,398	1,286,071

The large increase in the ZPen DB cash relates to the Insight Liquidity Fund. The Insight Liquidity Fund is held within the LDI portfolio, the LDI portfolio manager has discretion over the value held in the fund in order to manage the portfolio.

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 included selling all the section's real estate assets of 3.5%. The proceeds of the growth reduction have been used to increase exposure to corporate bonds (from 28% to 35%) and gilts (from 52% to 60%). The transactions to meet the Trustee's revised SAA took place during July and August 2021.

16. Derivatives

ZPen DB Amount in £'000	Assets	Liabilities	2022 Total	Assets	Liabilities	2021 Total
Exchange traded						
Futures	**3,906**	**-**	**3,906**	-	(1,824)	(1,824)
Over-the-counter contracts						
Forward foreign currency	**6**	**(348)**	**(342)**	62	(54)	8
	3,912	**(348)**	**3,564**	62	(1,878)	(1,816)

Objectives and policies for holding derivatives

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

Forward foreign currency

Type Amount in £'000	Expires within	Currency bought	Currency sold	Fair value Asset	 Liability
Sell GBP for EUR (10 contracts)	1 month	4,857	(4,179)	3	-
Sell GBP for USD (6 contracts)	1 month	355	(290)	3	-
Sell EUR for GBP (5 contracts)	1 month	19,145	(22,466)	-	(197)
Sell USD for GBP (5 contracts)	1 month	4,023	(5,069)	-	(150)
Sell USD for TWD (1 contract)	1 month	4,664	(157)	-	(1)
				6	**(348)**

Futures contracts

Type Amount in £'000	Expires within	Economic exposure	Fair value Asset	 Liability
FUT SEP 22 LIF LONG GILT	one year	(109,649)	3,906	-
		(109,649)	**3,906**	**-**

17. Interest in Scottish Limited Partnership (SLP)

Special contributions were made to the ZPen DB Section 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 Insurance Company Ltd (ZIC) 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).

The SLP was valued by an independent pricing agent (Barnett Waddingham LLP) as at 30 June 2022 at £554m (2021: £760m). This valuation was based on a number of assumptions and economic variables, the most important among these being:

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 £206m relative to the prior year, reflecting one less payment of £60m, the change in market conditions and the likelihood of how long the payments will continue if the ZPen DB 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 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.

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.

18. AVC investments

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

From April 2007, members of the ZPen DB Section were able to make additional contributions into ZCashBuilder (part of the ZPen DC Section). Currently, members of ZCashBuilder are able 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 some former Supplementary Scheme benefits and pre 2007 AVCs.

19. Cash and other investment balances

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Investment assets								
Cash-sterling	**59,894**	**-**	**2,218**	**62,112**	105,884	-	531	106,415
Cash-foreign currency	**14,332**	**-**	**-**	**14,332**	11,853	-	-	11,853
Variation margin	**1,745**	**-**	**-**	**1,745**	6,184	-	-	6,184
Income receivable	**30,900**	**-**	**323**	**31,223**	31,296	-	373	31,669
Income tax recoverable	**3,685**	**-**	**-**	**3,685**	2,691	-	-	2,691
Balances due from brokers	**52,998**	**-**	**-**	**52,998**	140,500	-	720	141,220
Collateral	**950**	**-**	**-**	**950**	530	-	-	530
	164,504	**-**	**2,541**	**167,045**	298,938	-	1,624	300,562
Investment liabilities								
Variation margin	**(3,906)**	**-**	**-**	**(3,906)**	-	-	-	-
Interest payable	**(4,816)**	**-**	**-**	**(4,816)**	-	-	-	-
Balances due to brokers	**(5,765)**	**-**	**-**	**(5,765)**	(29,840)	-	(138)	(29,978)
	(14,487)	**-**	**-**	**(14,487)**	(29,840)	-	(138)	(29,978)
	150,017	**-**	**2,541**	**152,558**	269,098	-	1,486	270,584

20. Defined contribution assets

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

ZPen DC Section investment assets can be allocated to members or unallocated, and therefore available to the Trustee to apply as specified in the Scheme rules, as follows:

Amount in £'000	2022	2021
Not allocated to members	**2,077**	2,351
Allocated to members	**445,140**	451,651
	447,217	454,002

Assets not allocated to members reduced during the Scheme year, these assets were used to offset contributions due to be received from the Employer which is in accordance with the Scheme rules. The subsequent reduction in contributions from the Employer made funds available for a pension related project, so it was in the interests of the Trustee to instruct these transactions.

21. Repurchase Agreements

Amount in £'000	2022	2021
Amounts receivable under reverse repurchase agreements	**404,455**	424,991
Amounts payable under repurchase agreements	**(2,264,985)**	(1,852,318)
	(1,860,530)	(1,427,327)

Bonds with fair value of £2,265m have been sold subject to repurchase contracts and therefore continue to be recognised in the financial statements (2021: £1,853m). There are 36 (2021:25) repurchase agreements, with maturity dates between July 2022 and April 2023.

Bonds with a fair value of £398m were received as collateral in respect of reverse repurchase agreements (2021: £422m). 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 (2021: 4) reverse repurchase agreements, with maturity dates between July and November 2022.

22. Fair value of investments

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

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

- Level 1: The unadjusted quoted price in an active market for identical assets 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	2022 Total
ZPen DB				
Equities	1,641,524	-	2,399	1,643,923
Bonds	-	4,526,596	510,937	5,037,533
Derivatives	3,564	-	-	3,564
Interest in SLP	-	-	554,000	554,000
Pooled Investment Vehicles	-	1,064,616	42,137	1,106,753
Repurchase agreements	-	(1,860,530)	-	(1,860,530)
Annuities	-	-	7,089	7,089
Cash and other investment balances	102,595	47,422	-	150,017
ES Exec DB				
Bonds	-	101,313	-	101,313
Pooled Investment Vehicles	-	69,193	-	69,193
Cash and other investment balances	1,691	850	-	2,541
ZPen DC				
Pooled Investment Vehicles	-	441,571	-	441,571
AVC Investments	-	5,646	-	5,646
	1,749,374	**4,396,677**	**1,116,562**	**7,262,613**

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
ES Exec 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				
Pooled Investment Vehicles	-	446,303	-	446,303
AVC Investments	-	7,699	-	7,699
	2,052,819	**5,699,076**	**1,315,104**	**9,066,999**

The equities shown in category 3 relate to investments held in Russian companies. In February 2022, a number of countries (including the UK, US and members of the EU) imposed sanctions against certain entities and individuals in Russia as a result of the invasion of Ukraine. As per the pricing policy, securities with a trading status of suspended are priced at their last available price until pricing sources provide an updated price and/or trading status.

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 Interest in the Scottish Limited Partnership (SLP) was independently priced by Barnett Waddingham LLP as at 30 June 2022. The valuation was based on a number of assumptions and economic variables. More details are shown in note 17.

The pooled investment vehicles shown in category 3 relate to middle market loans. The pooled investments are valued in accordance with Accounting Standards Codification Topic 820-10 Fair Value Measurements and Disclosures ("ASC 820"), which codified FASB Statement No. 157, Fair Value Measurements, as amended by ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. They are valued using a technique known as yield analysis, which is typically performed for non-credit impaired debt investments. To determine fair value using a yield analysis, a current price is imputed for the investment based upon an assessment of the expected market yield for a similarly structured investment with a similar level of risk. In the yield analysis, the valuer considers the current contractual interest rate, the maturity and other terms of the investment relative to risk of the company and the specific investment. A key determinant of risk, among other things, is the leverage through the investment relative to the enterprise value of the portfolio company. As investments held are substantially illiquid with no active transaction market, the valuation depends on primary market data, including newly funded transactions, as well as secondary market data with respect to high yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable. Following completion of the valuation process, the valuations are finalised by the middle market loan's Portfolio Management Team. Once complete, an independent third party review takes place and the valuation recommendations are reconciled with the values/ranges provided for those investments.

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. The annuity value will be updated once the triennial valuation as at 30 June 2022 is finalised.

23. Investment risks

Types of risk relating to investments

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

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

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

- Currency risk: 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:

Amount in £'000	Credit risk	Market risk: Currency	Market risk: Interest rate	Market risk: Other price	2022	2021
ZPen DB						
Equities	○	◐	○	●	**1,643,923**	1,906,978
Bonds	●	◐	●	○	**5,037,533**	6,153,315
Derivatives	◐	◐	◐	◐	**3,564**	(1,816)
Interest in SLP	●	○	◐	◐	**554,000**	760,000
Pooled investment vehicles	●	◐	◐	◐	**1,106,753**	742,370
Repurchase agreements	◐	○	●	○	**(1,860,530)**	(1,427,327)
Annuities	●	○	●	●	**7,089**	7,089
Cash and cash equivalents	●	◐	○	○	**150,017**	269,098
ZPen DC						
Post 2007 ZCashBuilder Investments	●	◐	◐	◐	**441,571**	446,303
AVC Investments	●	◐	◐	◐	**5,646**	7,699
ES Exec DB						
Bonds	●	○	●	○	**101,313**	104,406
Pooled investment vehicles	●	◐	◐	◐	**69,193**	97,398
Cash and cash equivalents	●	○	○	○	**2,541**	1,486
					7,262,613	9,066,999

○ Hardly/not at all

◐ Partially

● Significantly

During the COVID-19 pandemic and subsequently the Russian invasion of Ukraine 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. 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 annuity policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

ZPen DB and ES Exec DB Sections

Investment strategy

The investment objectives of the ZPen DB and ES Exec DB 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 report section.

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	2022	2021
ZPen DB		
Bonds	**5,037,533**	6,153,315
Derivatives	**3,564**	(1,816)
SLP	**554,000**	760,000
Pooled Investment Vehicles	**1,106,753**	742,370
Annuities	**7,089**	7,089
Repurchase agreements	**(1,860,530)**	(1,427,327)
Cash and other net balances	**150,017**	269,098
	4,998,426	6,502,729
ES Exec DB		
Bonds	**101,313**	104,406
Pooled Investment Vehicles	**69,193**	97,398
Cash and other net investment balances	**2,541**	1,486
	173,047	203,290

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 17).

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 monitors 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	**2022**	2021
ZPen DB		
Unit linked insurance contracts	**386,002**	280,490
Open ended investment companies	**678,614**	461,880
Limited liability partnership	**42,137**	-
ES Exec DB		
Unit linked insurance contracts	**69,193**	97,398
ZPen DC		
Unit linked insurance contracts	**447,217**	454,002
	1,623,163	1,293,770

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by diversification of investments within the funds as well as by carrying out due diligence checks on the appointment of new pooled arrangements and of new pooled investment managers. All fund performance is monitored regularly.

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

Credit risk has been monitored closely by the Trustee in light of the COVID-19 pandemic, the majority of credit risk is held within the bond asset class. Further information on the actions the Trustee has taken to monitor the elevated credit risk levels are shown in the investment strategy section.

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. The exposure at the current and previous year-ends was:

Amount in '000	**2022 Exposure**	2021 Exposure
Australian dollar (AUD)	**1**	1
Brazilian real (BRL)	**7,934**	19,088
Malaysian ringgit (MYR)	**692**	-
Canadian dollar (CAD)	**9,994**	12,839
Chinese Yuan Renminbi (CNH)	**13,988**	6,812
Czech koruna (CZK)	**-**	53
Danish krone (DKK)	**17,223**	16,033
Euro (EUR)	**193,532**	259,934
Hong Kong dollar (HKD)	**61,373**	60,892
Hungarian forint (HUF)	**-**	3,266
Indonesian rupiah (IDR)	**15,597**	10,813
Japanese yen (JPY)	**136,532**	145,375
Mexican peso (MXN)	**2,491**	-
New Taiwan dollar (TWD)	**29,940**	28,264
Norwegian krone (NOK)	**2,192**	5,288
Philippine peso (PHP)	**1,816**	2,334
Polish zloty (PLN)	**1,751**	2,993
South African rand (ZAR)	**2,356**	5,290
South Korean won (KRW)	**25,459**	36,131
Swedish krona (SEK)	**17,501**	16,527
Swiss franc (CHF)	**47,689**	56,862
Thai baht (THB)	**4,479**	2,428
United States dollar (USD)	**625,388**	749,990
	1,217,928	1,441,213

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme investments are held in bonds, 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 included an allocation to the Liability Driven Investments. In July 2022, the investments held in the LDI portfolio moved to the revised target hedging ratios set by the Trustee in June 2020.

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 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.

<u>ZPen DC Section</u>

Credit risk

ZCashBuilder is subject to direct credit risk in relation to Scottish Widows through its holdings. 2022: £442m (2021: £446m)

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

ZCashBuilder is subject to indirect credit risk 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.

24. Concentration of investments

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

Amount in £'000	2022 Value	%	2021 Value	%
ZPen DB				
Interest in SLP	**554,000**	**7.60%**	760,000	8.34%
Threadneedle Property Fund	**386,002**	**5.30%**	280,490	3.08%
M&G European Loan Fund	**377,220**	**5.18%**	397,672	4.37%
	1,317,222		1,438,162	

25. Current assets

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Other debtors	**79**	**-**	**-**	**79**	2,254	212	-	2,466
Cash balances	**40,041**	**809**	**51**	**40,901**	60,535	3,429	59	64,023
	40,120	**809**	**51**	**40,980**	62,789	3,641	59	66,489

The ZPen DC cash balance includes a balance of £0.8m designated to members (2021: £3.4m).

Up to the year ended 30 June 2021, group life premium has been recorded on a cash rather than an accrual basis. It was changed since the current financial year resulting in the lower other debtor balance.

26. Current liabilities

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total	ZPen DB	ZPen DC	ES Exec DB	2021 Total
Unpaid benefits	**(1,493)**	**(1,114)**	**-**	**(2,607)**	(1,233)	(422)	-	(1,655)
Tax payable	**(2,703)**	**-**	**(208)**	**(2,911)**	(2,852)	-	(210)	(3,062)
Accrued expenses	**(8,453)**	**-**	**(86)**	**(8,539)**	(6,534)	-	(111)	(6,645)
Amounts due to employer	**(1,200)**	**-**	**(171)**	**(1,371)**	(7,364)	-	(164)	(7,528)
	(13,849)	**(1,114)**	**(465)**	**(15,428)**	(17,983)	(422)	(485)	(18,890)

Amounts due to employer relate to Zurich Employment Services. More details are shown below in the related party transactions note.

27. Capital commitments

During the year the Trustee has invested in a middle market loans fund managed by Ares, where there are capital commitments of £136m (2021: Nil) which have not been fully drawn at the year end.

28. Guaranteed minimum pensions (GMP) equalisation

In October 2018, the High Court ruled that pension schemes were required to equalise benefits for the effect of unequal GMPs for men and women built up between 17 May 1990 and 5 April 1997. 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. 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, in accordance with the Trust Deed and Rules, include amounts in respect of five Trustee directors (2021: four) and pensions paid in respect of three Trustee directors (2021: four).
- Fees and expenses of £150k (2021: £158k) 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 the administrative expenses note, the directors of Zurich Financial Services UK Pension Trustee Limited and key management of the Scheme had no material transactions with the Scheme.

Company and other related parties

- Additional Personal Contributions (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 2022 was £2m (2021: £2m).
- As detailed in the other payments note, 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 2022 are disclosed in the current liabilities note above, 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% and Zurich Financial Services UK Pension Scheme 34% of the participating shares in the Threadneedle India Fund. The Scheme held an investment of £21m (2021: £24m) as at 30 June 2022.
- 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 £377m (2021: £398m) as at 30 June 2022.
- Zurich Insurance Company Limited and a number of subsidiaries held 66% and Zurich Financial Services UK Pension Scheme 34% of the participating shares in the Middle Market Loan Fund managed by Ares Management Limited. The Scheme held an investment of £43m (2021: nil) as at 30 June 2022.

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% (2021: 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).

31. Subsequent events

Global financial markets were highly volatile in September and October 2022. This instability was associated with the reaction to the UK government's mini-budget, as well as increasing concerns around the potential pace of monetary policy tightening in the US. The volatility had an impact on UK pension schemes with liability driven investment (LDI) portfolios. This came about when the market movements resulted in schemes selling government bonds in order to meet emergency collateral calls on their LDI portfolios. The Trustee has a conservative approach towards the use of leverage and took actions to protect the Scheme from the volatility. The Scheme remained well collateralised and did not receive any emergency collateral calls.

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 2022 which is set out in the summary of contributions section on page 67.

In our opinion contributions for the Scheme year ended 30 June 2022 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 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 section on page 67 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 on page 11, 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

Ernst & Young LLP

Statutory Auditor

Reading

Date 27 January 2023

Summary of contributions payable during the year

During the year ended 30 June 2022, the contributions payable to the Scheme were as follows:

Amount in £'000	ZPen DB	ZPen DC	ES Exec DB	2022 Total
Contributions required by the schedule of contributions				
Normal contributions	**-**	**40,013**	**-**	**40,013**
Other contributions	**5,000**	**-**	**-**	**5,000**
Expense contributions	**3,700**	**-**	**47**	**3,747**
	8,700	**40,013**	**47**	**48,760**
Other contributions				
Augmentations	**222**	**-**	**-**	**222**
Additional voluntary contributions	**-**	**2,861**	**-**	**2,861**
Total	**8,922**	**42,874**	**47**	**51,843**

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

The summary of contributions on this page was approved by the Trustee on 27 January 2023 and is signed on their behalf by:

Trustee director D P SIMS

Name David Sims

Actuarial certification of schedule of contributions

Zurich Financial Services UK Pension Scheme
ZPen Section

Certification of the Schedule of Contributions

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected, on 30 June 2019, to be met for the period for which the schedule is expected to be in force.

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

Adherence to Statement of Funding Principles

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 17 September 2020.

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

Signature:		Date:	17 September 2020
Name:	Susanna Morran	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	St James's House St James's Square Cheltenham Gloucestershire GL50 3PR	Employer:	Barnett Waddingham LLP

Zurich Financial Services UK Pension Scheme
ES Executives' Section

Certification of the Schedule of Contributions

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected, on 30 June 2019, to be met for the period for which the schedule is expected to be in force.

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

Adherence to Statement of Funding Principles

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 17 September 2020.

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

Signature:		Date:	17 September 2020
Name:	Susanna Morran	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	St James's House St James's Square Cheltenham Gloucestershire GL50 3PR	Employer:	Barnett Waddingham LLP

Implementation Statement – DB assets

Background
In 2019, the government published regulations[4] 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[5] which was introduced in 2018 for schemes with more than 100 members to disclose the risks of their investments, including the ones arising from environmental, social and governance (ESG) considerations. It also required the Trustee to disclose policies in relation to the stewardship of investments, including engagement with investee firms and the exercise of the voting right associated with the investment.

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

The DB SIP in force during the Scheme year ended 30 June 2022 was prepared in accordance with all relevant legislation in-force at the date of the approvals. The SIP outlines the principles and policies governing investment decisions made by, or on behalf of the Trustee for the management of the defined benefit (DB) assets and the Trustee's policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

Review of the DB SIP during the year
During the year ended 30 June 2022 the Trustee did not review the DB SIP and therefore the DB SIP has not been changed during the Scheme year. The last review took place in 2020 and the DB SIP was formally approved by the Trustee on 30 September 2020. Prior to formally approving the DB SIP on that date, the Trustee's investment and legal advisers reviewed the DB SIP to ensure it continued to comply with all legal requirements and to incorporate the Trustee's responsible investment strategy in line with investment regulations.

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 middle market loans (MML) fund managed by Ares was launched in September 2021. This followed the Funding Committee approving the legal and investment guidelines on 1 September 2021. The Trustee intends to subscribe to £175m of investments in line with the Section's approved strategic asset allocation (SAA). The subscription will take between 2-3 years.
    - 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

[4] Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019
[5] 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)

used to increase exposure to corporate bonds (from 28% to 35%) and gilts (from 52% to 60%). The transactions to meet the Trustee's revised SAA took place during July and August 2021. 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 SAA 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 Investment Policy Implementation Document (IPID) was updated to reflect the amendments to the SAA 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. Due to the volatility caused by Russia's invasion of Ukraine and rising inflation, there were a number of re-balancing transactions that took place to keep the assets within the agreed SAA. Any re-balancing that takes place outside of the monthly outflows is reported to the Funding Committee and the Trustee board on a quarterly basis. 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 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 M&G Managed European Loan Fund (MELF) was noted to have underperformed its benchmark during the Scheme year. M&G were asked to present to give an update on the MELF, for more information on this meeting, please see 'Engagement with Managers'.

The Trustee has set target hedging ratios for interest rates and inflation (on a technical provisions basis) at 90% and 80% respectively. The target hedging ratios were set on a glide path that was due to finish in June 2023, however due to market conditions, the rise in gilt yields meant a trigger was reached to accelerate the glide path. Following this, the Funding Committee agreed to further accelerate the hedging ratios to their agreed target as soon as reasonably practical. Interest rates and inflation represent a market risk for the Scheme on an economic basis, and hedging reduces these risks. The revised investment guidelines were signed on 5 July 2022.

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 latest Scheme year the Trustee has continued its focus 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 1 October 2021. In order to comply with the regulations the Trustee has agreed and published a TCFD report, describing governance, strategy, metrics and targets, and risk management of climate change risks and opportunities. The TCFD report can be found under www.zpen.info/Library/Responsible Investment. The Trustee continues to monitor the progress on its 25% weighted average carbon intensity (WACI) reduction target over 5 years for its equity and corporate bond portfolios.

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 2022:

Policy & response

DB assets: ZPen & ES Executives' Sections

Selecting Managers
The selection of Ares Management ("Ares") as the Trustee's middle market loans manager took place during the Scheme year to 30 June 2021, and is therefore included in the DB Implementation Statement for the Scheme year to 30 June 2021.

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.
Following the Trustee setting a target for its equity and corporate bond portfolios to reduce its WACI by 25% over 5 years, the Trustee has also been working with its Managers to progress a net zero ambition. The Trustee recognises its duty to manage climate change and other sustainability risks, and therefore has set an ambition to actively tackle climate change as both a risk and an opportunity. On 29 September 2022, the Trustee set a net zero ambition for the Scheme to achieve net zero by 2050 or earlier. The net zero ambition covers the ZPen DB section assets and the Trustee's operations, more information is included in the Responsible Investment section of the Scheme's website www.zpen.info/Library/Responsible Investment .

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.

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'.

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 the equity portfolio dropped below its strategic asset allocation due to the market volatility following the Russian invasion of Ukraine. 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. Having initially improved during 2021, the Funding Committee continue to monitor the performance of the portfolio, as the Scheme year end performance was below the benchmark for the portfolio.

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. During the Scheme year, the transaction cost report for the Scheme year ended 30 June 2021 was reviewed by the Funding Committee. There were a number of follow up actions that were raised by the report, the Pension Investment Manager and Finance and Investment Manager discussed these with the relevant asset managers to their satisfaction and shared the outcome with the Funding Committee. The Trustee has commissioned a transaction cost report for the latest Scheme year end and will consider this once it has been received.

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. In the Trustee's opinion all of the Managers are 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 way to engage on responsible investment and voting records.

Annual Responsible Investment meetings – 17 April 2022 - 11 May 2022

The annual Responsible Investment meetings consisted of 5 attendees representing the Trustee. This included the nominated Trustee director for responsible investment, the Scheme's responsible investment champion, the ZPen Finance and Investment Manager, the Trustee's investment analyst and a Funding Committee member. 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 three main topics, these were:

- Responsible investment updates through 2021 (including policy changes/personnel)
- TCFD reporting with a focus on non-listed assets
- An update of the Scheme's long term ambition.

The focus this year was on the upcoming TCFD requirements for the report due by 31 January 2023. The Scheme's requirements were discussed in respect of different asset classes and ways of measuring the Scheme's climate change risks and opportunities. All Managers provided an update on any net zero targets, both for investments and operations, this information was especially helpful with the development of the Trustee's ambition to become net zero by 2050. 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.

M&G meeting – 1 September 2021

Representatives from M&G presented at the Funding Committee, M&G were asked to present to give an update on the M&G Managed European Loan fund (MELF), including a focus on the fund's underperformance relative to its benchmark over the last year.

The Funding Committee were satisfied with M&G's presentation and their responses to the questions it asked. One of the actions that resulted from the meeting was M&G providing information on the benchmark that excludes companies with weaker credit ratings, as this will provide a better proxy for the performance relative to the benchmark.

The Funding Committee also noted M&G's presentation that included ESG information on a Company and fund level, especially in respect of the Trustee's process to develop a net zero ambition.

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

Across ZPen DB & the ES Executives' Section all equity assets are held by CTI. There are approximately £1.6bn of equities held in total, the majority of these equities at the Scheme year end were held through segregated mandates, and a small holding of equities was 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 in the significant votes section.

DB assets	**% of Scheme equity assets**
Fund 1 (ZPen)	99.5 %
Fund 5.1 (ES Executives')	0.5%

Fund 1

CTI's statistics showed the following:

- **521 meetings in total**
  - 12 did not vote because CTI had sold out of the holding prior to the AGM. 97.7% meetings were voted.
  - 247 had at least one vote against management (which is classed as a vote against management's recommendation – either an abstain or against)

- **6,838 individual resolutions**
  - 6,263 'for'
  - 425 'against' or 'withhold'
  - 17 'one year' votes submitted for US Say on Pay items
  - 133 'abstain'

Fund 5.1

CTI's statistics showed the following:

- **466 meetings in total**
  - 229 had at least one vote against management (which we class as a vote against management's recommendation – either an abstain or against).
  - 3 did not vote because CTI had sold out of the holding prior to the AGM. 99.4% meetings were voted.

- **6,175 individual resolutions**
  - 5,669 'for'
  - 374 'against' or 'withhold'
  - 14 'one year' votes submitted for US Say on Pay items
  - 118 'abstain'

Significant votes

Company name	General Motors Company
Date of vote	13-June 2022
Summary of the resolution	Report on the Use of Child Labour in Connection with Electric Vehicles
How you voted	For
Rationale for the voting decision	Supporting better ESG risk management disclosures
Outcome of the vote	Fail
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 CTI's research and investment process.
On which criteria have you assessed this vote to be "significant"?	Vote against management on certain environmental or social proposals; Deemed significant.

Company name	Alphabet Inc.
Date of vote	7-June 2022
Summary of the resolution	Report on Metrics and Efforts to Reduce Water Related Risk
How you voted	For
Rationale for the voting decision	Supporting better ESG risk management disclosures
Outcome of the vote	Fail
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 CTI's research and investment process.
On which criteria have you assessed this vote to be "significant"?	Vote against management on certain environmental or social proposals; Deemed significant.

Company name	Meta Platforms, Inc.
Date of vote	25-May 2022
Summary of the resolution	Report on Lobbying Payments and Policy

How you voted	For
Rationale for the voting decision	Supporting better ESG risk management disclosures
Outcome of the vote	Fail
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 CTI's research and investment process.
On which criteria have you assessed this vote to be "significant"?	Vote against management on certain environmental or social proposals; Deemed significant.

Company name	Amazon.com, Inc.
Date of vote	25-May 2022
Summary of the resolution	Commission Third Party Report Assessing Company's Human Rights Due Diligence Process
How you voted	For
Rationale for the voting decision	Supporting better ESG risk management disclosures
Outcome of the vote	Fail
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 CTI's research and investment process.
On which criteria have you assessed this vote to be "significant"?	Vote against management on certain environmental or social proposals; Deemed significant.

Company name	The TJX Companies, Inc.
Date of vote	7-June 2022
Summary of the resolution	Report on Assessing Due Diligence on Human Rights in Supply Chain
How you voted	For
Rationale for the voting decision	Supporting better ESG risk management disclosures
Outcome of the vote	Fail
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 CTI's research and investment process.
On which criteria have you assessed this vote to be "significant"?	Vote against management on certain environmental or social proposals; Deemed significant.

Implementation Statement – DC assets

1. Background

In 2019, the government published regulations[6] 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[7] 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 rights 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 and state any use of the services of a proxy voter during the year. This document is intended to meet those requirements and will be included in the Scheme's Report and Accounts and published on www.zpen.info.

The DC SIP in force during the Scheme year ended 30 June 2022 incorporated the SIP for the Scheme's default arrangements and was prepared in accordance with all relevant legislation in-force at the date of the approvals. The SIP outlines the principles and policies governing investment decisions made by, or on behalf of the Trustee for the management of the defined contribution (DC) assets (ZCashBuilder and legacy AVC arrangements) and the Trustee's policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

This Statement covers the policies included in the DC SIP.

Review of the DC SIP during the year
During the year ended 30 June 2022 the Trustee did not review the DC investment strategy. Consequently, the DC SIP has not been changed during the Scheme year. The last review took place in 2020 and the DC SIP was formally approved by the Trustee on 30 September 2020. Prior to formally approving the DC SIP on that date, the Trustee's investment and legal advisers reviewed the DC SIP to ensure it continued to comply with all legal requirements and to incorporate the Trustee's responsible investment strategy in line with investment regulations.

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.

2. How has the SIP been followed during the year?

In the opinion of the Trustee the investment aims and objectives for the default investment arrangements set out in the SIP have been met throughout the year. The rest of this statement explains how, and the extent to which, the policies have been adhered to.

2.1 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:

[6] Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019
[7] The Occupational Pension Schemes (Investment and Disclosure) (Amendments) Regulations 2018 (now the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure)(Amendment and Modification) Regulations 2018)

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.

There have been no changes to the default arrangements during the year.

To meet its policies for the default investment arrangements on:
- Choosing and realising investments;
- The kind of investments held; and
- The balance between different kinds of investments, the Trustee:
    - Continues to use lifestyle strategies as the default arrangements which
        - Have a higher level of investment risk and expected return in the growth stage of the lifestyle strategies.
        - Starts to reduce the level of investment risk and expected return by moving into less risky assets over the period 5 – 10 years from retirement
        - using passively managed pooled funds to reduce the fund charges paid by members.
    - 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.

The Trustee reviews changes in member choices, retirement behaviour and trends on a regular basis using reports produced by the internal Zurich pensions team. Over the Scheme year there were no material changes.

2.2 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. recognises 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 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.
  - includes access to both active and passively managed funds.

- The Trustee reviews changes in member choices, behaviour, and trends on a regular basis using reports produced by the internal Zurich pensions team. Over the Scheme year there were no material changes.

2.3 How have 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.

When the Trustee undertook its most recent performance and strategy review of the DC default arrangements in September 2020, it considered the investment risks set out in the SIP. It also 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.

To meet its policies for the investment options outside default investment arrangements the Trustee:

- 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.
- Offers a range of investment funds to members covering different asset classes to meet differing levels of risk.

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. Risks are monitored on an ongoing basis with the help of the Trustee's DC investment adviser and the Trustee maintains a risk register, which is discussed regularly.

To meet its policies the Trustee:

- uses 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. In particular, the Trustee makes use of equity and equity-based funds, which are expected to provide positive returns above inflation over the long term. These are used in the growth phase of the default option and are also made available within the self-select options. These funds are expected to produce adequate real returns over the longer term.
  - 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. At its meeting on 24 November 2021, the DC Committee received a paper from its DC advisers providing a high level review of the Scottish Widows Investment Only platform, noting that there are significant assets under management on the platform and Scottish Widows has demonstrated a clear commitment to the investment only business. The Committee noted its adviser's positive view of Scottish Widows as platform provider.
- offers lifestyle strategies targeted at each of the 3 options available to members at retirement.
- uses fund structures 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.
- receives quarterly updates on the fund performance.
- carried out an annual review of how the default strategies had performed against their objectives at its meeting on 23 May 2022. There were no actions arising from this review; it was noted that the new funds and default strategies had been in place 12 months and the next triennial review is due to take place in 2023.
- has confirmed with Scottish Widows that it has floating charges in place with all the investment managers it uses.

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 in 2020, including how to incorporate it into the default arrangements and investments options available outside the default arrangements. The outcome of this was the that the Trustee took into account the way Legal & General Investment Management (LGIM) engages in stewardship activities and uses its size to engage with companies and influence them in its selection of a number of funds invested with LGIM. 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 director who also sits on the DC Committee.
- agreed a DC Climate Change policy in June 2021. There has been no change to this policy over the year.

Task Force on Climate Related Financial Disclosures (TCFD): 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 TCFD recommendations, applicable from 1 October 2021. In order to comply with the regulations the Trustee has agreed and published a TCFD report, describing governance, strategy, metrics and targets, and risk management of climate change risks and opportunities.

Engaging with managers: SW Meeting – 28 January 2022: Because the Trustee uses Scottish Widows as a platform provider, the Trustee does not have a direct relationship with the DC fund managers; that relationship is held by Scottish Widows. The Trustee has found that direct meetings with Scottish Widows are the most effective way to engage on responsible investment and voting records, and the provision of data required for the TCFD report.

On 28 January 2022 a meeting was held with Scottish Widows and ZPen team representatives to agree the information, data and metrics that Scottish Widows would provide to enable the Trustee to produce its TCFD report for the year ending 30 June 2022.

Policy on asset managers

To meet its policies 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.
- receives quarterly reports on fund performance, including updates from its investment adviser on any issues with individual funds or fund managers.
  - At its meeting on 24 November 2021, the DC Committee received a paper from its investment adviser on changes to the BlackRock funds, some of which are available to members as part of the self-select fund range.
    - From 1 July 2021 BlackRock updated the indices tracked by the UK Equity Fund and World ex-UK equity fund, both available in ZCashBuilder as part of the self-select fund range. The new indices now screen companies for certain factors which will exclude them from the indices. These factors include controversial weapons and small arms, earnings from thermal coal or oil sands exceeding a certain threshold and companies considered to have violated the Ten Principles of the UN Global Compact.
    - In November 2021, Scottish Widows, the Trustee's investment platform provider, changed the way it accessed BlackRock funds. This affected Z Cautious Growth Fund and some of the self-select funds. These changes had no direct impact on members
    - At its meeting on 23 May 2022, the DC Committee received updates on proposed changes to the HSBC Islamic Fund, which is available through the self-select fund range, and the LGIM Future World Range, which includes one fund available to members on a self-select basis.
      - The HSBC Islamic Fund will change from a Luxembourg based fund structure to one domiciled in Ireland. This is a more tax efficient structure and the assets were moved to the new structure in September 2022. Members will not see any costs arising from these changes and should benefit from the tax efficiency of the new structure
      - LGIM made changes to the way it assesses companies, including a new metric which will assess companies on their ability to manage biodiversity related issues across their operations, and introduction of a decarbonisation pathway to align funds to Net Zero by 2050.

- 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.
- 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.

The Trustee carried out an annual Value for Members assessment in September 2022 for the Scheme Year to 30 June 2022 to ensure the funds continue to provide members with good value for the charges paid. This analysis assessed a range of factors, including the fees payable to managers in respect of the DC Section, which were found to be reasonable when compared against schemes with similar sizes mandates. The outcome of the value for members assessment was that the Scheme provides good value for members. Further detail is reported in the Chair's Statement.

Voting, stewardship and engagement

The DC assets 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:

- Took into account the way LGIM engages in stewardship activities and uses it's size to engage with companies and influence them as part of its decision to select LGIM as a fund manager for Z Growth Fund. 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.

- 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 responsible investment meeting with Scottish Widows in May 2021, the Trustee is satisfied that the Scottish Widows' voting policy is aligned with its own guiding principles.

Member engagement: The DC Committee includes company representatives who are able to collate and present member feedback.

- Caroline Taylor continues to attend the DC Committee meetings; Caroline is the National Secretary of Community and sits on the Employee Consultation Board.
- A member of the Pensions Support team (part of the ZPen team) attends each DC Committee meetings 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 haven't signed up to 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.
  - L&G 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.
- Furthermore, during the Scheme Year, BlackRock updated the indices of five of its regional equity funds in the BlackRock ACS index fund range in response to increasing investor demand for ESG products. Two of these funds are used within the self-select range of the Scheme: the Aquila Connect UK Equity Fund and the Aquila Connect World ex-UK Equity Fund. The affected funds previously tracked the performance of a FTSE benchmark index, but now track the performance of a newly created 'ESG screened' index. The Trustee took advice from its DC investment adviser on these changes and determined no action was necessary.

3. 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. The funds which include equities are set out in the tables below:

LGIM	Fund	% of fund assets	% ZCashBuilder assets (@ 30 June 2022)	Further information on page:
Z Growth Fund & Z Cautious Growth Fund	LGIM 30/70 Global equity fund currency hedged	100% Z Growth Fund 55% Z Cautious Growth Fund	79.3%	83
L&G Ethical Global Equity Index	L&G Ethical Global Equity Index	100%	1.2%	85
LGIM Future World	LGIM Future World	100%	0.1%	86
TOTAL			**80.6%**	

BlackRock	Fund	% of fund assets	% ZCashBuilder assets (@ 30 June 2022)	Further information on page:
BlackRock World ex-UK Equity Index Fund	BlackRock ACS World ex UK Equity Tracker	100%	3.2%	88
BlackRock UK Equity Index Fund	BlackRock ACS UK Equity Tracker	100%	1.5%	89
TOTAL			**4.7%**	

Other fund managers	Fund	% of fund assets	% ZCashBuilder assets (@ 30 June 2022)	Further information on page:
HSBC Islamic Fund	HSBC Islamic Global Equity Index Fund	100%	0.6%	91
SW Managed Fund	SW Managed Fund	100%	1.0%	92
TOTAL			**1.6%**	

LGIM Global Equity Market Weights (30:70) Index Fund - GBP 75% Currency Hedged

Manager name: Legal and General Investment Management **ZCashBuilder fund name: Z Growth Fund and 55% of Z Cautious Growth Fund**	
Total size of fund as at 30 June 2022	£3,881,887,672
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	Z Growth Fund: £314,349,215 Z Cautious Growth Fund: £35,658,748 **Total: £350,007,963** 79.26% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	4,324
Number of meetings eligible to vote	7,724
Number of resolutions eligible to vote	74,895
% of resolutions voted	99.88%
Of the resolutions on which voted, % voted with management	80.46%
Of the resolutions on which voted, % voted against management	18.39%
Of the resolutions on which voted, % abstained from voting	1.15%

Of the meetings in which the manager voted, % with at least one vote against management	60.15%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A: LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM which does not outsource any part of the strategic decisions. To ensure its proxy provider votes in accordance with its position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

	Vote 1	Vote 2
Company	Apple Inc	Microsoft Corporation
Date of vote	4 March 2022	30 November 2021
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	2.72%	2.62%
Summary of the resolution	Resolution 9 - Report on Civil Rights Audit	Elect Director Satya Nadella
How you voted	For	Against
Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	
Rationale for the voting decision	Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies.	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight
Outcome of the vote	53.6%	94.7%
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.
On which criteria has this vote been assessed as "most significant"?	LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.	A vote linked to an LGIM engagement campaign, in line with the Investment Stewardship team's five-year ESG priority engagement themes

L&G Ethical Global Equity Index Fund

Manager name: Legal and General Investment Management **ZCashBuilder fund name: L&G Ethical Global Equity Index**	
Total size of fund as at 30 June 2022	£890,337,129
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	£5,153,008 1.17% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	1,070
Number of meetings eligible to vote	1,138
Number of resolutions eligible to vote	16,375
% of resolutions voted	99.71%
Of the resolutions on which voted, % voted with management	82.16%
Of the resolutions on which voted, % voted against management	17.61%
Of the resolutions on which voted, % abstained from voting	0.22%
Of the meetings in which the manager voted, % with at least one vote against management	76.45%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A: LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.

	Vote 1	Vote 2
Company	Apple Inc.	Microsoft Corporation
Date of vote	4 March 2022	30 November 2021
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	6.97%	6.68%
Summary of the resolution	Resolution 9 - Report on Civil Rights Audit	Elect Director Satya Nadella
How you voted	For	Against

Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	
Rationale for the voting decision	Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies.	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight
Outcome of the vote	53.6%	94.7%
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.
On which criteria has this vote been assessed as "most significant"?	LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.	A vote linked to an LGIM engagement campaign, in line with the Investment Stewardship team's five-year ESG priority engagement themes

LGIM Future World Fund

Manager name: Legal and General Investment Management ZCashBuilder fund name: LGIM Future World	
Total size of fund as at 30 June 2022	£6,828,620,357
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	£422,926 0.1% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	3,111
Number of meetings eligible to vote	4,750
Number of resolutions eligible to vote	51,471
% of resolutions voted	99.84%
Of the resolutions on which voted, % voted with management	80.50%
Of the resolutions on which voted, % voted against management	18.64%
Of the resolutions on which voted, % abstained from voting	0.86%
Of the meetings in which the manager voted, % with at least one vote against management	63.15%

Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A: LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.

	Vote 1	Vote 2
Company	Visa Inc	Alphabet Inc
Date of vote	25 January 2022	1 June 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.75%	0.89%
Summary of the resolution	Elect Director Alfred F, Kelly, Jr	Report on Physical Risks of Climate Change
How you voted	Against	For
Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	
Rationale for the voting decision	Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight.	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.
Outcome of the vote	Pass	The shareholder proposal did not pass.
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	
On which criteria has this vote been assessed as "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.

BlackRock World ex-UK Equity Tracker Fund

Manager name: BlackRock ZCashBuilder fund name: BlackRock World ex-UK Equity Index	
Total size of fund as at 30 June 2022	£9,656,416,866
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	£14,248,072 3.23% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	1,878
Number of meetings eligible to vote	1,996
Number of resolutions eligible to vote	25,262
% of resolutions voted	94%
Of the resolutions on which voted, % voted with management	92%
Of the resolutions on which voted, % voted against management	7%
Of the resolutions on which voted, % abstained from voting	0% (122 proposals)
Of the meetings in which the manager voted, % with at least one vote against management	32%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	We use Institutional Shareholder Services' (ISS) electronic platform to execute our vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, we work with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to us any meetings where additional research and possibly engagement might be required to inform our voting decision.

	Vote 1	Vote 2
Company	Rio Tinto	Santos
Date of vote	Rio Tinto Plc: 8 April 2022 Rio Tinto Limited: 5 May 2022	3 May 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	Information not provided	Information not provided
Summary of the resolution	Re-election of Board members	Climate related lobbying
How you voted	For	Against

Where you voted against management, did you communicate your intent to the company ahead of the vote?	BlackRock does not disclose its voting intentions in advance of shareholder meetings as it does not see its our role to influence other investors. Its role is to send a signal to the company about how well it believes the board and management has done in delivering long-term shareholder value.	
Rationale for the voting decision	After closely analysing each candidate's profile and engaging with the group– and in consideration of the changes made both at the board and management level following the Juukan Gorge controversy – BIS determined it is in the best interests of our clients as long term shareholders to support board continuity	This resolution was not supported as based on BlackRock's analysis, it was found to be overly prescriptive given that it seeks to direct the company's climate-related lobbying activities.
Outcome of the vote	Pass	Pass
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	Further information can be found here: vote-bulletin-rio-tinto-may-2022.pdf (blackrock.com)	Further information can be found here: vote-bulletin-santos-may-2022.pdf (blackrock.com)
On which criteria has this vote been assessed as "most significant"?	Further information can be found here: vote-bulletin-rio-tinto-may-2022.pdf (blackrock.com)	Further information can be found here: vote-bulletin-santos-may-2022.pdf (blackrock.com)

BlackRock UK Equity Tracker Fund

Manager name: BlackRock ZCashBuilder fund name: BlackRock UK Equity Index	
Total size of fund as at 30 June 2022	£10,321,936,587
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	£6,703,750 1.5% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	14,420
Number of meetings eligible to vote	748
Number of resolutions eligible to vote	10,530
% of resolutions voted	99%
Of the resolutions on which voted, % voted with management	95%
Of the resolutions on which voted, % voted against management	4%
Of the resolutions on which voted, % abstained from voting	0% (61 proposals)
Of the meetings in which the manager voted, % with at least one vote against management	22%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	BlackRock uses Institutional Shareholder Services' (ISS) electronic platform to execute its vote instructions, manage client accounts in relation to voting and

	facilitate client reporting on voting. In certain markets, it works with proxy research firms who apply its proxy voting guidelines to filter out routine or non-contentious proposals and refer to BlackRock any meetings where additional research and possibly engagement might be required to inform its voting decision.

	Vote 1	**Vote 2**
Company	Barclays Plc	Shell Plc
Date of vote	4 May 2022	24 May 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	Information not available	7.18%
Summary of the resolution	Approve Barclays' Climate Strategy, Targets and Progress 2022	Approve the Shell Energy Transition Progress Update (Management proposal)
How you voted	For	For
Where you voted against management, did you communicate your intent to the company ahead of the vote?	BlackRock does not disclose its voting intentions in advance of shareholder meetings as it does not see its our role to influence other investors. Its role is to send a signal to the company about how well it believes the board and management has done in delivering long-term shareholder value.	
Rationale for the voting decision	This was supported in recognition of the company's disclosed plan to manage climate-related risks and opportunities and the company's progress against this plan. We do, however, believe there are areas where the company could enhance its disclosure.	This was supported in recognition of the company's disclosed energy transition plan to manage climate-related risks and opportunities and the company's progress against this strategy.
Outcome of the vote	Pass	Pass
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	Further information can be found here: vote-bulletin-barclays-may-2022.pdf (blackrock.com)	Further information can be found here: vote-bulletin-shell-may-2022.pdf (blackrock.com)
On which criteria has this vote been assessed as "most significant"?	Further information can be found here: vote-bulletin-barclays-may-2022.pdf (blackrock.com)	Further information can be found here: vote-bulletin-shell-may-2022.pdf (blackrock.com)

HSBC Islamic Global Equity Index Fund

Manager name: HSBC ZCashBuilder fund name: HSBC Islamic	
Total size of fund as at 30 June 2022	$2,569,284,681
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	£2,719,083 0.6% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	105
Number of meetings eligible to vote	107
Number of resolutions eligible to vote	1652
% of resolutions voted	95.7%
Of the resolutions on which voted, % voted with management	82.8%
Of the resolutions on which voted, % voted against management	17.2%
Of the resolutions on which voted, % abstained from voting	0.2%
Of the meetings in which the manager voted, % with at least one vote against management	72%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	We use the voting research and platform provider Institutional Shareholder Services (ISS) to assist with the global application of our own bespoke voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene our guidelines. 10.2% of votes were contrary to recommendation of proxy adviser

	Vote 1	Vote 2
Company	Alphabet Inc.	Amazon.com, Inc.
Date of vote	01/06/2022	25/05/2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	6.81%	5.02%
Summary of the resolution	Shareholder proposal to seek disclosure of algorithmic systems.	Advisory vote to ratify named executive officers' compensation.
How you voted	For (against management recommendation)	Against

Where you voted against management, did you communicate your intent to the company ahead of the vote?	We communicate our thinking on the shareholder proposals well ahead of the AGM.	We discussed the proposals and our views at a meeting ahead of the AGM.
Rationale for the voting decision	Given the risks that could arise from the use of algorithms and increasing relevant legislation, the company should disclose more about the potential risks the company faces, the safeguards and procedures in place to mitigate them.	We have several concerns about the pay structure, including the high level of overall dilution from share schemes, a lack of performance element to executive pay, and a short vesting period.
Outcome of the vote	The shareholder proposal did not pass.	The resolution passed.
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to engage on the issue along with other issues of concern and will likely vote against a similar proposal should we see insufficient improvements.	We will continue to engage on the issue along with other issues of concern and will likely vote against a similar proposal should we see insufficient improvements.
On which criteria has this vote been assessed as "most significant"?	The company has a significant weight in the portfolio and we voted against management.	The company has a significant weight in the portfolio and we voted against management.

Scottish Widows Managed Fund

Manager name: Schroders **ZCashBuilder fund name: Managed**	
Total size of fund as at 30 June 2022	£184.46m
Value of ZCashBuilder assets at 30 June 2022 invested in this fund	£4,610,576 1.0% of ZCashBuilder assets
Number of equity holdings as at 30 June 2022	Information not provided
Number of meetings eligible to vote	Information not provided
Number of resolutions eligible to vote	Information not provided
% of resolutions voted	Information not provided
Of the resolutions on which voted, % voted with management	Information not provided
Of the resolutions on which voted, % voted against management	Information not provided
Of the resolutions on which voted, % abstained from voting	Information not provided
Of the meetings in which the manager voted, % with at least one vote against management	Information not provided
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	Information not provided

No information was provided on specific votes, but the following information was provided by the Schroders, who have been appointed by Scottish Widows to manage the fund:

Overview for the process of deciding how to vote:

- We evaluate voting issues arising at our investee companies and, where we have the authority to do so, vote on them in line with our fiduciary responsibilities in what we deem to be the interests of our clients. We utilise company engagement, internal research, investor views and governance expertise to confirm our intention. Further information can be found in our Environmental, Social and Governance Policy for Listed Assets policy: https://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf

What process was followed for determining the most significant votes?
Did any of your most significant votes breach the client's voting policy (where relevant)?

- We consider "most significant" votes as those against company management.
- We are not afraid to oppose management if we believe that doing so is in the best interests of shareholders and our clients. For example, if we believe a proposal diminishes shareholder rights or if remuneration incentives are not aligned with the company's long term performance and creation of shareholder value. Such votes against will typically follow an engagement and we will inform the company of our intention to vote against before the meeting, along with our rationale. Where there have been ongoing and significant areas of concerns with a company's performance we may choose to vote against individuals on the board.
- However, as active fund managers we usually look to support the management of the companies that we invest in. Where we do not do this we classify the vote as significant and will disclose the reason behind this to the company and the public.

Description of voting process 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 the Investment Stewardship team. 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 voting is undertaken by the same individuals who engage with the relevant company. This ensures LGIM's stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending 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. Its use of ISS recommendations is purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services ("IVIS") to supplement the research reports that it receives from ISS for UK companies when making specific voting decisions.

To ensure LGIM's proxy provider votes in accordance with LGIM's position on ESG, it 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.

Description of voting process BlackRock

BlackRock and its voting and engagement work continuously evolves in response to changing governance related developments and expectations. BlackRock’s voting guidelines are market-specific to ensure it takes into account a company's unique circumstances by market, where relevant. BlackRock informs its vote decisions through research and engages as necessary. Its 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.

BlackRock may also update its regional engagement priorities based on issues that it believes could impact the long-term sustainable financial performance of companies in those markets. BlackRock welcomes discussions with its clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them.

As outlined in its Global Principles, BlackRock determines which companies to engage directly based on its assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of its engagement being productive. Its voting guidelines are intended to help clients and companies understand its thinking on key governance matters. They are the benchmark against which BlackRock uses to assess a company’s approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. BlackRock applies its guidelines pragmatically, taking into account a company’s unique circumstances where relevant. BlackRock informs its vote decisions through research and engages as necessary.