

## 34<sup>th</sup> ANNUAL REPORT TO MEMBERS

By the Trustee, Plumbing Pensions (UK) Ltd.  
For the year ended 5<sup>th</sup> April 2009.

### **Chairman                      Appointed**

A. Pickering, CBE    1981 (as Director)

### **Employer                      Appointed** **Directors**

A. Beaumont            2003

J. Breakell              2006

D Mason                2008

J.B. Park                1983

R.E. Price, MBE        2008

R.D. Stevenson        2006

J. Watson                2005 (Retired 2008)

### **Employee                      Appointed** **Directors**

J. Allott                 2006

R Buirds                2005

J. Fallows              2005

M. Tuff                 2006

### **Secretary and Pensions Manager**

R.D. Burgon, B.A., M.Litt., F.P.M.I., Hon.F.C.I.P.H.E.

### **Consulting Actuaries**

Watson Wyatt Ltd

### **Bankers**

Bank of Scotland

### **Independent Auditors**

Chiene + Tait, C.A.

### **Investment Consultants**

Hewitt Bacon & Woodrow

### **Global Custodians**

JPMorgan Chase Bank

### **Investment Managers**

Aberdeen Asset Management Ltd

Edinburgh Partners

Legal & General (Pensions

Management) Limited

Macquarie European Infrastructure Fund

State Street International IFSC

Prudential M & G

Trilogy Global Advisors

Schroder Investment Management Ltd

Black Rock Investment Management

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

The Plumbing and Mechanical Services (UK) Industry Pension Scheme is operated and administered by a trustee company, Plumbing Pensions (UK) Ltd, 4 Walker Street, Edinburgh EH3 7LB

The Scheme is one of the largest in the construction industry. Its assets exceed £967million.

The Scheme was established in 1975 and applies to plumbing operatives and apprentices employed by firms in the plumbing and mechanical services industry in the United Kingdom. Employers can also operate the Scheme for other employees, and for directors if the firm is a limited company.

In places this report is technical, but the Scheme has made every effort to make it understandable to members and beneficiaries. If you have questions, please write to the Scheme or call the helpline on: 08457-656565.

## Trustee

Plumbing Pensions (UK) Ltd. is the Trustee of the Industry Pension Scheme. The membership of the company consists of three participating bodies: the Association of Plumbing and Heating Contractors Ltd and the Scottish and Northern Ireland Plumbing Employers' Federation, which each nominate three directors; and Unite the Union which nominates four directors. Responsibility for nominating and removing directors rests with the three participating bodies. The Trustee company appoints an Independent Chairman.

## Preservation of pension entitlement

The Scheme is an industry-based scheme. Its terms allow employee members to move freely from one firm to another without adversely affecting their pension entitlement. Pension credits for all members, whether currently contributing or not, are increased in a similar way each year. In the case of non-contributory members, the Guaranteed Minimum Pension element of the pension credits may receive a slightly different level of bonuses in order to comply with government legislation.

## Additional Voluntary Contributions (AVCs)

Employee members can make AVCs to secure extra benefits at retirement. As with contributions to the main Scheme, these additional contributions attract income tax relief.

The AVC provider is Prudential Assurance Company Ltd. Members interested in making AVC contributions are invited to contact the Plumbing Pensions (UK) Edinburgh office.

## Trustee's review of the year

### Pension increases for pensioners and existing members for 2009/2010

Details of the increases to pensions in payment effective from May 2009 were notified to all beneficiaries in March 2009. This year, the following increases are being applied:

Pensions in payment accrued prior to 6 April 1997, apart from the statutory requirement to increase members' post – 5 April 1988 GMP pensions	nil
GMP accrued up to 5 April 1988	increased by State Scheme
GMP accrued between 6 April 1988 and 5 April 1997	3.0%
Pensions in excess of the GMP built up between 6 April 1997 and 5 April 2005	5.0%
Pensions in excess of the GMP built up after 6 April 2005	2.5%

Pension credits held by existing members, who have not reached retirement, on pension built up prior to 6 April 2004, the promised bonus under the Scheme Rules 4.2%

Pension credits held by existing members, who have not reached retirement, on pension built up after 5 April 2004. 5.0%

Note: The GMP is approximately the pension that members would have earned under the State Earnings Related Pension Scheme (SERPS) before 6<sup>th</sup> April 1997 if they had not 'contracted-out' of it. No GMP builds up for pensionable service after 6<sup>th</sup> April 1997.

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

### **Contributions**

The Directors can report that contributions to the Scheme in the year to 5<sup>th</sup> April 2009 fell from £18,368,806 to £17,447,385. This reduction is not unexpected and reflects difficult trading conditions experienced by many firms which led to a reduction in the number of employers and employees participating in the Scheme.

### **Benefits**

There are now over 8,500 pensioners and dependants receiving benefits from the Scheme. This is reflected in the fact that benefits payable in the year to 5<sup>th</sup> April 2009 rose from £25,625,418 to £29,075,106

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

### **Trustee training**

New Directors of the Trustee company are required to participate in an induction process at an early stage of their involvement with the Scheme. In addition, training sessions for all Directors are arranged as part of the programme of Directors' meetings including an annual training day each November. A number of the Directors of the Trustee Company have participated in the "E-learning" programme developed by the Pensions Regulator.

### **Important message to member firms**

Under the Occupational Pension Schemes (Disclosure of Information) Regulations 1996, member firms must give new members a Guide to the Scheme within two months of joining. Copies of the Guide are available on request from the Administration Department.

### **Statement of Investment Principles**

The Directors have produced a Statement of Investment Principles. A copy is available on request from our Administration Department in Edinburgh.

### **Statement of Funding Principles**

The Directors have produced a Statement of Funding Principles. This statement is included on pages 9-14 of this report.

### **Transfer values**

- Members who leave service or who opt out of the Scheme can choose to transfer the value of their benefits to approved arrangements. The Scheme confirms that all transfer values are calculated and verified in the way prescribed by regulations under the Pensions Act 1995.
- All transfer values paid by the Scheme allow for the full value of the promised preserved benefits but do not include any allowance for discretionary increases or bonuses.
- Members should remember that it is important to take independent financial advice before making any decision to transfer.

# Plumbing & Mechanical Services (UK) Industry Pension Scheme

## Schedule of Contributions for the period 4 June 2007 to 3 June 2012

This schedule of contributions has been prepared by the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme ("the Scheme"), after obtaining the advice of the Actuary, Neil Puxley FIA of Watson Wyatt Limited. The Trustee has discussed and agreed this schedule with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers).

### 1 Contributions by the participating employers

The participating employers shall contribute in line with the following table for each benefit scale:

<b>Benefit Scale</b>	<b>Participating employers' contribution rate as a percentage of Earnings</b>
Basic scale	7.5%
H2	10.5%
H3	12.5%
H4	14.5%

These contributions shall be paid to the Scheme no later than 19 days after the end of the calendar month to which they relate.

At the latest actuarial valuation dated 5 April 2006, the Scheme's Statutory Funding Objective was met and as such a recovery plan is not required.

In addition to the contributions shown above, the participating employers shall pay the following:

- a. Additional contributions as may be required under the Scheme's Rules in specific circumstances (for example to cover augmentations). The amounts of such contributions are to be advised by the Scheme Actuary.
- b. Such other contributions as may from time to time be agreed by the Trustee and the participating employers (as represented above).

### 2 Employee contributions

Employees shall contribute in line with the following table:

<b>Benefit Scale</b>	<b>Employees' contribution rate as a percentage of Earnings</b>
Basic scale	3.75%
H2	5.25%
H3	6.25%
H4	7.25%

These contributions shall be deducted from members' pay and paid to the Scheme by the relevant employer no later than 19 days after the end of the calendar month in which they were deducted from pay.

## **Treatment of expenses and the Pension Protection Fund levy**

Investment management costs, administrative and other non-investment expenses are met from the Scheme's resources (including levies to the Pension Protection Fund). An ongoing funding reserve is included within the Scheme's technical provisions to meet these expenses.

## **Actuary's certification of the schedule of contributions**

*Name of scheme:* Plumbing & Mechanical Services (UK) Industry Pension Scheme

### Adequacy of rates of contributions

- 1 I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met for the period for which the schedule is in force.

### Adherence to statement of funding principles

- 2 I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 4 June 2007.

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 wound up.

## **Actuarial Certificate of the Calculation of Technical Provisions**

*Name of scheme:* Plumbing & Mechanical Services (UK) Industry Pension Scheme

### Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 5 April 2006 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 4 June 2007.

**Neil Puxley**  
**Scheme Actuary**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Princes Exchange**  
**1 Earl Grey Street**  
**Edinburgh**  
**EH3 9AY**

**4 June 2007**

# Plumbing & Mechanical Services (UK) Industry Pension Scheme

## Statement of funding principles

This statement has been prepared by the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (“the Scheme”) to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Actuary, Neil Puxley FIA. The Trustee has discussed and agreed it with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers).

## Statutory Funding Objective

The Statutory Funding Objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions, based on its obligated benefits, and this statement sets out the Trustee’s policy for securing that this objective is met.

## Method and assumptions

It has been agreed that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective obligated benefits arising from service completed before that date, including allowance for prospective non-discretionary increases both before and whilst benefits are in payment. This method of calculating technical provisions is known as the projected unit credit method. Assets will be taken into account at market value.

It has been further agreed that:

- When setting the discount rate used to calculate the capital value of future cashflows, the investment return which would be required to meet the Statutory Funding Objective stated above, based on the existing assets and obligated benefits, will be determined, on the advice of the actuary. The Trustee will then consider whether this return is achievable with a high enough degree of confidence taking into account the Scheme’s likely future investment policy and the yields available on index linked and conventional Government bonds of duration appropriate to the duration of the liabilities and an element of additional return expected from other assets held by the Scheme. The discount rate adopted in relation to the technical provisions may differ from that used to assess the adequacy of future contributions payable to the Scheme.
- The discount rate set by reference to the investment return derived by the above process will be acceptable if, taking into account the Scheme’s expected future asset allocation, it is anticipated that the return can be achieved over the next 10 years with the expectation that at least 70% of possible outcomes will give a more favourable investment return and 30% will result in less favourable returns (referred to as the “70% confidence level”). These expectations will be based upon a realistic asset return model (such as the Watson Wyatt global asset model assumptions at the valuation date).
- Future price inflation will be set by considering, amongst other things, the markets’ expectations of future inflation levels. Such expectations are derived by taking into account, for example, information from the index linked and fixed interest bond markets at the effective date of the actuarial valuation. Data published by the Bank of England will also be taken into account.

- The price inflation assumption will be used as the basis for determining the various pension increase assumptions for the different types of Scheme pension (both pre and post retirement), after making suitable allowance for any relevant restrictions.
- Demographic assumptions will have regard to an analysis of the Scheme's actual experience, and views about how this may change in future.

Taken together, the assumptions derived as described above are prudent given the actual current investment allocation of the Scheme, and are consistent with the Trustee's desired level of confidence that assets equal to the technical provisions will prove adequate to meet accrued benefits as they fall due without the need for further contributions from the members or the participating employers.

The above is based on the Scheme remaining open to new entrants and on the collective covenant of the participating employers remaining broadly unchanged.

### **Discretionary benefits**

There are a number of areas where the benefits payable are subject to some exercise of discretion. The principal details of which are set out below:

The Trustee is obligated to provide the following annual pre-retirement bonuses:

- credits in respect of contributions before 6 April 2004 will increase at least in line with national average earnings
- credits in respect of contributions after 5 April 2004 will increase at least in line with price inflation

The Trustee is obligated to provide the following annual post-retirement bonuses:

- nothing for credits in respect of contributions before 6 April 1997 (apart from the statutory requirement to increase members' post-5 April 1988 GMP pensions)
- the lesser of price inflation and 5% for credits in respect of contributions between 6 April 1997 and 5 April 2005 inclusive
- the lesser of price inflation and 2.5% for credits in respect of contributions after 5 April 2005

The Trustee may grant discretionary increases above these obligated benefits. The Trustee has decided to make no allowance for discretionary increases in determining the Scheme's technical provisions.

Under the Scheme Rules, a participating employer, with the agreement of the Trustee (having considered actuarial advice), may provide increased or additional benefits to any member, spouse or dependant. No advance allowance is made in the funding arrangements for the potential increase in the liabilities of the Scheme arising from the exercise of such discretions. The cost of any such increase would be met by a special contribution by the participating employer at the time the discretion was exercised.

## Actuarial valuation as at 5 April 2006

The Trustee (having taken the advice of the Actuary) and Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers) have agreed assumptions for the actuarial valuation as at 5 April 2006, in line with the process described above. In particular:

- At the valuation date, it was determined that the investment return required to meet the Scheme's Statutory Funding Objective in respect of obligated benefits that had accrued to the valuation date was 4.1% per annum. Taking into account the Scheme's asset allocation, it is anticipated that, over the next 10 years, that level of investment return can be achieved with the expectation that broadly 84% of possible outcomes will give a more favourable investment return and 16% will result in less favourable returns (referred to as the "84% confidence level"). These expectations have been based upon the Watson Wyatt global asset model assumptions at the valuation date.
- Similarly, at the valuation date, it is anticipated that an investment return of about 5.2% per annum can be achieved with the expectation that broadly 70% of possible outcomes will give a more favourable investment return and 30% will result in less favourable returns (referred to as the "70% confidence level").
- It has further been calculated that, on the basis of a discount rate of 5.2% per annum and taking into account the resulting surplus that would be generated by spreading it over a period of 20 years, a total contribution of less than 4% per annum would be required. The existing total contribution rate of 11.25% per annum is therefore more than adequate on this basis.

It is therefore agreed that all of the above meets the Scheme's Statutory Funding Objective.

## Financial assumptions as at 5 April 2006

The derivation of the discount rates is noted above. The other assumptions used for the 2006 valuation are set out below:-

	<b>% per annum</b>
Price inflation (RPI)	2.75
National Average Earnings/future pay growth	4.50
<b>Increases to pension credits once in payment:</b>	
Non-GMP credits earned before 5 April 1997 (GMPs receive statutory increases)	0.00
Credits earned between 6 April 1997 and 5 April 2005 inclusive	2.75
Credits earned after 5 April 2005	2.50
<b>Increases to pension credits in deferment:</b>	
Credits accrued before 5 April 2004	4.50
Credits accrued after 5 April 2004	2.75

### ***Demographic assumptions as at 5 April 2006***

Following an analysis of the actual experience of the Scheme's pensioners since 2000, mortality once pensions are in payment is assumed to follow the standard tables PA92 projected to calendar year 2006 with an age rating adjustment of +2.5 years for both males and females.

Mortality before retirement is assumed to follow the standard tables A92ULT for both males and females.

Future improvements in longevity have then been allowed for by a deduction of 0.25% per annum from the discount rate.

Details (including sample rates) of the demographic assumptions are shown in the appendix to this statement.

### ***Expenses***

Investment management costs, administrative and other non-investment expenses (including Pension Protection Fund levies) are met from the Scheme's resources. As at 5 April 2006, an ongoing funding reserve of £23m has been included within the technical provisions to meet these expenses.

### **Eliminating a shortfall**

Based on the analysis set out above, the Scheme was fully funded as at 5 April 2006 on any discount rate which had an associated confidence level of 84% or less. As such, no recovery plan is required at this time.

### **Frequency of valuations**

The Scheme's first actuarial funding valuation under the Pensions Act 2004 is being completed as at 5 April 2006. In the normal course of events, the Trustee will request subsequent funding valuations three years after the preceding one. The Actuary will also provide an estimate of the up-to-date financial position of the Scheme as at each 5 April between valuations relative to both the Statutory Funding Objective and the solvency liabilities.

### **Arrangements for other parties to make payments to the Scheme**

There are no arrangements for a person other than the participating employers or members of the Scheme to contribute to the assets held by the Scheme.

### **Paying funding surpluses to the employer**

The rules do not permit funding surpluses to be paid to the employers, unless the Scheme is being wound up, all entitlements have been secured in full and the Trustee has increased all or any benefits or provided additional benefits to the extent that they consider appropriate.

### **Cash equivalent transfer value calculations**

The Trustee will ask the Actuary to advise it at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

The law permits the Trustee to reduce cash equivalent transfer values paid to members if the Actuary advises that the Scheme's assets are not sufficient to provide them in full to all members, on the method and assumptions adopted for that purpose. Should such a situation arise, the Trustee would consider whether such a reduction would be appropriate in all of the prevailing circumstances. Full transfer values are currently being paid and the Actuary has confirmed that the assets are sufficient to provide them for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

### **Dates of review of this Statement**

This Statement will be reviewed, and if necessary revised, by the Trustee either

- within 15 months of the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has
  - used its powers to modify future accrual of the Scheme; or
  - directed as to the manner in which technical provisions are to be calculated or the period over which failure to the statutory funding objective is to be remedied; or
  - imposed a schedule of contributions.

The Trustee may also elect to review, and if necessary revise, the statement at other times.

### **Mortality before retirement**

Assumed to follow standard tables AM92ULT for males and AF92ULT for females. Sample death rates are as follows:

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**Sample rates per 1,000 members at each age**

<b>Age</b>	<b>Men</b>	<b>Women</b>
25	1	-
30	1	-
35	1	-
40	1	1
45	1	1
50	3	2
55	4	3
60	8	5

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### **Retirement in normal health from active or deferred pensioner status**

All members are assumed to retire at their normal retirement age.

## **Mortality after retirement**

Assumed to follow standard tables PMA92C06 +2.5 for males and PFA92C06 +2.5 for females. Sample death rates are as follows:

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### **Sample rates per 1,000 members at each age**

<b>Age</b>	<b>Men</b>	<b>Women</b>
65	12	9
70	25	18
75	47	32
80	81	54
85	130	88
90	194	133
95	268	191

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### **Allowance for future improvements in post-retirement mortality**

Future improvements in these mortality rates are anticipated by deducting 0.25% per annum from the effective discount rate.

### **Spouses' and dependants' pensions**

The proportion of deceased members assumed to give rise to a spouse's or dependant's pension is 90% for males and females.

### **Age difference between members and dependants**

All members are assumed to have an age difference (male - female) of three years.

### **Allowance for option of members to commute pension for cash at retirement**

Members are assumed to commute the maximum permissible amount of their pension for a tax free lump sum at retirement based on a commutation rate of 12:1.

# Investment report

## General

The Scheme is structured on specialist lines. This means that different investment firms are responsible for each major category of asset, reflecting their particular expertise.

The structure, together with details of the assets held by each manager at 5<sup>th</sup> April 2009, is shown in the table below.

The majority of the assets held by each manager are regarded as being readily realisable – that is, they can be readily sold or disposed of. This is with the exception of infrastructure assets which, we estimate, may take several months to be sold.

Manager	Assets managed	Value at 5 <sup>th</sup> April 2009 (£)
Legal & General Investment Management Ltd	Global Equities (Indexed)	£ 165,068,240
Aberdeen Asset Management Ltd	Bonds	£ 437,429,296
Schroder Investment Management Ltd	Global Equities	£ 57,777,457
Trilogy Global Advisors	Global Equities	£ 56,721,256
Edinburgh Partners	Global Equities	£ 58,901,994
BlackRock Investment Management (UK) Ltd	UK Equities	£ 75,994,290
Macquarie	Infrastructure	£ 46,739,930
State Street Global Advisors	Cash	£ 65,012,671

Source: JPMorgan

As at 5<sup>th</sup> April 2009, the total portfolio was valued at £963m, which compares with £1,128m as at 5<sup>th</sup> April 2008.

Over the one year period to 5<sup>th</sup> April 2009, the Scheme's investment structure was changed following advice from the Scheme's Investment advisors. In particular, BlackRock Investment Management was appointed in April 2008 to manage a UK equity portfolio. Furthermore, in June 2008 the Active Currency mandate with BGI was terminated, with the proceeds transferred to a cash account managed by State Street Global Advisors.

As at 5<sup>th</sup> April 2009 the Scheme's assets were split between the major asset categories as follows:

% Invested in	
18.0	Global Equities (Active)
8.9	UK Equities (Indexed)
7.9	UK Equities (Active)
2.4	Europe (ex UK) Equities (Indexed)
2.9	North American Equities (Indexed)
1.9	Japan Equities (Indexed)
1.0	Asia Pac exJap Dev Equities (Indexed)
45.4	Bonds
4.9	Infrastructure
6.7	Cash

Source: Fund Managers and JPMorgan

The Directors have produced a Statement of Investment Principles, in accordance with the Pensions Act 1995 (the Pensions Act), which reflects revisions to the Pensions Act as required by both the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the statement is available on request.

The Directors' main priority when considering the investment policy is to ensure that the promises made about members' pensions may be fulfilled. To ensure this, investments are spread across the available range, both by type of investment (equities, bonds, property etc.) and geographically. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Scheme.

## The Scheme's investment performance

Throughout the year, the Directors continued to play an active role in monitoring the management and performance of the investments of the Scheme. The Directors participate in an independent investment monitoring service. This service calculates the return achieved over the year and compares it against the benchmark return. The Directors have set their investment target for the overall Scheme by reference to this benchmark return.

The overall target at the end of the period is to exceed the benchmark return by 0.7% a year over rolling three-year periods. However, following a number of changes to the Scheme's investment structure, the overall target is due to be revised.

In the table below we have summarised the investment performance of the Scheme as a whole compared to its benchmark over various periods.

### Investment returns for periods to 31<sup>st</sup> March 2009

<b>1 year (%)</b>		<b>3 years (% p.a.)</b>		<b>Since inception (1.7.95) (% p.a.)</b>	
Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
-12.8	-13.3	-2.4	-2.2	5.7	5.7

Source: JPMorgan and Hewitt

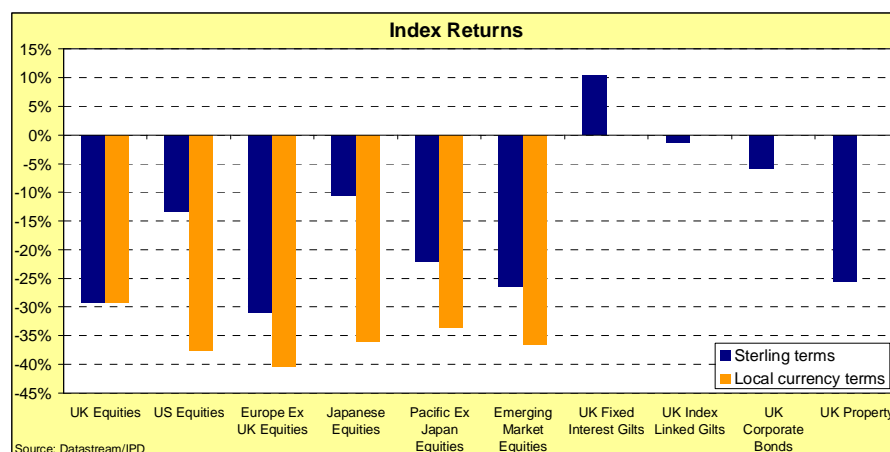
## Custodian arrangements

The Directors have appointed JP Morgan Chase Bank as custodian of the Scheme's assets. The custodian is responsible for the safe keeping of share certificates and other documents relating to the ownership of listed investments. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. Documents relating to unlisted investments, for example properties, are held at the company's Head Office, and are registered in the Scheme's name.

The Directors are responsible for ensuring that the Scheme's assets continue to be securely held. They review the custodian arrangements from time to time and the Scheme Auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

# Investment Market Background

Summary: 12 months to 31 March 2009



## General background

- The financial crisis, accompanied by the onset of a global recession, hurt all risk-bearing asset classes, especially equities. The Financial sector underperformed other sectors in both the equity and credit markets.
- UK equities did not perform as badly as the other regions in local currency terms but relative performance was typically worse in sterling terms.
- Fixed interest gilts was the only major asset class to deliver a positive return, supported by falling interest rates and playing the role of a safe haven for investors avoiding risk-bearing assets.
- Commercial property prices fell sharply. The -25.5% return over the twelve months to 31 March 2009 dragged the IPD Monthly Property Index back to levels last seen in 2004.

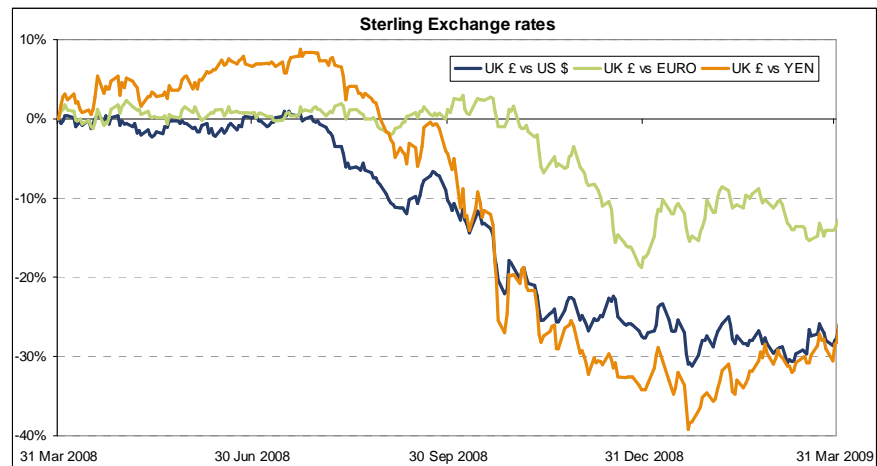
## UK equities

- The twelve month UK equity return of -29.9% meant that the price index at its March 2009 trough was close to 10% off the index's fifteen year low.
- The Financial sector (-55.3%) suffered from large write-downs by banks which forced the government to effectively nationalise several banks and led to fears over the prospects for the entire Financial sector.
- Of the ten major sectors, only the defensive Healthcare sector (+9.7%) posted a positive return. Amongst the 38 sub-sectors, only Nonlife Insurance (+7.5%) and Pharmaceuticals & Biotechnology (+14.3%) delivered positive returns.
- Within the UK market, large cap stocks outperformed mid cap stocks by 5.8% and small cap stocks by 12.3%.

## Overseas equities

- The major regional equity indices experienced similar performances in local currency terms, but US and Japanese equities performed much better in sterling terms due to dollar and yen strength.
- Financial sector losses by high profile companies and the collapse of Lehman Brothers in September 2008 decimated confidence in the Financial sector and contributed to it returning -38.6%.
- As in the UK, of the ten sectors, only the defensive Health Care sector (+9.8%) delivered a positive return. Amongst the 38 sub-sectors, only 5 delivered positive returns.
- Emerging Market equities did not decouple from the developed world, returning -36.5% in local currency terms. Russia (-66.9%) suffered particularly badly.

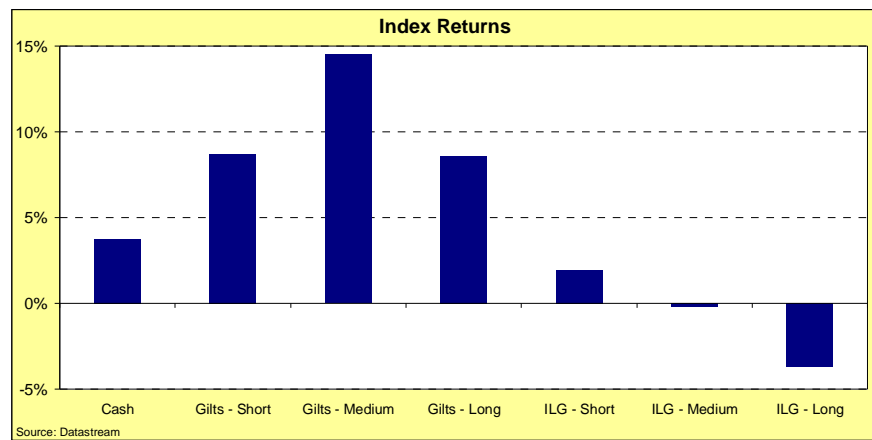
## Currencies and interest rates



- Over the twelve month period, sterling depreciated against the euro (-12.1%) and to a greater extent against both the US dollar (-25.5%), and the yen (-25.4%) as concerns over the UK economic outlook and the UK's exposure to the credit crisis took their toll.
- The US, Eurozone, and the UK central banks cut interest rates by 2.0%, 2.5% and 4.75% respectively to combat their recessions.
- Official short term interest rates are now at record lows in the Eurozone (1.5%), UK (0.5%) and US and Japan (both close to 0%).

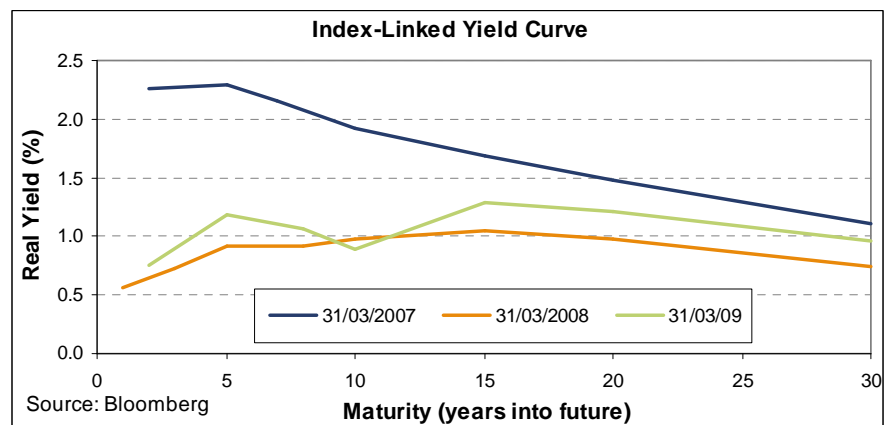
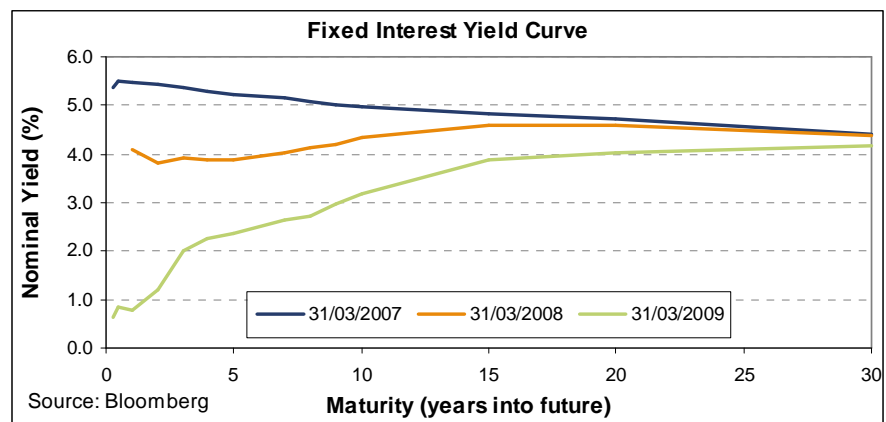
## Gilt returns and yields

### Overall gilts market

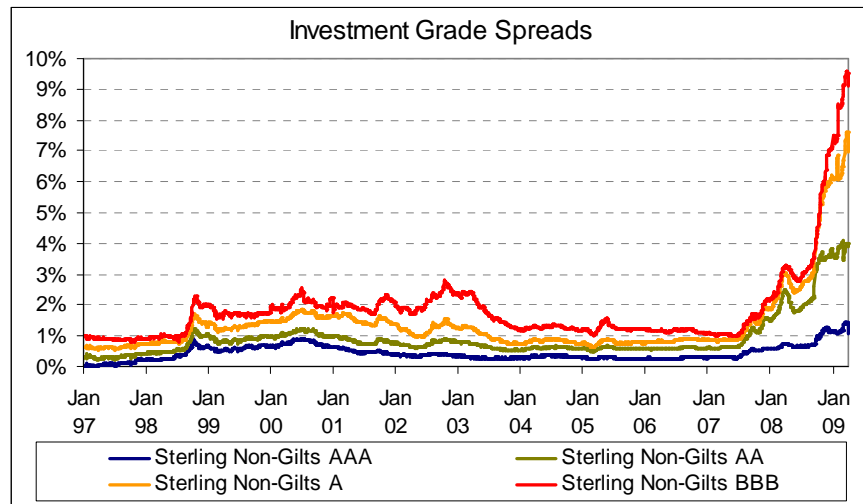


- Newsflow relating to new gilt issuance and quantitative easing, as well as the ever-changing inflation outlook, all contributed to volatility in the gilt market increasing markedly over the period.
- Fixed interest gilts outperformed index-linked gilts due to falling inflation expectations and their safe haven status for investors.
- Short dated gilts performed well due to interest rates falling by 4.75% to 0.5% and medium dated gilts benefited from their safe haven status for investors avoiding risk-bearing assets.

### Fixed interest and index-linked yield curves



## Corporate bonds



- Spreads – the difference between the yields on non-government bonds and equivalent maturity government bonds – ballooned past previous record highs due to forced sales by investors and fears over companies defaulting on their debt.
- Spreads on the lower rated issues increased by much more than spreads on their higher rated counterparts. For example, spreads increased by 5.8% on BBB rated issues, but only by 0.3% on AAA rated issues.

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

### Employers operating the Scheme

Employers operating the Scheme at 6 <sup>th</sup> April 2008	709
Add new employers	21
Delete employers ceasing to operate the Scheme	59
Employers operating the Scheme at 5 <sup>th</sup> April 2009	671

### Employee members

The number of employee members in the Scheme as at 6<sup>th</sup> April 2008, as compared with the previous year, is given below. The number for the year to 5<sup>th</sup> April 2009 will not be available until the Scheme has received and processed all annual returns for that year from firms operating the Scheme.

<b>As at 6<sup>th</sup> April</b>	<b>2008</b>	<b>2007</b>
Employee members in contributing employment during the year	6,480	6,660
Employee members <i>not</i> in contributing employment during the year	23,179	23,036
Totals	29,659	29,696

### Beneficiaries

The number of beneficiaries from the Scheme for the year to 5<sup>th</sup> April 2009, as compared with the previous year, is given below:

<b>Year to 5<sup>th</sup> April</b>	<b>2009</b>	<b>2008</b>
<i>Lump sum payments during the year</i>		
Death in service	11	12
Retirement	577	461
Commuted pensions (small pensions paid out in a lump sum)	71	64
<i>Beneficiaries receiving regular payments at the year end</i>		
Pensioners	6,293	5,897
Widows	2,335	2,245
Children	15	16

### Accounts and statistics

Extracts from the Annual Accounts for the year to 5<sup>th</sup> April 2009 as compared with the previous year, are given on page 25.

The Accounts have been prepared and audited in accordance with the Pensions Act 1995. Full copies of the Accounts are available on request from the Administration Department.

### Trust Deed and Rules and explanatory booklets

Copies or extracts of the Trust Deed and Rules are available, on request, to any participating employer or employee member. As the Trust Deed and Rules are highly

technical, explanatory booklets are sent to employers and employee members. More copies are available on request. The booklets summarise the terms of the Scheme for both employers and employees.

For more information about the Scheme or a copy of the full financial statements, please contact: The Pensions Manager, Plumbing Pensions (UK) Ltd, 4 Walker Street, Edinburgh EH3 7LB. Tel: 0131 225 2255.

Plumbing and Mechanical Services (UK) Industry Pension Scheme

**Plumbing and Mechanical Services (UK) Industry Pension Scheme**

**Summarised Financial Statements**

Fund Account, year ended 5<sup>th</sup> April 2009

	2009 (£)	2008 (£)
Contribution and benefits		
Contributions receivable	17,447,385	18,368,806
Transfers in	152,302	383,305
	17,599,687	18,752,111
Benefits	29,075,106	25,625,418
Payments to and account of leavers	464,428	549,164
Administrative expenses	2,065,110	2,112,370
	31,604,644	28,286,952
Net withdrawal from dealings with members	(14,004,957)	(9,534,841)
Returns on investments		
Investment income	29,806,066	24,938,107
Change in market value of investments	(178,272,930)	(25,927,282)
Investment management expenses	(2,818,607)	(2,794,466)
Net returns on investments	(151,285,471)	(3,783,641)
Net (decrease)/increase in the fund during the year	(165,290,428)	((13,318,482))
Net assets of the scheme:		
At 6 April 2008	1,132,043,160	1,145,361,642
At 5 April 2009	966,752,732	1,132,043,160

Net Assets Statement, year ended 5<sup>th</sup> April 2009

	2009 (£)	2008 (£)
Investments		
Fixed interest securities	255,010,222	218,902,346
Equities	243,049,793	213,112,749
Index-linked	161,859,981	210,070,067
Pooled Investment	253,316,491	364,146,601
Currency Contracts	(930)	-
Other Investments	25,653,117	34,018,618
Property	-	725,000
Cash Deposits	17,799,939	81,875,013
Receivables/Payables	6,960,456	5,842,506
	963,649,069	1,128,692,900
AVC Investments	3,579,167	3,930,469
Current assets and liabilities	(475,504)	(580,209)
Net assets of the Scheme at 5 April 2009	966,752,732	1,132,043,160

## **Trustee's Statement on Summarised Financial Statements**

The summarised financial statements set out on page 25 have been extracted from the full financial statements which were approved on 16th September 2009 and do not constitute The Plumbing and Mechanical Services (UK) Industry Pension Scheme's statutory financial statements. The full financial statements have been audited and the auditors' opinion was unqualified. The auditors' statement about contributions was qualified.

During the year there were 1,015 occasions totalling £1,804,589 where members' contributions were not received by the scheme within the timescales set out in the schedule of contributions certified by the actuary dated 4 June 2007. The breaches are monitored by the Plumbing and Mechanical Services (UK) Industry Pension Scheme and have been notified to The Pensions Regulator as appropriate.

These summarised financial statements may not contain sufficient information to allow for a full understanding of the financial affairs of The Plumbing and Mechanical Services (UK) Industry Pension Scheme. For further information the full financial statements, the auditors report on these financial statements and the report of the trustees should be consulted. Copies of the full financial statements can be obtained from The Pensions Manager, Plumbing Pensions (UK) Limited, 4 Walker Street, Edinburgh, EH3 7LB.

Approved by the Board of Directors of Plumbing Pensions (UK) Limited acting as sole Trustee of the Scheme on 16th September 2009 and signed on behalf of the Board of Directors by:-

\_\_\_\_\_ - Director – J Allott

\_\_\_\_\_ - Director – A Beaumont



**INDEPENDENT AUDITORS' STATEMENT TO THE TRUSTEE OF  
THE PLUMBING AND MECHANICAL SERVICES (UK) INDUSTRY PENSION  
SCHEME**

We have examined the summarised financial statements of The Plumbing and Mechanical Services (UK) Industry Pension Scheme.

**Respective responsibilities of trustees and auditors**

The trustee is responsible for preparing the summarised financial statements in accordance with the recommendations of the Pensions SORP.

Our responsibility is to report to you our opinion on the consistency of the summarised financial statements with the full financial statements and Trustee's Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summarised financial statements.

**Basis of opinion**

We conducted our work in accordance with Bulletin 2008/3 "The auditors' statement on the summary financial statement" issued by the Auditing Practices Board for use in the United Kingdom.

**Opinion**

In our opinion the summarised financial statements are consistent with the full financial statements and the Trustee's Annual Report of The Plumbing and Mechanical Services (UK) Industry Pension Scheme for the year ended 5 April 2009.

**CHIENE + TAIT**  
**Chartered Accountants and Registered Auditors**  
**61 Dublin Street**  
**Edinburgh EH3 6NL**

16 September 2009

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

### Plumbing and Mechanical Services (UK) Industry Pension Scheme

#### Areas in which the Fund is invested

<b>Fixed Interest</b>		
UK Public sector	£9,598,800	1.0%
UK Corporate	£113,188,464	11.7%
Overseas Public sector	£67,303,293	7.0%
Overseas Corporate	£64,919,665	6.7%
<b>Equities</b>		
UK	£83,328,466	8.6%
Overseas	£159,721,327	16.6%
<b>Index Linked securities</b>		
UK	£161,859,981	16.8%
<b>Pooled Investment vehicles</b>		
Overseas	£102,914,957	10.7%
Unit Trust	£150,401,534	15.6%
<b>Other investments</b>	£25,653,117	2.7%
<b>Currency Contracts</b>		
Currency receivable	£55,027	0.0%
Currency Payable	(£55,957)	0.0%
<b>Cash deposits and accruals</b>		
Sterling	£16,160,259	1.7%
Foreign currency	£1,639,680	0.2%
Accruals	£6,960,456	0.7%

**Note:** There are also investments in Additional Voluntary Contributions with Prudential, totalling £3,579,167.

#### Additional information

You should also be aware of the following information, which the Scheme must publish under the Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 1992.

- All benefits paid as a result of membership of the Scheme are provided from its assets. This is why the contribution rates shown and the Scheme's funding level is subject to regular reviews. Participating employers intend to maintain the funding level at a rate that is appropriate to pay the benefits described in the Scheme Guide, but they have no contract to pay benefits if the Scheme's resources cannot do so.

- All lump sum death-in-service benefits are payable at the discretion of the Trustee Company. This means they will not form part of members' estates for tax purposes.
- All assets of the Scheme are invested in accordance with the 1992 Self-Investment Regulations.
- As required by the Pensions Act 1995, the Scheme has an internal procedure for resolving any disputes. This is a two-stage process. In the first instance, you must address your complaint to the Pensions Manager at 4 Walker Street, Edinburgh EH3 7LB, and he will refer it to a sub-committee of the Trustee Board. In normal circumstances, you will receive a full response within two months. If you are dissatisfied with this response, you will be entitled to refer the matter directly to the Trustee Board within six months of receiving it. The Trustee will then reply directly to you, within three months, where possible.
- Plumbing and Mechanical Services (UK) Industry Pension Scheme is approved by the Inland Revenue Share Scheme and Pensions Office under reference SF19/20555.

It is hoped that any dispute will be sorted out by the Pensions Manager or the Trustee. If not, you may contact the Pensions Advisory Service (TPAS) or the Pensions Ombudsman.

## Plumbing and Mechanical Services (UK) Industry Pension Scheme

- The Pensions Advisory Service Limited (TPAS) is available to help members and beneficiaries with any difficulties they have not resolved with the Trustee Company. TPAS can be contacted at:  
**11 Belgrave Road, London SW1V 1RB Tel: 0845 6012923 or by email: enquiries@pensionsadvisoryservice.org.uk**
- If TPAS cannot resolve a problem, you can apply to the Pensions Ombudsman for an adjudication. He is able to investigate and rule on any complaint or dispute of fact or law in relation to the Scheme.

He may be contacted at the same address as TPAS, but his telephone number is 0207 8349144 and by email: enquiries@pensions-ombudsman.org.uk

- The Pensions Regulator (TPR) can intervene in the running of the Scheme where the Trustee, Employers or professional advisers have failed in their duties and in other circumstances. TPR can be contacted at:  
**Napier House, Trafalgar Place, Brighton BN1 4DW Tel: 0870 6063636 or by email: customersupport@thepensionsregulator.gov.uk**
- The Scheme has sent information about the Scheme and a list of employers associated with it to the Registrar of Occupational and Personal Pension Schemes in accordance with the Register Regulations.