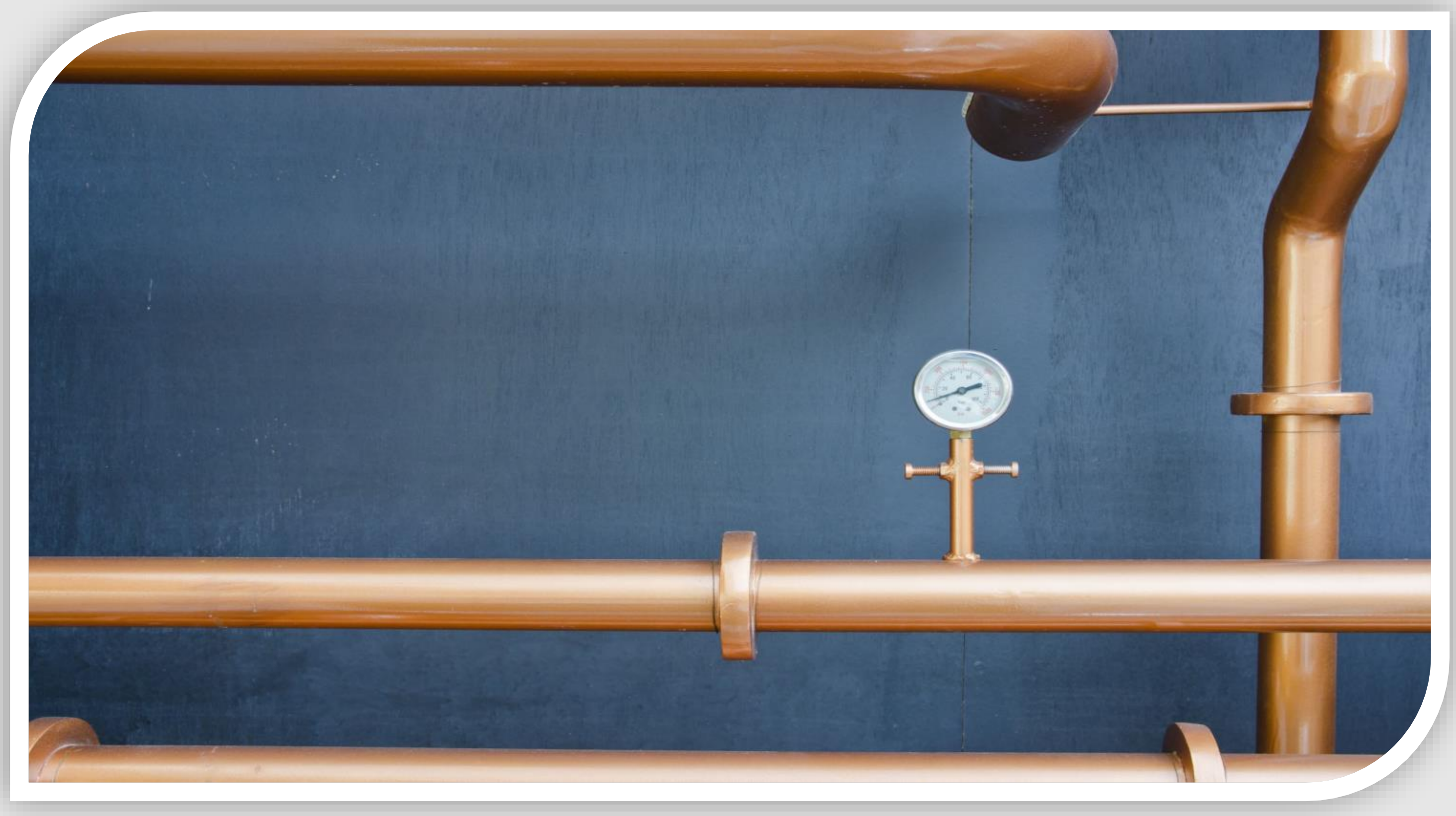
Plumbing Pensions



Plumbing & Mechanical Services (UK) Industry Pension Scheme

Report & Financial Statements
for year ended 5 April 2021

Scheme Registration No. 10116577

Plumbing & Mechanical Services (UK) Industry Pension Scheme

Year ended 5 April 2021

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Management and Advisors

Scheme Registration Number
10116577

Trustee
Plumbing Pensions (UK) Ltd

Trustee Directors:

Independent Directors
KB Independent Trustees Ltd, represented by Jon Bridger (Chairman from 28 September 2020)
Alan Pickering CBE (Chairman until 23 September 2020)

Employer Directors
Susan Andrews (appointed 21 September 2021)
Andrew Beaumont (resigned 15 July 2021)
Richard Frew (resigned 29 May 2020)
Garry Forster (appointed 24 November 2020)
Silviu (Rudi) Klein (appointed 24 November 2020)
Robert Price MBE

Employee Directors
John Allott
Scott Foley
Steven Syson

Trustee Secretary & Chief Executive
Kate Yates FIA

Actuary
Nicola MacKay FIA, Willis Towers Watson Ltd

Auditor
Grant Thornton UK LLP

Investment Consultant
Aon Hewitt Limited

Banker
Bank of Scotland

Investment Managers
Baillie Gifford
BlackRock Investment Management (UK) Ltd
CBRE Global Investors
DTZ Investments
Insight Investment Funds Management Ltd
Legal & General (Pensions Management) Limited
Macquarie Infrastructure and Real Assets (Europe) Ltd
PIMCO Europe Ltd
Schroder Investment Management Ltd
Veritas Asset Management LLP

Covenant Advisor
Interpath Ltd (from 4 May 2021)
KPMG LLP (until 4 May 2021)

Legal Advisors
Linklaters LLP
Pinsent Masons LLP

Custodian of Assets
JP Morgan Chase Bank

Annuity Provider
Legal & General Assurance Society Ltd

Scheme Administrator
Plumbing Pensions (UK) Administration Ltd
Bellevue House
22 Hopetoun Street
Edinburgh
EH2 4SB

If you require further information about this report please contact:
Trustee Secretary
Plumbing Pensions (UK) Ltd
Bellevue House
22 Hopetoun Street
Edinburgh EH7 4GH
Email: info@plumbingpensions.co.uk
Website: www.plumbingpensions.co.uk

Chairman's Introduction

On behalf of the Trustee Board, it gives me great pleasure to present the Annual Report and Financial Statements for the Plumbing & Mechanical Services (UK) Industry Pension Scheme ('the Scheme') for the year ended 5 April 2021.

It has been an extremely challenging year and the COVID-19 pandemic tested our resilience in ways few of us could have expected. Our thoughts go out to all those who have suffered from the pandemic. We responded with speed and agility to keep paying the pensions which our members rely on. The administration team was able to operate close to normal with most staff working remotely from home, except for two employees who provided business critical on-site support. The Board has closely monitored the Scheme's funding position, investment strategy and employer covenant during the crisis and followed guidance from the Pensions Regulator and the Pensions Administration Standards Association ("PASA").

The year was a volatile period for investment markets with the COVID-19 pandemic and Brexit uncertainty, and the Scheme assets achieved an investment return of 1.9% versus the benchmark return of 2.0%. Over a three-year period, the Scheme's investment return was 6.3% pa versus the benchmark return of 4.8% pa. The Board has adopted a low risk investment strategy in order to protect the security of members' benefits. Further information about the Scheme's investments can be found in the Investment Report and the Notes to the Financial Statements.

During the year, the actuary carried out the formal triennial funding valuation as at 5 April 2020, which showed that the Scheme's assets covered 99% of the liabilities. As there was a shortfall of £31 million, the Trustee consulted the Principal Employer, constituent bodies and employers on a Recovery Plan to remove the shortfall by November 2027 through the assumed outperformance of the Scheme's assets relative to the prudent investment return assumed by the actuary. We also agreed a new long-term objective for the Scheme to secure members' benefits in full through an appropriate external vehicle. The Trustee is working with its professional advisers and the constituent bodies to document how we plan to achieve this objective at the earliest opportunity without taking excessive risk. Further information about the Scheme's long-term objective will be shared with members and employers during the coming year.

Until recently, the Scheme has had difficulty calculating section 75 employer debts when employers leave the Scheme. The actuary can now calculate debts, although many employers choose to use one of the legal easements as an alternative to paying the debt. The Trustee Company has petitioned the Scottish Court to check whether it can rely on the indemnity from the Scheme. The Trustee needs to know whether it can use Scheme funds to pursue employers who have refused to pay a section 75 employer debt and defend itself in any case brought against it. The petition was delayed by the pandemic but was finally heard in July 2021. At the time of finalising the annual report, the court has confirmed that the petition is competent and issued a note to explain its reasons for declining to give directions at the current time. The Trustee Company is taking legal advice on how to proceed.

In 2020 we began a significant project to review and modernise the Scheme's governance structure. We always remain aware that the Scheme covers a wide range of employers, from the very large to the very small, so the governance review aims to deliver a high quality cost effective service and ensure there is appropriate representation for all employers. We plan to consult members and employers on the governance proposals in the autumn of 2021.

We continued the project to equalise the Scheme's GMP benefits following the October 2018 and November 2020 High Court rulings. This is a significant project as it requires the wholesale review of the Scheme's data and it is likely to take some time to complete. The 2020 actuarial valuation included a reserve for the expected impact of the GMP benefit changes. Further information is included in note 30 to the Financial Statements.

Chairman's Introduction (continued)

On behalf of the members, employers and my fellow Trustee Directors, I would like to thank Richard Frew and Andrew Beaumont who resigned as Trustee Directors on 29 May 2020 and 15 July 2021 respectively. I would also like to thank Alan Pickering CBE who remains on the Board but stepped down as Trustee Chairman on 23 September 2020 after 19 years at the helm. I am pleased to announce that Garry Forster and Silviu (Rudi) Klein were appointed as Trustee Directors on 24 November 2020, and Susan Andrews on 21 September 2021. I would also like to take this opportunity to thank all the Trustee Directors who served during this difficult and challenging year.

The demands on Trustee Directors' time increased significantly as the Board ensured the pension scheme was managed effectively during the pandemic and oversaw the significant projects underway. Finally, I would like to thank our hardworking staff and external advisers.

As we look ahead to 2022 and beyond, we remain committed to ensuring members and their beneficiaries receive the benefits they have been promised.

Jon Bridger

Jon Bridger, KB Independent Trustees Ltd
Chairman of the Trustee Company

Date: 30/9/2021

Trustee's Report

Governance of the Scheme

How the Scheme is run
The Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Scheme") was established in 1975 and is registered under the Finance Act 2004. It offers career average defined benefits on retirement and death to employees in the plumbing and mechanical services industry in the United Kingdom. The industry wide nature of the Scheme allowed employees to change employers while remaining in the same pension scheme.

The Scheme is managed and administered by the Trustee Company, Plumbing Pensions (UK) Limited, on behalf of members and in accordance with the terms of the Scheme Rules and relevant legislation. Details of the Trustee Directors are given on page 1. The Trustee Company is a 'not for profit' company, limited by guarantee. It does not pay dividends and it only incurs and recharges costs associated with the day to day running of the Scheme.

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee Company as a corporate trustee. The Trustee Company has overall fiduciary responsibility for the effective operation of the Scheme including administration of benefits, collection of contributions (if required), payment of pensions and other benefits and the investment and safe custody of the Scheme's assets. The Trustee must act fairly in the interests of all members, beneficiaries and employers.

The Scheme is a registered pension scheme under section 153 of Part 4, Chapter 2 of the Finance Act 2004 and is therefore exempt from Income Tax and Capital Gains Tax.

To help the Trustee, there is a secure online web-portal which provides one easily accessible place for information relevant to their Trustee role, such as key Scheme documents, training materials and meeting papers.

Appointment and nomination of Directors of the Trustee Company
Directors of the Trustee Company are currently appointed by three constituent bodies. The Association of Plumbing and Heating Contractors Ltd (the APHC) and the Scottish and Northern Ireland Plumbing Employers' Federation (SNIPEF) each nominate two Directors. Unite the Union nominates three Directors. Responsibility for nominating and removing Directors rests with the three constituent bodies. The Trustee Company appoints two non-voting independent Directors, one of whom has been nominated to be the independent Chairman.

Trustee Board
The Board has authority for all aspects of management and strategy of the Scheme including funding, investment, audit, administration and communications. The Board meets regularly throughout the year. The Board has a three-year business plan to ensure it meets its statutory obligations and operates the Scheme effectively.

The Board provides regular reports of meetings to the three constituent organisations, the APHC, SNIPEF and Unite the Union. None of the Trustee Directors act on behalf of the constituent bodies in relation to the Scheme during Board meetings.

Trustee's Report

Governance of the Scheme (continued)

Trustee Board Meetings
During the year, 20 Board meetings were held. The table below shows the Trustee Directors' attendance.

	Board meetings attended	Board meetings eligible to attend
Mr J Bridger – Chair (Independent)	20	20
Mr J Allott	20	20
Mr A Beaumont	20	20
Mr S Foley	7	20
Mr G Forster	7	7
Mr R Frew	3	3
Mr S Klein	7	7
Mr A Pickering CBE (Independent)	19	19
Mr R Price MBE	19	20
Mr S Syson	19	20

Changes to the Trustee Board
Garry Forster and Silviu (Rudi) Klein were appointed as Directors of the Trustee Board with effect from 24 November 2020. They replaced Douglas Blackhall who resigned from the board with effect from 28 May 2019 and Richard Frew who resigned with effect from 29 May 2020. Alan Pickering ceased to be Chair from 23 September 2020. Jon Bridger of KB Independent Trustees Ltd was appointed Chair with effect from 28 September 2020. Susan Andrews was appointed as a Director of the Trustee Board on 21 September 2021, replacing Andrew Beaumont who resigned with effect from 15 July 2021.

Audit, Risk and Governance Committee
The Trustee Board has delegated some powers and responsibilities to the Audit, Risk and Governance Committee. The Committee's key responsibilities are outlined in a Terms of Reference document, which is reviewed annually. The Audit, Risk and Governance Committee consists of one representative from each of the Scheme's constituent bodies plus both Independent Trustee Directors. The Committee meets regularly and submits reports from each meeting to the Board.

GMP Equalisation Steering Group
A High Court judgement in October 2018 ruled that UK pension schemes must equalise the Guaranteed Minimum Pension ("GMP") benefits paid to men and women. A further judgement in 2020 clarified that historical transfer values paid out should also be reviewed. During the year a GMP equalisation steering group was setup to support the Board by providing oversight, support, guidance and strategic direction for the GMP reconciliation, rectification and equalisation project and associated data work. Terms of reference have been agreed for the steering group, which consists of the Chairman, a Trustee Director and two employees from the Executive Team.

Trustee Training
The Pensions Act 2004 requires pension trustees to have sufficient knowledge and understanding to carry out their role effectively. The Trustee recognises the importance of good and timely training to ensure the Scheme is well managed.

All the Trustee Directors have the knowledge and skills to carry out the role effectively. On appointment, new Directors receive induction training and a pack containing key information about the Scheme. Ongoing training sessions are arranged as part of the programme of Directors' meetings, which includes an annual Trustee training event. Records of training are kept for each Trustee Director.

Trustee Directors receive a quarterly update of current issues relating to pensions and details of relevant training opportunities. All the Trustee Directors have completed the e-learning Trustee Toolkit developed by the Pensions Regulator.

Governance of the Scheme (continued)

Trustee Training (continued)
During the year, a training day was held for the Trustee and representatives from the Constituent Bodies to learn about end-game options with a view to formulating a long-term journey plan for the Scheme. This included sessions about 'buy-in' and 'buy-out', the new pension scheme consolidator market and a capital solution.

Conflicts of Interest
A conflicts of interest policy is in place to help the Trustee identify, manage and monitor any conflicts of interest (actual or potential) which may arise in relation to the Scheme.

On appointment, each Trustee Director completes a declaration of their conflicts of interest and these are recorded in a conflict of interest register which is reviewed quarterly and approved at least annually by the Trustee Board. Conflicts of interest is an agenda item at the beginning of each Trustee meeting to ensure that conflicts are noted, properly identified and managed as they arise.

The Scheme operates an Alternate Trustee system, whereby if a Trustee Director is unable to attend a meeting or is too conflicted to participate in all or part of a meeting, he may withdraw and be replaced by an Alternate Trustee.

Governance Review
In August 2020, the Trustee Board and the three constituent bodies (APHC, SNIPEF and Unite the Union) commissioned an independent review of the Scheme's governance arrangements. The review covered the Scheme's complete governance structure, including employer representation, the Trustee Board and the Administration Company.

The consultants presented their findings to the Trustee Board and the constituent bodies in November 2020. Their report contained around fifty recommendations, which the four parties have considered in detail to find practical solutions to implement. The existing governance rules require unanimous agreement from all four parties. Once agreement has been reached, the Trustee Board will run a consultation exercise involving all the employers and members of the Scheme.

The outcome of the consultation process will depend on the issues raised, which will dictate whether any further review is required before work to implement the new governance structure can begin. All four parties remain committed to improving the Scheme's governance structure but it is difficult to say with certainty what the implementation timetable will be.

Risk Register
The Trustee has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level taking note of the guidance within the Pension Regulator's Code of Practice on Internal Controls.

The objective of the Trustee's risk register is to record and take actions to limit the exposure of the Scheme, and the assets that it is responsible for safeguarding, to business, financial, operational, compliance and other risks. The risk register provides a framework for managing risk on a day-to-day basis and is reviewed regularly by management and quarterly by the Trustee. During the year, a fundamental review of the risk register was carried out.

Member Disputes
The Scheme has a two stage internal disputes resolution procedure (IDPR) for members. The first stage is determined by a sub-committee of the Trustee Board. If the complainant is not satisfied with the way their complaint has been handled or the decision, an appeal may be made to the Trustee Board to consider the matter. During the year, one first stage dispute arose, which was not upheld.

Governance of the Scheme (continued)

Employer Disputes
The Scheme also has a two stage IDRP for participating employers. The first stage is determined by the Chief Executive. If the complainant is not happy with the way their complaint has been handled or the decision, an appeal may be made to a sub-committee of the Trustee Board. During the year one employer complaint was received and upheld. An employer dispute that was escalated to the Pensions Ombudsman in the 2018/19 financial year was partly upheld. The Trustee does not accept the Ombudsman's finding but considered that an appeal to the court would not be an appropriate use of Scheme resources. An employer complaint that was escalated to the Pensions Ombudsman in the 2019/20 financial year is still awaiting a decision.

Membership
The Scheme closed to new employers in March 2014 but remained open until 30 June 2019 to new members from existing participating employers and for new employers linked to existing participating employers, for example following a business restructure. From 1 July 2019 the Scheme has been frozen, which means members no longer build up future benefit accrual and employers do not build up further pension liabilities in the Scheme.

	Deferred Members	Pensioners	Beneficiaries	Total
At 6 April 2020	20,471	10,050	2,971	33,492
Restatement	74	-	-	74
At 6 April 2020	20,545	10,050	2,971	33,566
Adjustments	(11)	(3)	10	(4)
Retirals	(520)	520	-	-
New dependants	-	-	161	161
Members leaving with refunds	(16)	-	-	(16)
Members leaving with trivial commutations	(138)	(4)	-	(142)
Deaths	(109)	(404)	(194)	(707)
Transfers out	(50)	-	-	(50)
At 5 April 2021	19,701	10,159	2,948	32,808

Opening deferred members have been restated to include 74 staff members previously excluded from the membership reconciliation. Adjustments relate to timing differences when member reports are prepared.

The Scheme has a bulk annuity policy held with Legal & General Assurance Society Ltd for the benefit of 10,414 pensioners and dependants as at 5 April 2021 (2020: 10,914).

As at 5 April 2021, there were 399 employers including 15 employers who were in a deferred debt arrangement when the Scheme closed to future accrual on 30 June 2019. Over the year to 5 April 2021, one solvent employer wound up, nine employers entered insolvency, four employers were granted a Flexible Apportionment Arrangement and, as a consequence, three new employers were admitted to the Scheme.

Membership data
The Scheme takes protecting member data very seriously. New IT policies were implemented for staff working at home during the year, and the Administration Company's IT systems were reviewed by an independent cyber security expert to identify any system, network and application vulnerabilities which could lead to a loss of data integrity or unauthorised access. The Scheme also retained its 'IASME Gold' and 'CyberPlus' accreditation.

Trustee's Report

Governance of the Scheme (continued)

Membership data (continued)
The Scheme administrators continue to reconcile the Guaranteed Minimum Pension (GMP) data the Scheme holds against records held by HM Revenue & Customs (HMRC) and review the administration data held to verify that the members' pension credits are present and correct. These are the first steps in a wider project to equalise GMPs for men and women.

Contributions
There were no normal contributions due to the Scheme during the year, as the Scheme has closed to benefit accrual.

Pension increases
Pensions in payment increases are granted each 5 April, with increases being paid from 1 May. The increase rate depends on when members' contributions were made:

- There is no obligation to provide increases in respect of contributions before 6 April 1997[1].
- For contributions between 6 April 1997 and 5 April 2005, the lesser of 5% and the rise in Consumer Price Inflation (CPI) is awarded.
- For contributions after 5 April 2005 the lesser of 2.5% and the rise in CPI is awarded.

The pension increase paid from 1 May 2021 in respect of contributions between 6 April 1997 and 5 April 2005 was 0.5% and the pension increase paid in respect of post 6 April 2005 contributions was 0.5%. No increase was paid in respect of contributions before 6 April 1997[1].

For members who have not yet retired, each member's pension credit is revalued annually. Revaluation for pension built up before 6 April 2004 increases in line with national average earnings. Pension built up from 6 April 2004 increases in line with Retail Price Inflation (RPI) with the exception of any period of service on the 2017 Benefit Scale, when the revaluation rate is in line with CPI.

The revaluation rates applied from 6 April 2021 were as follows:

4.0% for pension credit built up before 6 April 2004
1.1% for pension credit built up after 6 April 2004 (excludes the 2017 Benefit Scale)
0.5% for pension credit built up after 6 April 2017 on the 2017 Benefit Scale

None of the increases were discretionary.

Transfer values
Members who leave service or who opt out of the Scheme can choose to transfer the value of their benefits to an approved pension arrangement. The Scheme confirms that all transfer values are calculated and verified in the way prescribed by regulations under the Pensions Act 1995. Transfer values are calculated using tables supplied by the Actuary and allow for the full value of a member's preserved benefits. No allowance is made for discretionary increases or bonuses.

Administration
Plumbing Pensions (UK) Administration Limited is the Scheme's Administration Company. Staff involved in running the Scheme, including the Trustee Secretary, are employed by the Administration Company. The Scheme bears all costs associated with running the Administration Company.

Financial statements
The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under section 41 (1) and (6) of that Act.

[1] Other than the statutory requirement to increase GMP pensions

Trustee's Report

Governance of the Scheme (continued)

Section 75 employer debt
Section 75 employer debt legislation is a complex piece of pensions law which requires employers withdrawing from the Scheme to pay an exit charge called a section 75 employer debt, which can be significant. The Trustee has undertaken an extensive project to consult employers, extract the membership data required and agree a fair method to calculate and apply section 75 employer debt legislation for employers that cease to participate in the Scheme.

The Trustee has lobbied government officials to change employer debt legislation to make it fairer for the Scheme, which is nearly unique in the size of its orphan liabilities that more than double the debt an employer must pay. Orphan liabilities are pension liabilities in respect of members who worked for an employer that no longer participates in the Scheme. The Government has made it clear it has no intention to change the law. The Trustee has no choice and must pursue employers for payment of their section 75 debts because member benefits would be put at risk if it did not do so. Closing the Scheme to future benefit accrual has helped employers because they will not build up any further pension liabilities and closure removed one of the most common employer debt triggers. From 1 July 2019, an employer debt is only triggered if an employer tells the Trustee it wishes to trigger its debt, a solvent employer passes a resolution to voluntarily wind up, an employer suffers an insolvency event or the Scheme winds up.

During 2019, the Scheme issued debt notices to employers that had triggered a section 75 employer debt where the Trustee considered it economic to pursue such a debt. The Trustee does not calculate or pursue an employer debt where the cost to do so is considered disproportionate from a financial perspective. In many cases, employers that received a debt notice decided to use one of the legislative easements that allow them to defer a debt, transfer the pension liability to another participating employer or pay the debt in stages. For other employers, the debts are unaffordable and a decision has been made to cease trading. The Trustee recognises the significant distress issuing employer debt notices is causing, particularly to small family run firms and unincorporated employers.

The Trustee has a duty to pursue employers for the non-payment of debts. However, before the Trustee commences legal action against employers, it is petitioning the Scottish Court for directions on the availability of the Scheme Rule indemnity. The Trustee's petition was heard by the Scottish Court on 23 July 2021. At the time of finalising the annual report, the court has confirmed that the petition is competent and issued a note to explain its reasons for declining to give directions at the current time. The Trustee Company is taking legal advice on how to proceed.

Trustee's Report

Investment Report

Scheme investment strategy
The Trustee takes an integrated approach to the management of risk and return in the Scheme. The investment of the Scheme's assets is set to be consistent with funding a defined level of benefits within an acceptable level of risk, having regard to the affordability of the Scheme to employers and the funding requirements in the Scheme Rules and relevant legislation.

For the year ended 5 April 2021, the long-term investment strategy and actual asset allocation for the uninsured assets (excluding the bulk annuity policy purchased in June 2017) is set out below:

Asset class	Strategy Weighting %	Actual Allocation %
Public equities	4.0	4.2
Property	3.0	6.9
Illiquid assets	3.0	0.6
Credit	20.0	21.8
Liability Driven Investment	65.0	62.3
Inflation protecting illiquid assets	5.0	2.7
Cash	-	1.5
Total	**100.0**	**100.0**

Over the year the Scheme continued moving towards the investment strategy outlined above. The Scheme gains the vast majority of its public equity exposure through a passive approach managed by Legal & General Investment Management ("LGIM"). In addition, there is a small residual portfolio of equities managed by Baillie Gifford & Co which are gradually being sold.

The Scheme continued to hedge its interest rate and inflation rate exposure through its Bespoke Pooled Liability Driven investment ("LDI") solution also managed by LGIM. Over the year, the Trustee updated its cashflow benchmark and increased its inflation and interest rate hedge to 100% in order to better match the Scheme's liability profile and to reduce volatility in the Scheme's funding level caused by movements in interest rates and inflation.

The Scheme also continued to diversify its risks and sought additional returns through its investment in the two credit mandates managed by Insight Investments ("Insight") and Pacific Investment Management Company, LLC ("PIMCO").

The Scheme's property manager, DTZ, continued to implement a reduction in its portfolio size, towards an agreed £100m target. CBRE Global Investors ("CBRE") continued to manage a pooled fund of long dated property assets with the aim of generating attractive, inflation linked income for the Scheme. The Scheme has a total commitment of £75m to this fund; as of 5 April 2021, £48m in capital had been drawn.

BlackRock Investment Management (UK) Ltd are the cash manager for the Scheme; investing in a money market fund provides the Scheme with greater protection versus holding cash in the Trustee bank account and is interest bearing.

The Scheme has been moving towards the long-term investment strategy over time and in a considered manner, taking into consideration the cost of selling and purchasing assets and market conditions.

As at 5 April 2021, the value of the uninsured assets was £1,709m (2020: £1,720m). The approximate value of the bulk annuity policy was £516m (2020: £498m). Total Scheme assets were £2,225m (2020: £2,218m).

Trustee's Report

Investment Report (continued)

Statement of Investment Principles
The Scheme has a Statement of Investment Principles, as required by the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. The Statement sets out in general terms the policy of the Trustee on a number of investment issues and is available on request from the Trustee Secretary and through the Plumbing Pensions website. The Statement is reviewed regularly and was last updated in July 2020. The Engagement Policy Implementation Statement, referred to in the Statement of Investment Principles explains the extent to which the Trustee has followed its engagement policy and describes the voting behaviour by, or on behalf of, the Trustee during the Scheme year and the use of the services of a proxy voter during that year.

Financially material considerations
The Trustee Directors acknowledge that an understanding of financially material considerations including environmental, social and corporate governance ("ESG") factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustee Directors expect the Scheme's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee Directors are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee Directors will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee Directors will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG on a quarterly basis.
- Regarding the risk that ESG factors including climate change negatively impact the value of investments held if not understood and evaluated properly; the Trustee Directors consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Members' Views and Non-Financial Factors
In setting and implementing the Scheme's investment strategy, the Trustee Directors do not explicitly take into account the views of members and beneficiaries, in relation to ethical views, social and environmental impact matters and present and future quality of life matters (defined as "non-financial factors").

Stewardship – Voting and Engagement
The Trustee Directors recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee Directors recognise that ultimately this protects the financial interests of the Scheme and its beneficiaries and can create long-term financial value.

It is the expectation of the Directors that the Scheme's investment managers will actively monitor for financially material risks within investments made, and provide transparency on engagement with respect to mitigating these risks as appropriate. The transparency offered for engagements should include what the investment manager set out to do and why.

Investment Report (continued)

Stewardship – Voting and Engagement (continued)
The Trustee Directors regularly review the suitability of the Scheme's investment managers and take advice from the Investment Adviser regarding any changes. Where applicable, this advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee Directors expect, the Trustee Directors undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee Directors review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Trustee Directors will review the alignment of the Trustee Directors' policies to those of the Scheme's investment managers and ensure the managers, or other third parties, use their influence as major institutional investors to carry out the Trustee Directors' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee Directors will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee Directors may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest. Where such a concern is identified, the Trustee Directors will engage with the Investment Adviser to consider the methods by which, and the circumstances under which, they would monitor and engage an investment manager and other stakeholders.

Arrangements with investment managers
The Trustee Directors monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee Directors' policies.

Where the Scheme invests in funds that are regularly reviewed by the Trustee Directors' Investment Adviser, the Trustee Directors use conclusions drawn from this assessment on a quarterly basis to determine whether the fund and investment manager remain suitable.

The above monitoring includes the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee Directors receive at least quarterly reports and verbal updates from the Investment Adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee Directors focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives, and assess the investment managers over the long-term.

In line with the required actions from the Pensions Regulator, on an annual basis the Trustee Directors will produce an Engagement Policy Implementation Statement ("EPIS"). A copy of the latest EPIS is included on page 49 and forms part of this Report.

The Trustee Directors share the policies, as set out in this SIP, with the Scheme's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Board's policies.

Trustee's Report

Investment Report (continued)

Arrangements with investment managers (continued)
Before appointment of a new investment manager, the Board reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Board's policies. Where possible, the Trustee Directors will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Board will express their expectations to the investment managers by other means (such as through a side letter, in writing or verbally at Board meetings).

The Board believes that having appropriate governing documentation, setting clear expectations to the investment managers (where possible), and regular monitoring of investment managers' performance and investment strategy, is sufficient to incentivise the investment managers to make decisions that align with the Trustee Directors' policies and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Board's policies, expectations, or the other considerations set out above, the Trustee Directors will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment for all investment managers will be reviewed periodically, and at least every three years. Where the Scheme holds closed ended vehicles, the duration may be defined by the nature of the underlying investments.

Cost monitoring
The Trustee Directors are aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee Directors recognise that in addition to annual management charges, there are a number of other costs incurred by the investment managers that can increase the overall cost incurred by their investments.

The Trustee Directors collect annual cost transparency reports covering all underlying investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Board to understand exactly what it is paying investment managers. The Trustee Directors work with the Investment Adviser and investment managers to understand these costs in more detail where required.

The Trustee Directors are aware of the portfolio turnover costs (portfolio turnover costs are defined as the costs incurred as a result of the buying, selling, lending or borrowing of investments) associated to their underlying investments through the information provided by the investment managers. The monitoring of the target portfolio turnover and turnover range is monitored annually with the assistance of the Scheme's Investment Adviser.

The Trustee Directors accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across different types of investment mandates. A high level of transaction costs is acceptable if consistent with the type of investment mandate and historic trends. Where the Trustee Directors' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee Directors are supported in cost transparency monitoring activity by the Investment Adviser.

The Trustee Directors assess the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on at least an annual basis via collecting cost data in line with the CTI templates.

Trustee's Report

Investment Report (continued)

Investment Performance to 31 March 2021
The Trustee monitors investment performance against the Scheme's strategic investment objectives. Investment reports are prepared quarterly for the Trustee.

The twelve months to 31 March 2021 saw the Scheme's portfolio returning 1.9%, which was 0.1% behind its benchmark.

After severe disruption in global markets in early 2020 from the COVID-19 pandemic, equity markets rebounded in Q2 and Q3 2020 as a slowdown in new cases and the relaxation of lockdown measures resulted in a sharp economic rebound. A second wave outbreak at the onset of winter, however, dampened economic optimism over Q4 2020. Equity markets continued to rally as huge fiscal and monetary stimulus and optimism over COVID-19 vaccine rollouts led to investor willingness to overlook the sharpest economic recession in generations. Heightened political uncertainty around November's US presidential election provided some drag on risk sentiment, but increased expectations of expanded fiscal spending following Joe Biden's victory boosted markets.

Global COVID-19 cases continued to surge in Q1 2021, with many countries going back into lockdown as new virus variants became more virulent. Health concerns also halted the vaccine rollout in some countries whilst supply constraints led to a slower than expected rollout in Europe. However, improving economic data over the quarter in most countries and global vaccination rollouts boosted economic recovery optimism. The MSCI AC World Index rose by 51.1% in local currency terms over the past twelve months and by 38.9% in sterling terms.

UK gilt yields fell to extreme lows in summer 2020 on the back of the pandemic, Brexit uncertainty and increased expectations of a Bank of England rate cut to negative levels. However, yields started to edge up across maturities in Q3 2020 as global risk sentiment improved. In Q1 2021, gilt yields rose sharply on the back of economic optimism in the light of several vaccine discoveries, further fuelled by the new US stimulus package. According to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.5%, whilst index-linked gilts returned 2.3% over the last twelve months.

Credit markets benefited from risk-on investor sentiment over the year, with credit spreads continuing to contract to ever tighter levels. UK investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 111bps lower at 106bps.

UK commercial property returned 2.6% over the period as the income return of 5.6% offset the 2.9% fall in capital values. Virus pressure on the already struggling retail sector meant it returned (5.8%) over the year. The office sector returned (0.8%) over the year, while industrials outperformed with a return of 13.9%.

The table below shows the Scheme's investment returns for the periods to 31 March 2021.

1 year (% p.a.)		3 years (% p.a.)		Since inception (1.7.95) (% p.a.)	
Scheme	Benchmark	Scheme	Benchmark	Scheme	Benchmark
1.9	2.0	6.3	4.8	8.0	7.3

Source: JPMorgan. Gross of fees.
Note: Performance is stated excluding insured part of the portfolio due to unavailability of historic data.

Trustee's Report

Investment Report (continued)

Investment Custodian
The Scheme's segregated assets (excluding property and insurance policies) are registered in the name of the Scheme or are held in safe-keeping with an independent professional custodian, appointed by the Trustee. For the Scheme's pooled fund investments, the Scheme's chosen investment managers appoint a custodian to hold the underlying assets of the fund. For investments which are in the form of insurance policies, the master policy documents are held by the Trustee.

The Trustee's policy is to separate management and custody, to minimise the risk of misuse of Scheme 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 the Scheme's UK property portfolio are held by the Scheme's property lawyers and are registered in the Scheme's name.

There is a lien in place on the funds held with BlackRock Investment Management (UK) Ltd and a floating charge over the unitised funds managed by LGIM. The purpose of these being to offer protection to investors in the event of a failure by the investment manager.

The Trustee reviews the custodian arrangements from time to time. The Auditor is authorised to make whatever investigations of the custodian it deems necessary as part of the annual audit procedure.

Additional Voluntary Contributions (AVCs)
Employee members could make AVCs to secure extra benefits at retirement until the Scheme closed to further accrual as of 30 June 2019. The benefits in relation to AVCs are money purchase, additional benefits and are not in the form of added years. The AVCs are attached to specific members who receive an annual statement of AVCs held.

Trustee's Report

Report on Actuarial Liabilities

A full actuarial valuation of the Scheme is undertaken at least once every three years based on a range of assumptions including future inflation, pension increases, revaluation increases, investment returns and life expectancy. The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective and to determine the appropriate level of contributions (if required). The actuarial valuation is performed on an ongoing basis, which assumes that the Scheme continues to run as it does currently.

The most recently completed formal actuarial valuation was carried out as at 5 April 2020. The 2020 valuation concluded that the Scheme's assets of £2,215 million were slightly lower than the Scheme's technical provisions of £2,246 million equating to a shortfall of £31 million and a funding level of 99%.

A summary of the key assumptions used to calculate the technical provisions as at 5 April 2020 is set out below. The liabilities relating to a significant proportion of the Scheme's pensioner and dependant members are secured with Legal & General via a bulk annuity "buy-in" policy. The value of liabilities for benefits covered by the "buy-in" insurance policy is equal to the asset value of the buy-in policy at the valuation date.

Financial Assumptions		**Single equivalent rate[2] (% pa)**
Discount rate	Willis Towers Watson's GBP zero coupon gilt nominal yield curve plus 0.5%pa at all durations	1.20
Recovery plan investment return	Discount rate plus 0.25%pa at all durations	1.45
RPI inflation	Willis Towers Watson's gilt-based RPI inflation curve	2.70
CPI inflation	RPI inflation curve with a reduction of 1.0%pa to 2030 & 0.5%pa thereafter	1.90
Increases pre-retirement:		
- Credits accrued before 6 April 2004	In line with the RPI inflation curve	3.00
- Credits accrued after 5 April 2004	In line with the RPI inflation curve	2.90
- Credits accrued on the 2017 Benefits Scale	In line with the CPI inflation curve	2.10
Increases post-retirement:		
- Credits accrued before 6 April 1997[3]	Nil	Nil
- Credits accrued between 6 April 1997 and 5 April 2005	CPI inflation curve capped at 5% in each year	1.90
- Credits accrued after 5 April 2005	CPI inflation curve capped at 2.5% in each year	1.80
At 5 April 2020 a reserve of £39m has been included in the technical provisions for the estimated cost of GMP equalisation. No allowance has been made regarding the review of past transfer payments.		
Demographic Assumptions		
Mortality base tables	SAPS 'S3' heavy for males & SAPS 'S3' Dependant for females with Scheme appropriate multipliers	
Future improvements in longevity	CMI 2019 core projections with a 1.5%pa long-term trend, default core smoothing parameter & no initial addition parameter	

[2] Curve-based assumptions expressed as single equivalent rates based on the Scheme's projected cash flows

[3] With the exception of GMP pensions which receive statutory increases in payment. For completeness, statutory post 5 April 1988 GMP increases are set in line with the CPI inflation curve capped at 3% in each year.

Report on Actuarial Liabilities (continued)

The technical provisions for the Scheme are 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.

As there were insufficient assets to cover the Scheme's technical provisions at the valuation date, the Trustee and the Employers agreed a recovery plan to eliminate the shortfall by November 2027 through the assumed outperformance of the Scheme's assets relative to the assumed prudent returns in the valuation. Deficit recovery contributions from the employers are not required as part of this recovery plan.

A new Schedule of Contributions was certified by the Scheme Actuary on 28 April 2021 on this basis.

As part of the 2020 formal actuarial valuation, the Trustee updated the Scheme's Statement of Funding Principles (SFP). The SFP sets out the Scheme's funding objectives and the methods and assumptions used to assess the Scheme's Technical Provisions. The SFP is available on request from the Trustee Secretary.

The results of the formal 5 April 2020 actuarial valuation are available on the Scheme's website.

The Trustee monitors the Scheme's funding position between formal actuarial valuations and receives annual funding reports from the Actuary in years when a formal actuarial valuation is not carried out. The next annual update is due as at 5 April 2021 and the results of this update are expected to be finalised during 2021.

Statement of Trustee's Responsibilities

Trustee's responsibilities in relation to the financial statements
The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- 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 that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- state whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes (revised June 2018)', and
- contain the information specified in Regulation 3 and 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

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

Trustee's Report

Statement of Trustee's Responsibilities (continued)

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

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

Trustee's responsibilities in respect of contributions
The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

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

Approval

The Trustee's Report, including the EPIS, was approved and signed on behalf of the Board of Directors of Plumbing Pensions (UK) Limited acting as sole Trustee of the Scheme.

John Allott
.... **J Allott**

.... **R E Price MBE**

Edinburgh 30/9/2021 2021

Independent Auditors' Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme

Opinion

We have audited the financial statements of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the 'Scheme') for the year ended 5 April 2021, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, 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 Financial Reporting Standard 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:

- show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 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

We are responsible for concluding on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

In our evaluation of the Trustee's conclusions, we considered the inherent risks associated with the Scheme including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the Trustee and the related disclosures and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

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 at least twelve months from when the financial statements are approved by the Trustee.

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.

The responsibilities of the Trustee with respect to going concern are described in the 'Responsibilities of trustee for the financial statements' section of this report.

Independent Auditors' Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (continued)

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement, the Trustee is responsible for the preparation of 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 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.

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

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 material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed over the page.

Independent Auditors' Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (continued)

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant are the Pensions Acts 1995 and 2004 and those that relate to the reporting frameworks (Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice "Financial Reports of Pension Schemes" 2018 ("the SORP").

In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements, such as the Pensions Regulator's Codes of Practice and relevant compliance regulations (including the Annual Pensions Bill and tax legislation) and those laws and regulations under which the Scheme operates.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the Trustee and from inspection of Trustee's board minutes and legal and regulatory correspondence. We enquired about the policies and procedures regarding compliance with laws and regulations with the Trustee.

We assessed the susceptibility of the Scheme's financial statements to material misstatement due to irregularities including how fraud might occur. We evaluated management's incentives and opportunities for manipulation of the financial statements and determined that the principal risks were in relation to the risk of management override of controls through posting inappropriate journal entries to manipulate net assets and the valuation of property and bulk annuity insurance policy assets using a method not permitted under the SORP. Our audit procedures included:

- Evaluation of the design effectiveness of controls that the Trustee has in place to prevent and detect fraud
- Journal entry testing, with a focus on large journals and those journals with unusual account combinations or posted to suspense accounts
- Use of our internal experts to challenge the reasonableness of the investment property and bulk annuity insurance policy asset valuations at the year end produced by the Trustee's valuation experts
- Obtaining independent confirmations of material investment valuations and cash balances at the year end

In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

All team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of schemes of a similar size and complexity, appropriate to their role within the team. The engagement team are required to complete mandatory pensions sector training on an annual basis, thus ensuring they have sufficient knowledge and of the sector the underlying applicable legislation and related guidance.

We did not identify any matters relating to non-compliance with the laws and regulations specified above or relating to fraud.

Independent Auditors’ Report to the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (continued)

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 them 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.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

30/9/2021
2021

Summary of Contributions

For year ended 5 April 2021

The Scheme closed to future accrual on 30 June 2019. No normal contributions have been required under the schedule of contributions from this date.

The following Summary of Contributions, which has been prepared on behalf of, and is the responsibility of, the Trustee, sets out the contributions paid to the Scheme for the year ended 5 April 2021.

	£
Contributions required by the schedule of contributions	**Nil**
Other contributions	
Employer Section 75 debts	231,296
Employer normal contributions	1,396
Employee normal contributions	698
	233,390

Signed on behalf of the Trustee

John Allott

J Allott, Director

R E Price MBE, Director

30/9/2021

2021

Schedule of Contributions

For the period 28 April 2021 to 30 November 2027

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, Nicola MacKay FIA. The period applicable for this schedule of contributions will commence from the date of the actuary's certification to 30 November 2027. The Trustee has discussed and agreed this schedule with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers). Contributions by the participating employers

1 Contributions by the participating employers

The Scheme is closed to accrual so no contributions are required from the participating employers (or employees) in respect of the accrual of benefits.

At the latest actuarial valuation dated 5 April 2020, the Scheme's Statutory Funding Objective was not met and, as such, a recovery plan is required. The Trustee and participating employers (as represented above) have agreed that the shortfall will be met in full by the assumed outperformance of the Scheme's assets relative to the discount rate for the technical provisions. Therefore, it was agreed that deficit recovery contributions are not required.

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 Treatment of Expenses and the Pension Protection Fund Levy

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

Date of schedule (for reference purposes): 16 April 2021

Signed on behalf of the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme:
J Bridger
Chairman of the Trustee

Signed on behalf of Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers):
K Yates
Chief Executive

Actuary's Certification of Schedule of Contributions

1. Adequacy of Rates of Contributions

I hereby 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 5 April 2020, to be met by the end of the period specified in the recovery plan dated 16 April 2021.

2. 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 16 April 2021.

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.

Nicola MacKay
Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

28 April 2021

Towers Watson Limited
2 Lochrin Square
96 Fountainbridge
Edinburgh EH3 9QA UK

Plumbing and Mechanical Services (UK) Industry Pension Scheme

Fund Account

for the year ended 5 April 2021

	Notes	2021 £	2020 £
Contributions and benefits			
Employer contributions		232,692	6,774,759
Employee contributions		698	1,345,781
Total contributions	4	**233,390**	**8,120,540**
Other income	5	62,919	90,556
		296,309	8,211,096
Benefits payable	6	(52,369,637)	(55,659,696)
Payments to and on account of leavers	7	(7,572,784)	(12,909,183)
Administrative expenses	8	(3,615,374)	(4,511,919)
		(63,557,795)	(73,080,798)
Net withdrawal from dealings with members		**(63,261,486)**	**(64,869,702)**
Returns on investments			
Investment income	9	45,843,494	45,016,154
Change in market value of investments	11	26,896,568	84,398,758
Investment management expenses	13	(2,360,253)	(2,024,928)
Net returns on investments		**70,379,809**	**127,389,984**
Net increase in the fund during the year		**7,118,323**	**62,520,282**
Opening net assets of the Scheme		**2,217,966,168**	**2,155,445,886**
Closing net assets of the Scheme		**2,225,084,491**	**2,217,966,168**

The notes on pages 28 to 47 form part of these financial statements.

Plumbing and Mechanical Services (UK) Industry Pension Scheme

Statement of Net Assets (Available for Benefits)

As at 5 April 2021

	Note	2021 £	Reanalysed 2020 £
Fixed assets	10	**1,867,928**	**1,917,084**
Investment assets			
Equities		6,760,424	6,089,661
Bonds		212,651,357	117,825,565
Property	14	117,050,000	146,925,000
Pooled investment vehicles	15	1,377,462,304	1,415,666,045
Derivatives	17	10,382,363	1,000,479
Insurance policies	18	516,000,000	498,024,999
AVC investments	19	3,408,276	3,202,606
Cash deposits	20	14,427,344	24,363,361
Other investment assets	20	14,141,700	8,381,658
		2,272,283,768	2,221,479,374
Investment liabilities			
Derivatives	17	(6,678,527)	(8,549,167)
Other investment liabilities	20	(46,396,480)	-
Total net investments	11	**2,219,208,761**	**2,212,930,207**
Current assets	25	**5,817,276**	**5,738,066**
Current liabilities	26	**(1,809,474)**	**(2,619,189)**
Total net assets		**2,225,084,491**	**2,217,966,168**

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 account of obligations, is dealt with in the Report on Actuarial Liabilities on pages 16 and 17 of the annual report, and these financial statements should be read in conjunction with it.

These financial statements were approved by the Board of Directors of Plumbing Pensions (UK) Limited acting as sole Trustee of the Scheme on 30/9/2021 .

Signed on behalf of the Trustee:-

John Allott
.... **J Allott**

.... **R E Price MBE**

The notes on pages 28 to 47 form part of these financial statements.

Notes to the Financial Statements

For the year ended 5 April 2021

1. Identification of the financial statements

Plumbing and Mechanical Services (UK) Industry Pension Scheme (the 'Scheme') is established as a trust under English law. The address for enquiries to the Scheme is: Trustee Secretary, Plumbing Pensions (UK) Ltd, Bellevue House, 22 Hopetoun Street, Edinburgh EH7 4GH.

2. Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with FRS 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidelines set out in the Statement of Recommended Practice (SORP) (revised June 2018).

Going concern

The financial statements are prepared on a going concern basis. The investment market weakness and volatility in bond and equity markets experienced in 2020 due to the Covid-19 pandemic has not had a significant impact on funding levels due to Scheme's low risk investment strategy. The Trustee continues to monitor investments closely and is advised by the Scheme investment managers, actuarial and other advisers and has confidence the investments held are sufficiently robust to deliver members benefits in full and meet all of the Scheme running costs. On this basis, the Trustee is satisfied that the going concern basis for the preparation of the financial statements remains appropriate.

3. Accounting Policies

The principal accounting policies are set out below. Unless otherwise stated, they have been applied consistently year on year.

(a) Contributions

Normal contributions were accounted for on a cash basis until the closure of the Scheme to future accrual on 30 June 2019. This was because participating employers would submit summary returns each month which totalled the contribution to be made on behalf of their employees. It is only on an annual basis that the employer firms listed the employees for whom contributions had been made during the year and reconciled these to the summary contribution returns submitted monthly. Only at this stage could the Scheme calculate the amounts which should have been received from each employer firm and identify accruals.

Section 75 employer debt contributions are accounted for when a reasonable estimate of the amount receivable can be determined and adjusted for the Trustee's estimate of the recoverable amount.

Additional voluntary contributions were accounted for in the period to which they relate, and separately invested in an insurance company for the benefit of individual members.

(b) 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. Where there is no member choice, benefits are accounted for on the date of retirement or leaving.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

3. Accounting Policies (continued)

(b) Benefits and payments to and on account of leavers (continued)

Transfers to other schemes are at values determined by the Scheme's Consulting Actuaries and are accounted for on the date the trustees of the receiving scheme accept the liability. In the case of individual transfers, this is normally when the payment of the transfer value is made.

(c) Administrative and other expenses

Investment Managers' fees, legal fees and audit fees are borne by the Scheme. All other costs and expenses of managing and administering the Scheme are met initially by Plumbing Pensions (UK) Administration Limited, a company which manages the Scheme. The loss incurred by Plumbing Pensions (UK) Administration Limited is met by an invoice raised to the Scheme for administration services provided.

Expenditure chargeable against the Scheme is recognised on an accruals basis.

(d) Investment income and expenditure

Dividends from equities is accounted for on the "ex-dividend" date.

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.

Rental income is received quarterly in advance and is accounted for on an accruals basis over the period of the lease.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

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

Receipts from insurance policies held by the Scheme to fund benefits payable to Scheme members are included in investment income on an accruals basis to match the relevant benefits.

Income from cash and short-term deposits is accounted for on an accruals basis.

Investment income includes withholding taxes which are accrued on the same basis as investment income. Any irrecoverable withholding taxes, are included within investment income.

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. For pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

(e) Tangible Fixed Assets and Depreciation

Tangible fixed assets represent property occupied by the Scheme and are stated at cost (or deemed cost) less accumulated depreciation. Depreciation is provided on a straight line basis at 2.5% per annum.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

3. Accounting Policies (continued)

(f) 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.

The methods of determining fair value for the principal classes of investments are:

(i) Equites, 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 at the reporting date. Accrued interest is excluded from the market value of bonds but is included in investment income receivable. Unsettled transactions at the year end are reported in other investment balances.

(ii) Unquoted securities are included at the fair value provided by the investment manager which has been estimated using appropriate valuation techniques.

(iii) Property is externally valued in line with RICS standards at the year end date by qualified chartered surveyors, CBRE. Assets held within the property fund are valued by Cushman and Wakefield on behalf of CBRE. The ‘material valuation uncertainty’ associated with 2020 valuations has been removed for 2021.

(iv) Unitised pool investment vehicles have been valued at the latest available bid or single price provided by the manager before the year end. Shares in other pooled arrangements have been valued at the latest available net asset value, determined in accordance with fair value principles, provided by the pooled investment manager.

(v) Derivatives - Swaps are valued at the net present value of future cashflows arising therefrom. Forward foreign exchange contracts are valued as the gain or loss arising from closing out the contracts at the reporting date be entering into an equal and opposite contract at that date. Exchange traded futures are valued by the difference between exchange settlement prices and inception prices.

(vi) Cash delivered under reverse purchase contracts is recognised as an investment receivable in the financial statements. Securities received as collateral are not recognised as a Scheme asset.

(vii) The bulk annuity insurance policy is valued by the insurer at the amount of the related obligation, determined by taking into account member numbers, expected payments due and changes in prevailing financial conditions.

(viii) AVC investments are valued at market value by the AVC provider.

(g) Currency

The functional and presentational currency of the Scheme is sterling. Investment income from foreign investment is converted into its sterling equivalent at the rate ruling at the date of receipt. Investments in foreign currencies are translated into their sterling equivalents at the rates ruling at the year end. Differences arising on valuation are accounted for in the change in market value of investments.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

4. Contributions Receivable	**2021** £	**2020** £
Employer contributions:		
Normal	1,396	2,615,659
Augmentation	-	20,000
S75 debt	231,296	4,139,100
	232,692	6,774,759
Employee contributions:		
Normal	698	1,307,829
Additional voluntary contributions	-	37,952
	698	1,345,781
	233,390	8,120,540

The Scheme closed to future accrual on 30 June 2019 so no normal contributions were due to the Scheme during the year ended 5 April 2021. Normal employee contributions received during the current year relate to late receipt of amounts in respect of prior periods.

5. Other Income	**2021** £	**2020** £
Rental income	56,819	84,448
Sundry income	6,100	6,108
	62,919	90,556

6. Benefits Payable	**2021** £	**2020** £
Pensions	39,604,583	38,340,985
Commutations and lump sum retirement benefits	12,089,071	16,877,263
Lump sum death benefits	675,983	441,448
	52,369,637	55,659,696

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

7. Payments to and on Account of Leavers	**2021**	**2020**
	£	£
Refunds to members leaving service	1,257	2,657
Individual transfers to other schemes	7,571,527	13,111,755
Contributions Equivalent Premium / Limited Revaluation Premium	-	(205,229)
	7,572,784	12,909,183

8. Administrative Expenses	**2021**	**2020**
	£	£
Contributions to Plumbing Pensions (UK) Administration Ltd	3,233,887	4,185,173
Pension Protection Fund and Pension Regulator Levies	190,797	204,243
Audit fees	106,800	59,760
Professional fees	23,988	-
Depreciation on fixed assets (note 10)	49,156	49,156
Sundries and bank charges	10,746	13,587
	3,615,374	4,511,919

The loss of £3,233,887 (2020: £4,185,173) incurred during the year by Plumbing Pensions (UK) Administration Limited has been met by an invoice raised to the Scheme for administration services provided. At the financial year end £520,660 was due from Plumbing Pensions (UK) Administration Limited (2020: £807,233). This amount is included within current assets (note 25).

9. Investment Income	**2021**	**2020**
	£	£
Dividends from equities	(3,556)	94,653
Income from bonds	5,606,249	1,932,413
Net income from property	3,979,493	6,950,792
Income from pooled investment vehicles	3,043,400	2,419,489
Income from derivatives	744,872	816,517
Annuity income	32,452,514	32,753,183
Interest on cash deposits	20,522	49,107
	45,843,494	45,016,154

Net income from properties is stated after deducting £1,279,830 (2020: £794,352) of property related expenses and of this amount, £832,906 relates to bad debt provisions (2020: £310,173).

Negative dividends from equities is due to irrecoverable withholding tax.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

10. Tangible fixed assets

	Property £
Cost	
At 6 April 2020	1,966,240
At 5 April 2021	1,966,240
Depreciation	
At 6 April 2020	49,156
Charge for the year	49,156
At 5 April 2021	98,312
Net Book Value	
At 5 April 2021	1,867,928
At 5 April 2020	1,917,084

11. Investment reconciliation

	Market value at 6 April 2020 £ Reanalysed	Purchases at cost and derivative payments £	Sale proceeds and derivative receipts £	Change in market value £	Market value at 5 April 2021 £
Equities	6,089,661	996,677	(1,005,281)	679,367	6,760,424
Bonds	117,825,565	653,105,659	(554,233,529)	(4,046,338)	212,651,357
Property	146,925,000	58,161	(23,757,475)	(6,175,686)	117,050,000
Pooled investment Vehicles	1,415,666,045	46,797,478	(72,589,017)	(12,412,202)	1,377,462,304
Derivatives – net	(7,548,688)	24,702,266	(50,109,836)	36,660,094	3,703,836
Insurance policies	498,024,999	-	-	17,975,001	516,000,000
AVC investments	3,202,606	-	(387,383)	593,053	3,408,276
	2,180,185,188	725,660,241	(702,082,521)	33,273,289	2,237,036,197
Cash and other Investment balances	32,745,019			(6,376,721)	(17,827,436)
	2,212,930,207			26,896,568	2,219,208,761

Details regarding the reanalysis of opening balances is disclosed on note 29.

Cash and other investment balances include spot currency contracts. Spot currency contracts are reported separately to forward foreign currency contracts, which are reported in derivatives, as spot contracts are immediate transactions, normally settled within two days of the trade date. The large negative change in market value is due to fluctuations in exchange rates relating to these contracts, resulting from the volatile investment markets during the year.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

12. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the investment reconciliation, note 11. Direct transaction costs incurred are analysed as follows:

	Equities	Bonds	Property	Other	2021 Total	2020 Total
	£	£	£	£	£	£
Fees	-	-	155,025	-	155,025	-
Commission	-	-	-	3,881	3,881	1,341
Taxes	-	-	-	-	-	52
2021 Total	-	-	155,025	3,881	158,906	
2020 Total	278	13	-	1,102		1,393

In addition to the direct transaction costs disclosed above, indirect costs are incurred on the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustee to quantify such indirect transaction costs.

13. Investment Management Expenses

	2021	2020
	£	£
Investment management	1,972,830	1,874,094
Custody	79,140	27,026
Investment consultancy	179,818	-
Other	128,465	123,808
	2,360,253	2,024,928

Investment consultancy fees were met by Plumbing Pensions (UK) Administration Ltd for the year ended 5 April 2020 and therefore included in the contribution paid by the Scheme to Plumbing Pensions (UK) Administration Ltd shown in note 8. This year, they have been met by the Scheme directly.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

14. Property

The properties in the investment portfolio were professionally valued at 5 April 2021 by CBRE, commercial real estate advisers.

At 5 April 2020 the valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global, resulting from the impact of COVID-19 on economies and real estate markets globally. At 5 April 2021, property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value. Therefore, the 2021 valuation is not reported as being subject to 'material valuation uncertainty', as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

	2021	**2020**
	£	£
Freehold	80,425,000	111,425,000
Long leasehold	36,625,000	35,500,000
	117,050,000	146,925,000

Included within other investment balances is £1,676,301 (2020: £2,236,934) in respect of lease incentives associated with these property investments. The lease incentives are released to income over the period of the associated leases.

15. Pooled Investment Vehicles

Type of fund	**2021**	**2020**
	£	£
Equity	64,226,777	50,275,935
Bond	19,764,036	1,604,584
Money market	19,585,179	28,520,576
Asset backed securities	157,412,955	146,652,118
LDI Bespoke (note 16)	1,059,656,930	1,137,890,469
Infrastructure	10,656,653	12,350,436
Property	46,159,774	38,371,927
	1,377,462,304	1,415,666,045

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

16. Sole investor fund

The Scheme invests in the Legal & General LDI Bespoke Fund (note 15) of which it is the sole investor. A breakdown of the underlying investment classes held within the fund are shown below.

	2021	2020
	£	£
UK Government Bonds	400,787,157	417,323,098
UK Index-Linked Government Bonds	1,242,934,861	1,215,267,787
Liquidity fund	3,599,162	18,697,458
Amounts payable under repurchase agreements	(704,722,405)	-
Amounts receivable under reverse repurchase agreements	117,050,640	-
Cash and accruals	7,515	(513,397,874)
	1,059,656,930	1,137,890,469

Bonds with a fair value of £672,816,536 have been delivered subject to repurchase contracts and therefore continue to be recognised in the bonds above. Cash received from the counterparties is recognised as amounts payable in the table above. There are 27 repurchase agreements, with maturity dates up to July 2022.

Bonds with a fair value of £112,417,139 received in respect of reverse repurchase agreements are not recognised in the bonds above. Cash delivered to the counterparties is recognised as amounts receivable in the table above. There are 3 reverse repurchase agreements, with maturity dates up to July 2022.

There were no repurchase or reverse repurchase agreements held within the sole investor fund in the prior year.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

17. Derivatives

2021	**Asset**	**Liability**	**Total**
	£	£	£
Over-the-counter contracts			
Swaps	6,766,516	(1,709,921)	5,056,595
Forward foreign exchange	3,584,639	(4,883,537)	(1,298,898)
Exchange traded			
Futures	31,208	(85,069)	(53,861)
	10,382,363	(6,678,527)	3,703,836

2020	**Asset**	**Liability**	**Total**
	£	£	£
Over-the-counter contracts			
Swaps	18,681	(7,120,483)	(7,101,802)
Forward foreign exchange	975,111	(1,420,790)	(445,679)
Exchange traded			
Futures	6,687	(7,894)	(1,207)
	1,000,479	(8,549,167)	(7,548,688)

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

Swaps – The Trustee aims to match the liability driven element of the investment portfolio with the Scheme's long term liabilities, particularly in relation to the sensitivities to interest rate movements.

Currency – The Trustee invests in overseas markets and assets denominated in foreign currency to construct a suitably diversified investment portfolio.

Futures – where cash is held for short term liquidity, the Trustee has entered into index-based contracts of equivalent economic value to avoid being 'out of the market'.

Collateral arrangements are in place for unrealised gain or losses on over-the-counter (OTC) derivatives comprising of bonds and cash. Broker owned collateral is held in an allocated account with counterparties' custodians and is not included within Scheme assets. At the year end, broker owned collateral is £1,665,526 (2020: £1,038,652) and client posted collateral is £3,723,942 (2020: £897,634).

Included within cash balances is £303,536 (2020: £244,788) in respect of initial and variation margins arising on open futures contracts at the year end.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

17. Derivatives (continued)

	Notional Amounts £	Expiry	Asset Value £	Liability Value £
Swaps				
Interest rate swaps	175,960,000	1-30 years	4,067,470	(971,481)
Credit default swaps	66,700,000	2-5 years	2,699,046	(734,738)
Swaption	29,900,000	1-12 months	-	(3,702)
	272,560,000		6,766,516	(1,709,921)

Forward foreign exchange **Currency paid**	**Currency received**	**Notional Amounts** £	**Expiry** months	**Asset Value** £	**Liability Value** £
AUD	USD	1,062,245	< 1	-	(13,542)
CNY	USD	2,124,439	< 3	-	(5,702)
DKK	USD	10,450,584	< 1	16,629	(6,937)
EUR	USD	6,064,295	< 1	19,132	(5,704)
GBP	USD	386,852,000	< 2	1,867,204	(2,564,622)
IDR	USD	1,062,930	< 3	-	(4,831)
JPY	USD	979,835	< 1	-	(40,620)
MXN	USD	1,111,570	< 5	4,494	(5,040)
NOK	USD	2,098,866	< 2	9,143	(19,074)
RUB	USD	1,024,396	< 3	-	(22,245)
SEK	USD	2,011,945	< 2	519	(57,442)
USD	DKK	20,868,091	< 4	244,547	(16,429)
USD	EUR	97,422,803	< 2	1,365,390	(185,611)
USD	JPY	970,856	< 1	12,358	-
USD	ZAR	1,031,831	< 3	-	(23,430)
USD	MXN	1,061,524	< 1	-	(31,507)
USD	GBP	193,426,000	< 1	-	(1,868,982)
USD	NOK	1,051,617	< 1	-	(9,142)
USD	SEK	989,539	< 1	-	(538)
USD	IDR	1,066,703	< 3	483	-
USD	RUB	1,002,718	< 1	-	(2,139)
ZAR	USD	1,027,632	< 3	44,740	-
		734,762,419		3,584,639	(4,883,537)

	Notional Amounts £	**Expiry** months	**Asset Value** £	**Liability Value** £
Futures				
Bond futures sold	(41,800,000)	< 2	31,208	(43,581)
Bond futures bought	1,700,000	< 2	-	(41,488)
	(40,100,000)		31,208	(85,069)

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

18. Insurance policies

The Trustee holds a bulk annuity insurance policy with Legal & General Assurance Society Ltd which provides annuity income to cover pensions for 10,414 pensioners as at 5 April 2021 (2020: 10,914). The annuity provider cannot provide the principal assumptions adopted in valuing the bulk purchase annuity because this information is commercially sensitive.

	2021	**2020**
	£	£
Bulk annuity insurance policy	516,000,000	498,024,999
	==========	==========

19. AVC Investments

The Trustee holds assets invested separately from the main fund in the form of managed funds to secure additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions (AVCs). These funds are allocated to members and are not available to the Trustee to fund Scheme benefits. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2021	**2020**
	£	£
Legal & General	3,408,276	3,202,606
	========	========

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

20. Cash and other investment balances

	2021	2020
	£	£
Cash deposits		
Sterling	6,702,756	17,986,622
Non-sterling	7,724,588	6,376,739
Total cash deposits	14,427,344	24,363,361
Other investment assets		
Amounts receivable under reverse repurchase agreements	7,629,467	-
Short term bills and notes	2,082,566	5,765,384
Lease incentives	1,676,301	2,236,934
Accrued investment income and tax recoverable	2,515,566	322,277
Unsettled transactions	237,800	57,063
Total other investment assets	14,141,700	8,381,658
Other investment liabilities		
Unsettled transactions	(46,396,480)	-
Total other investment liabilities	(46,396,480)	-
Total cash and other investment balances	(17,827,436)	32,745,019

21. Reverse repurchase agreements

Bonds with a fair value of £7,753,780 received as collateral in respect of reverse repurchase agreements are not recognised in the financial statements. Cash delivered to the counterparties is recognised as amounts receivable in note 20. There is 1 (2020: none) reverse repurchase agreement in place at the year end, with a maturity date of 6 April 2021.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

22. Fair Value Hierarchy

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

Level 1 unadjusted quoted prices in an active market for identical instruments that the entity can access at the measurement date

Level 2 inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly

Level 3 inputs which are unobservable for the instrument i.e. for which market data is unavailable

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

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

5 April 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	£	£	£
Equities	-	-	6,760,424	6,760,424
Bonds	-	212,651,357	-	212,651,357
Property	-	-	117,050,000	117,050,000
Pooled investment vehicles	-	260,988,947	1,116,473,357	1,377,462,304
Derivatives-net	(53,861)	3,757,697	-	3,703,836
Insurance policies	-	-	516,000,000	516,000,000
AVC investments	-	3,408,276	-	3,408,276
Cash deposits	14,427,344	-	-	14,427,344
Other investment balances	(32,254,780)	-	-	(32,254,780)
	(17,881,297)	480,806,277	1,756,283,781	2,219,208,761

5 April 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	£	£	£
Equities	-	-	6,089,661	6,089,661
Bonds	-	117,825,565	-	117,825,565
Property	-	-	146,925,000	146,925,000
Pooled investment vehicles	-	227,053,203	1,188,612,842	1,415,666,045
Derivatives-net	(1,207)	(7,547,481)	-	(7,548,688)
Insurance policies	-	-	498,024,999	498,024,999
AVC investments	-	3,202,606	-	3,202,606
Cash deposits	24,363,361	-	-	24,363,361
Other investment balances	8,381,658	-	-	8,381,658
	32,743,812	340,533,893	1,839,652,502	2,212,930,207

Investments reported under Level 3 are included at fair value based on values estimated by the underlying fund managers using accepted valuation methodologies and use of market information in the absence of observable market data.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

23. Investment Risks

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

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

Market risk: This comprises currency risk, interest rate risk and other price risk:

- **Currency risk:** this is the risk that the fair value or 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 Scheme has exposure to these risks because of the investments it makes in following the investment strategy which is set out in the Scheme's Statement of Investment Principles and on page 10 of thee Trustee's Report. The Trustee determines its investment strategy after taking advice from its Investment Advisor, and manages investment risks, including credit risk and market risk, within agreed risk limits which are set considering 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 through regular reviews of the investment portfolio.

In the below table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/ not at all.

Category	Credit Risk	Market risk		
		Currency	Interest rate	Other price
Equities	◐	●	○	●
Bonds				
Index linked / Fixed income	●	○	●	○
Asset backed securities	●	◐	◐	◐
Property	◐	○	○	●
Pooled investment vehicles				
Direct	◐	◐	○	◐
Indirect	●	●	●	●
Derivatives - net	◐	◐	◐	◐
Insurance policies	●	○	●	◐
Cash	●	◐	◐	○

Source: JP Morgan, Investment Managers, Aon

Note: Direct and indirect pooled investment vehicles include the Macquarie European Infrastructure Fund, CBRE Long Income Fund, Insight Global Asset Backed Securities Fund and LDI Bespoke Pooled Fund held with Legal & General Investment Management.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

23. Investment Risks (continued)

Further information on the Trustee's overall approach to risk management, credit and market risk is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Credit risk

The Scheme is subject to credit risk because it directly invests in bonds, over-the-counter ('OTC') derivatives, has cash balances and enters into reverse repurchase agreements.

Analysis of direct credit risk

	2021	2020
	£	£
Bonds		
Corporate	123,699,459	60,619,000
Government	21,936,686	15,997,380
Asset backed securities	67,015,212	41,209,185
Derivatives		
Swaps	5,056,595	(7,101,802)
Forward foreign exchange	(1,298,898)	(445,679)
Cash and other investment balances		
Cash deposits	14,427,344	24,363,361
Reverse repurchase agreements	7,629,467	-
Total	238,465,865	134,641,445

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 asset backed securities is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC contracts is reduced by collateral arrangements, see note 17.

Credit risk on reverse repurchase agreements is mitigated through collateral arrangements as disclosed in note 21. Cash is held within financial institutions which are at least investment grade credit listed.

The Scheme 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.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

23. Investment Risks (continued)

Pooled investment vehicles are unrated. Direct credit risk exposure is mitigated through appropriate structuring of the pooled arrangements, with assets segregated from the assets of the manager in accordance with applicable regulations, such as Financial Conduct Authority client asset rules and regulation by the Prudential Regulation Authority. The Trustee carries out due diligence upon the appointment of new pooled investment managers. The Investment Advisor monitors any changes to the operating environment of the pooled managers on an ongoing basis.

A summary of pooled investment vehicles by type of arrangement is as follows:

Type of fund	**2021** £	**2020** £
Unit linked insurance policies	1,123,893,952	1,188,176,845
Property Authorised Investment Fund	46,159,774	38,371,927
Qualifying Investor Alternative Investment Funds	157,412,955	146,652,118
Undertakings for the Collective Investment in Transferrable Securities	39,338,970	30,114,719
Limited partnerships	10,656,653	12,350,436
	1,377,462,304	1,415,666,045

Indirect credit risk arises in relation to underlying investments of the pooled investment vehicles, see analysis in note 15 and 16. The Trustee has considered this risk when determining the strategic asset allocation.

Investment in the majority of the Scheme's pooled funds is held with Legal and General Assurance (Pensions Management) Limited (“PMC”) by way of an insurance policy. The PMC has appointed Legal & General Investment Management Limited (“LGIM”) to act as the investment manager to the PMC. LGIM manage the assets which are owned by the PMC which writes only a small enough amount of pure life insurance to qualify as a life company and this is more than covered by its capital and reserves. The assets underlying the policy, therefore, are effectively ring-fenced.

The bulk annuity policy with Legal and General Assurance Society ("LGAS") £516,000,000 (2020: £498,024,999) is subject to direct credit risk. However, the credit risk of the policy is considered to be small due to the financial security of LGAS and the capital reserving requirements of insurers set by the Prudential Regulation Authority.

Property £117,050,000 (2020: £146,925,000) is subject to the risk of the underlying tenant defaulting, hence preventing the receipt of cashflows. This risk is partially mitigated through the ownership of the building which enables the property to be let to a different tenant or an alternative use to be employed should such a default occur. The appointed property manager also regularly considers tenant quality and determines safeguards to put in place.

Currency risk

As shown in the table on page 42, the Scheme is subject to currency risk through some of the Scheme’s investments held in overseas markets through pooled investment vehicles (indirect exposure) and segregated equity and credit mandates. This exposure is mitigated through the diversified nature of the funds and risk controls within those funds.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

23. Investment Risks (continued)

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in LDI, credit, property assets invested through pooled funds, bonds and swaps. The LDI assets held were set in the context of the Scheme's liabilities and are therefore expected to have similar characteristics to the Scheme's liabilities (excluding longevity). The credit and property assets are sensitive to long term interest rates as it affects their valuation but are expected to provide a long-term return in excess of the Scheme’s liabilities.

The buy-in also contains interest rate risk but was undertaken in direct reference to the Scheme's pensioner liabilities as set out in the policy with LGAS.

Other price risk

Other price risk arises principally in relation to the return seeking assets which include directly held equities, equities held in pooled vehicles and investment properties. In particular, there is the price risk that arises from difficulties in accurately valuing illiquid assets such as those in the DTZ and CBRE portfolios. This is because transaction volumes tend to reduce and there is greater uncertainty with respect to pricing. In times of market stress and heightened uncertainty, as seen during the development of the COVID-19 pandemic, this risk is elevated. We have seen managers apply what is called a material valuation uncertainty clause to reflect this increased uncertainty, as was the case at 5 April 2020. At 5 April 2021 the material valuation uncertainty clauses have been removed. The Trustee understands this risk and the purpose of accepting this risk is to ensure that, when considered as a whole, the assets of the Scheme form a suitability diversified portfolio in terms of the type of risk taken and the sources of expected return. Additionally, before each appointment, the Trustee receives advice from the Scheme's Investment Advisor on the suitability and risks to the Scheme of both the asset class and fund manager being appointed.

24. Concentration of investments

Investments relating to UK Gilts accounting for more than 5% of the net assets of the Scheme have not been disclosed as the Scheme has taken advantage of the exemption provided under the Audited Accounts Regulations not to disclose such investment holdings. Other investments accounting for more than 5% of the net assets of the Scheme were:

	2021	**2021**	**2020**	**2020**
	£	%	£	%
L&G Bulk Annuity Insurance	**516,000,000**	**23.2**	498,024,999	22.4
DTZ Investment Management	**117,050,000**	**5.3**	146,925,000	6.6
IIFIG Global ABS Fund	**157,412,955**	**7.1**	146,652,118	6.6
L&G TLDS Bespoke Fund	**1,059,656,930**	**47.6**	1,137,890,479	51.3

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

25. Current Assets

	2021	2020
	£	£
Cash at bank	4,306,839	3,601,349
S75 debtors	989,777	1,326,877
VAT recoverable	-	2,607
Plumbing Pensions (UK) Administration Ltd (note 8)	520,660	807,233
	5,817,276	5,738,066

26. Current Liabilities

	2021	2020
	£	£
Accrued investment management fees	575,697	250,246
Accrued custodian fees	19,642	-
Accrued performance fees	7,778	43,830
Accrued professional fees	89,420	57,498
Accrued buy-in premium adjustment	-	923,730
VAT	292,982	368,678
Tax and social security	358,840	340,431
Benefits payable	465,115	634,776
	1,809,474	2,619,189

27. Employer Related Investment

There were no employer related investments during the current or prior year.

28. Related Party Transactions

There are no material transactions with any of the directors of the Trustee company of the Scheme other than in normal course of operating. The Scheme Trustee Directors are also the Directors of Plumbing Pensions (UK) Administration Limited, a company which manages the Scheme. Transactions with the Scheme during the year are disclosed in note 8 and these recharges are not at arms-length but are in the normal course of business. At the financial year end £520,660 was due from (2020: £807,233 due from) Plumbing Pensions (UK) Administration Limited. This amount is included within current assets, note 25.

The Directors of the Trustee company who are members of the pension scheme are as follows:

- Mr J Allott is a deferred member of the Scheme.
- Mr A Beaumont is a pensioner of the Scheme and was a Trustee Director until his resignation on 15 July 2021.
- Mr R Frew is a pensioner of the Scheme and was a Trustee Director until his resignation on 29 May 2020.

These Trustee members receive and accrue benefits in line with the Scheme Rules.

During the year, the Trustee company paid £90,470 (2020: £62,910) to companies which provided independent trustee services to the Scheme.

Notes to the Financial Statements (continued)

For the year ended 5 April 2021

29. Prior year reanalysis

The financial statements for the prior year have been reanalysed to reclassify asset backed securities of £41,209,184 from a separate category to bonds, short term investments with a value of £5,756,205 from bonds to other investment balances, lease incentive assets with a value of £2,236,934 from investment property to other investment balances, and short term investments with a value of £9,179 from cash deposits to other investment balances. These reclassifications did not impact the overall investment total or the Fund Account.

30. Contingent liability

On 26 October 2018 the High Court ruled on the Lloyds case that GMP equalisation is required, however there remain a number of clarifications to be provided before members' benefits can be adjusted to reflect this. The Scheme actuary has carried out analysis to estimate the expected increase in the technical provisions as a result of this requirement, and a reserve has been included in Actuarial Valuation as at 5 April 2020. The Trustee regards this as a prudent approach based on the information currently available. No allowance has been made in the valuation to reflect the subsequent Lloyds judgment from November 2020 regarding the review of past transfer payments from the Scheme.

Of the reserve of £39m included in the 2020 Actuarial valuation, the Scheme actuary has estimated the amount in respect of past payments to be in the region of £3m. However, the approach adopted to calculate this estimate is approximate in nature and the actual back-payments and adjustment to future payments required is likely to be different from the figures provided. The actual liability impact of GMP equalisation (and the split between retrospective and prospective payments) will only be known once full GMP equalisation calculations have been carried out. Given that the equalisation methodology has not yet been agreed, and that the liability is not expected to be material to the financial statements, no provision has been included in these financial statements.

31. Capital commitments

There is an agreement in place for the Scheme to invest £75m with CBRE Global Investors and at the year end date £27m remains to be invested (2020: £35m). At 5 April 2021, £230k has also been committed to an agreement to lease with DTZ Investments (2020: Nil).

Additional Information

Where to go for help

Trustee Secretary
Bellevue House
22 Hopetoun Street
Edinburgh EH7 4GH

T: 0131 556 9090
E: info@plumbingpensions.co.uk
W: www.plumbingpensions.co.uk

The Money & Pensions Service (MaPS) has recently launched MoneyHelper, a single place for people to go to get help with their money and pension choices. It brings together the Money Advice Service, The Pensions Advisory Service and Pension Wise. The information and guidance from MoneyHelper is free to use, impartial and backed by the government.
T: 0800 011 3797 **W:** www.moneyhelper.org.uk

The Pensions Ombudsman can help with a pensions complaint or dispute.

T: 0800 917 4487 **W:** www.pensions-ombudsman.org.uk
E: enquiries@pensions-ombudsman.org.uk

The Pensions Regulator (tPR) regulates UK workplace pension schemes.

T: 0345 600 7060 **W:** www.thepensionsregulator.gov.uk
E: customersupport@tpr.gov.uk

The Pensions Tracing Service helps members trace pension benefits from previous employments.

T: 0800 731 0193 **W:** www.gov.uk/find-pension-contact-details

Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustees produce an annual implementation statement which outlines the following:

- Explain how and the extent to which they have followed their engagement policy, which is outlined in the Statement of Investment Principles ("SIP").
- Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by Trustees or on their behalf) during the scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The Engagement Policy Implementation Statement ("EPIS") for the Plumbing & Mechanical Services (UK) Industry Pension Scheme ("the Scheme") has been prepared by the Trustee Directors of the Scheme ("the Directors ") and covers the Scheme year from 6 April 2020 to 5 April 2021.

Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme Stewardship Policy in force over the majority of the reporting year to 5 April 2021. The full SIP can be found here: https://www.plumbingpensions.co.uk/wp-content/uploads/2020/09/Plumbing-Pensions-SIP-dated-July-2020-Final-Clean.pdf

Extract from SIP - Stewardship

- *The Directors recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside.*
- *The Directors regularly review the suitability of the Scheme's investment managers and take advice from the Investment Adviser regarding any changes. Where applicable, this advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.*
- *The Directors review the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. The Directors will review the alignment of the Directors' policies to those of the Scheme's investment managers and ensure the managers, or other third parties, use their influence as major institutional investors to carry out the Directors' rights and duties as a responsible shareholder and asset owner.*

Scheme stewardship activity over the year

Updating the Stewardship Policy

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Directors also reviewed and expanded the Stewardship policy. The updated wording in the SIP illustrates how the Directors recognise the importance of its role as a steward of capital, as well as indicating how the Directors would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Directors by Aon. The reports include Environmental, Social and Governance ("ESG") ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process.

Engagement Policy Implementation Statement (continued)

The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Climate risk management / TCFD / carbon reporting

The Scheme will begin progressing towards meeting the requirements as set out as part of the Task Force on Climate-related Financial Disclosures ("TCFD"). The TCFD establishes a set of 11 clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. Aligning the Scheme to the TCFD can be a long process and requires careful planning. Aon will be working with the Directors to agree an action plan to meet the required deadline.

Voting and Engagement activity – Equity funds

During the year, the Scheme invested in the following funds:

Manager	Fund Name
Legal & General Investment Management ("LGIM")	MSCI World Minimum Volatility Index Fund
	FTSE RAFI Developed 1000 Equity Index Fund

LGIM

Voting

LGIM makes use of the Institutional Shareholder Services ("ISS") proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting statistics

Key statistics over year to 31 March 2021	MSCI World Minimum Volatility Index Fund	FTSE RAFI Developed 1000 Equity Index Fund
Number of resolutions eligible to vote on over the year to 31/03/2021	6,143	17,920
% of resolutions voted on for which the fund was eligible	100.0%	99.9%
Of the resolutions on which the fund voted, % that were voted against management	19.3%	18.1%
Of the resolutions on which the fund voted, % that were abstained from?	0.3%	0.1%

Engagement Policy Implementation Statement (continued)

Voting Example: Pearson

This is an example on a firm level. In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson. Pearson issued a series of profit warnings under its previous Chief Executive Officer ("CEO"). Despite this, shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting ("EGM") was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role.

This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. They also discussed the shortcomings of the company's current remuneration policy.

LGIM spoke with the chair directly before the EGM, and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

33% of shareholders voted against the co-investments plan and therefore, by default, the appointment of the new CEO. While this resulted in the plan being passed, it highlighted concerns around governance, which LGIM has stated will need to be addressed through continuous engagement going forward.

<u>Engagement</u>

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

LGIM have also begun producing quarterly stewardship reports.

Engagement example

An example of engagement on a firm level over the year was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Engagement Policy Implementation Statement (continued)

Based on these engagements, LGIM decided to support this resolution although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council-certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement activity – Fixed Income & Alternatives

During the year, the Scheme also invested in a number of fixed income and alternative strategies.

Manager	Fund Name / Mandate Type
Insight	Insight Global Asset Backed Securities Fund
Pacific Investment Management Company (PIMCO)	Multi Asset Credit
DTZ	Segregated UK property
CBRE Global Investors	CBRE UK Long Income Fund
Macquarie Group	Macquarie European Infrastructure Fund 2

While the Directors acknowledge the ability to engage and influence companies may be less direct then in comparison to equity holdings; from the information received, it is encouraging that the managers are aware and active in their role as a steward of capital.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Scheme over the year.

Fixed Income

Insight

Insight states within its responsible investment policy that it engages as a bondholder with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. Insight prioritises its engagement dependent on a variety of factors which can include portfolio position, materiality of issue and company access. Insight produce a detailed annual report on responsible investment covering examples of their collaboration, engagement and ESG integration.

Engagement example

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Insight is supporting engagement with Enel and BHP as part of its monitoring of climate-reductions strategies. Engaging with both issuers since inception, there has been noticeable improvement in their communication and leadership. In the case of Enel, they issued the market's first sustainability-linked bond. Both companies made additional commitments regarding their management of coal-related business practices.

PIMCO

As stewards of capital, PIMCO believes their size, scale and history as a premier fixed income manager give PIMCO a special platform to engage with issuers, help lead the industry and drive positive change. Engagement is an essential tool for delivering impact for investors, markets and society. But engagement is not just about partnering with issuers that already demonstrate a deeply unified approach to sustainability commitments, but those with less advanced sustainability practices. This can be a direct way for PIMCO to influence positive changes that may benefit all stakeholders, including investors, employees, society and the environment.

Engagement Policy Implementation Statement (continued)

PIMCO aims to have an industry-leading engagement program among fixed income asset managers. By investing across a diverse asset class and group of issuers – including corporates, municipalities, sovereigns and others – PIMCO believes they are ideally positioned to drive meaningful change.

PIMCO’s credit research analysts engage regularly with the issuers that they cover, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management, and board qualifications and composition.

Further detail on PIMCO's policy can be found here: https://www.pimco.co.uk/en-gb/our-firm/policy-statements

Engagement example

An example of a fund level engagement relevant to the Scheme's investment is where PIMCO engaged with the Lloyds Banking Group to obtain an update on the progress made on their ESG initiatives and developments. The engagement was led by the credit analyst covering this issuer who is responsible for the interaction with the company alongside the ESG team. PIMCO discussed Lloyds' progress and plans on climate risk assessment, Paris alignment, sectoral policy, human capital support towards digitalisation and how ESG is reflected into employee performance assessment. The discussion has led to an update of PIMCO's ESG view for Lloyds. PIMCO aims to maintain the dialogue for follow-up discussion on these areas moving forward.

Real Estate

DTZ

DTZ believes that integrating ESG considerations into its investment process, from acquisition through to disposal, is critical to meeting changing occupier demands and maximising returns for its clients. Its strategy focuses on understanding the impact of ESG issues on future value. Identifying the opportunities this brings and minimising risk to its portfolios. This approach will help to enhance tenant retention, lower operating costs and minimise the risk to portfolio investment returns presented by climate change, future legislative changes, and obsolescence.

DTZ began creating a path to Net Zero Carbon by 2040 which will see the assets it manages become operationally more efficient, rely less on fossil fuels, and address the embodied carbon in the maintenance and construction of assets. This year, this translated to updated leasing structures, evolved refurbishment and construction guidelines and more advanced supply chain monitoring and engagement. The DTZI Responsible Property Investment policy is aligned to the United Nations ("UN") Policy on Climate Change, and references for example, the UN Sustainable Development Goal on climate action.

DTZ engages with the Better Building Partnership through its consultants, Cushman & Wakefield. At a fund level DTZ participates in the Global Real-Estate Sustainability Benchmark ("GRESB") which supports identification of engagement opportunities and supports informed investment decision-making at a portfolio level. DTZ engages with its clients, including Heads of Pension Funds, their team members and their consultants via the reporting method that suits each client, for example, meeting on a quarterly and/or annual basis to discuss Fund matters. Written communication is usually issued on both a quarterly and annual basis. Reporting on ESG theme has become more extensive as the house objectives have evolved and monitoring of portfolios became more established.

DTZ's asset level teams, including third party property management and asset management with the support of external ESG advisors, have created ESG action plans for the majority of assets under management. Monitoring of progress is reported by DTZ external ESG advisors. DTZ has been successful in obtaining Building Research Establishment Environmental Assessment Method ("BREEAM") 'Very Good' ratings on refurbishment projects. There will be a wider societal and environmental benefit to this exercise but over time DTZ expects there to be a financial benefit given likely government legislation limiting property emission levels.

Engagement Policy Implementation Statement (continued)

Even though no specific engagement example was provided, the Directors welcome the steps they have taken toward engagement and their considerations toward ESG integration.

CBRE

CBRE does not invest in companies themselves. However, they do engage with stakeholders, primarily the tenants within the portfolios in direct real estate. The exception is for indirect investments where CBRE engages with the underlying fund manager or operating partner.

CBRE engages with the underlying property managers on ESG issues throughout their investment process, starting at the due diligence stage to ensure the holding will contribute positively to the portfolio's sustainability. The manager's approach to ESG is reviewed with reference to internal; strategy, processes and policies, and submission to independent organisations. CBRE is a signatory of the Principles for Responsible Investment. They are not a signatory of the UK Stewardship Code, as they state this has been focused on the listed equity sector. However, their new ESG visions, policy and reporting will be aligned with the UK Stewardship Code's scope and purpose after the 2020 version now includes clauses that can be adapted to suit different asset types.

Engagement example

Since 2020, CBRE has been engaging with the Premier Inn team to ensure the forward funded development of the Premier Inn hotel was achieving the highest sustainability credentials possible in cost effective way. An initial sustainable due diligence report was carried out on the development to highlight any potential risks before the forward funded development took place. The report highlighted that the building was not on track to meet the BREEAM ‘Excellent’ rating and advised carrying out an overheating assessment to improve the BREEAM scoring output. The proposed development has been led by Tide Construction. This has helped the project to achieve the best in class GRESB rating supported by the project pursuing BREEAM certification and specification of renewables. As a result, the UK Long Income Fund was rated the global leader within the Hotel Development Assessment in GRESB for 2020. This was achieved through a combination of high specification works, BREEAM certification and renewables being installed on site.

Macquarie

Macquarie has carried out a number of new initiatives recently. For example, in early 2019, they formalised a policy restricting investments in businesses with exposure to coal where no further investments will be made in standalone coal fired generation or in any asset for which more than 25% revenue is dependent on coal. Macquarie is actively encouraging and supporting decarbonisation within its portfolios, and more information can be found here: https://www.mirafunds.com/assets/mira/our-approach/sustainability/infrastructure-sustainability-report-centre-line.pdf

Engagement example

Macquarie’s latest Infrastructure Sustainability Report was published in August 2020 on their website (link below) which includes various engagement examples in 2019: https://www.mirafunds.com/uk/en/our-approach/sustainability.html

Macquarie was unable to provide an engagement example for 2020. The fund is in its final stage of distributing capital to its investors, including the Scheme. The Directors welcome the steps and actions Macquarie has taken so far to fulfil its commitment to sustainability, however, they understand that the engagement is limited for this fund due to the nature of the investment and the lifecycle of the fund.

Engagement Policy Implementation Statement (continued)

In summary

Based on the activity over the year by the Directors and their service providers, the Directors are of the opinion that the stewardship policy has been implemented effectively in practice. The Directors note that most of their applicable asset managers (LGIM, PIMCO, Insight and CBRE) were able to disclose strong evidence of voting and engagement activity.

The Directors expect improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.