

ANNUAL REPORT & ACCOUNTS 1999

*Moving in the  
right direction*



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# *Moving in the right direction*

*We constantly work towards improving our service standards and reducing our costs over the long term.*

*Implementing these improvements can only occur through enhancements. A new office development, improved information systems and plans for our product portfolio are being undertaken to ensure that we are moving in the right direction.*

*Our aim is to provide the best pensions service to charities and voluntary organisations by:*

- *continuing to improve service quality;*
- *achieving superior investment performance;*
- *reducing real cost per member; and*
- *encouraging our staff to achieve their full potential.*

# CHAIR'S STATEMENT

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**T**he 12 months to 30 September 1999 proved to be a challenging year for The Pensions Trust, and I am pleased to report significant progress in our mission – to provide the best pensions service to charities and voluntary organisations.

The Trust continues to grow strongly as is evidenced by the following statistics:

- Active membership increased by 10.6% to 43,350. Over the past 3 years, actives have increased by 41%. Our 70,000th scheme member was enrolled, whilst the total of members and employers now exceeds 75,000.
- Scheme assets increased by more than 26% to over £1.6 billion.
- Contributions receivable exceeded £100 million, more than double the level of 5 years ago.
- Total benefits payable increased by 9% to over £43 million.

We were delighted to receive further recognition through the receipt of the Scheme Achievement of the Year Award at the UK Pension Awards organised by *Professional Pensions* magazine. This special award was presented to the Trust in acknowledgement of outstanding achievement by an occupational pension scheme.

Three major issues have dominated the work of the Trust over the year: investment policy, stakeholder pensions, and internal developments – each greatly important for securing the future of the Trust.

## INVESTMENT POLICY

I reported last year that the Board of Trustees had undertaken a comprehensive review of our investment arrangements following some disappointing short-term results. Significant sums were transferred to a consensus index-tracking fund; three specialist managers were appointed; whilst Schroders continued as a general balanced manager of part of the portfolio.

I am pleased to report that results for the past 12 months have been much better, with our

portfolio out-performing the average pension fund by 0.3%. Whilst “one swallow does not make a summer” we are confident that our new investment management structure will provide the desired improvement in consistent long-term performance.

## STAKEHOLDER PENSIONS

The Government's plans for stakeholder pension provision were further developed during the year, although the final details are still awaited at the time of producing our Annual Report.

We see stakeholder pensions as providing us with a significant opportunity, although not as an alternative to those who are already members – the Government has consistently stated that there is no substitute for a good occupational scheme. Rather, we wish to give options to those not currently in a pension scheme to have an expectation of a reasonable standard of living in their retirement, particularly those in low-paid employment.

It is increasingly clear that individuals will need to make provisions for themselves rather than being dependent on the State.



#### INTERNAL DEVELOPMENTS

We have made strenuous efforts to ensure that our internal structures are developed in line with our growth. The structures also need to enable us to respond with vigour to future developments in the pensions industry. Our new office in Leeds is nearing completion and we expect to have a significant number of staff based there from March 2000.

Whilst there are sizeable one-off costs associated with the move to Leeds, we anticipate these will quickly be recouped through a lower cost base (compared with operating in central London), as well as through improved working practices from purpose-built premises.

We have also undertaken significant investment in updating our information technology systems. The improvements in speed and related efficiencies should enable us to progress further in two of the main elements of our mission – service quality and reducing real costs.

On the Trustee front, Pamela Gruber, Michael Richmond and Joy Uings retired from the Board at the end of the financial year. They all contributed greatly to the work of The Pensions Trust.

Newly appointed Trustees were John Alleston and Chrystall Carter whilst Zee-Zee Heine rejoined the Board after a short absence. It was with great sadness that we learned of Chrystall's sudden death on 9 November; she had also been an enthusiastic member of the Independent Schools' Pension Scheme Committee.

We said farewell to Jane Couzens, our Business Development Director, during the year, and over the next year we shall be losing many valued members of staff who have chosen not to transfer to Leeds. The Trustees are grateful for all their service over past years. Special thanks are also due to Richard Stroud, Trevor Smith and colleagues for another year of achievement. The Trust moves into the 21st Century with confidence.

**Michael W Sturge**  
Chair

16 December 1999

# CHIEF EXECUTIVE'S REVIEW

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**I**n examining the Trust's performance in our key result areas during the period under review, the essence of our long-term strategy should be considered. The main thrust of this is being in a position where we can deliver the optimum level of service at a lower cost. An essential part of this is the transfer of our London-based administration services to a new office in Leeds and new information technology systems.

On all fronts, it has been a very challenging year for The Pensions Trust. Such challenges had been anticipated and it is my view that most other pension providers have been forced to address similar issues.

## SIGNIFICANT ACHIEVEMENT IN REDUCING COSTS

We measure our expenses as a 'unit cost per member'. In the year under review the unit cost was £132.23. This includes the 'one-off' relocation and information technology development costs. The one-off costs have been inevitable and necessary: as a pension fund we of course recognise the importance of investing for the future.

Without these exceptional expenses, our unit cost for the 12 months was £107.31 (excluding investment management expenses). This is a significant achievement and compares favourably with the unit cost of the previous financial year of £107.55. Furthermore, this reduction in our normal administration costs ignores the 1.6% increase in the Retail Prices Index (measured to April). This demonstrates a continuing underlying improvement in our unit costs.

We also analyse our costs as a percentage reduction in investment return. In the year the figure was 0.92%. This is an excellent result, particularly as any figure of below 1% is considered extremely challenging in our industry.

## GROWTH ON TARGET

The Pensions Trust's membership has continued to grow broadly in line with expectations. By the year end our total membership (including employers) exceeded 75,000.

The growth in scheme membership was around 12% and we are on target to enrol our 100,000th scheme member within the next two years.

## SERVICE CHALLENGES

In previous reviews of our performance I have stressed that, along with other London based pension providers, we have experienced high levels of staff turnover. This is principally due to a shortage of professional pension staff following external recruitment to deal with the personal pensions mis-selling scandal.

This has had a significant impact on our ability to recruit staff for our London office; it is not helped by the transition to a new information technology system and the associated training and parallel running. Furthermore, the official announcement of the relocation of London-based operations to Leeds has inevitably meant that some staff not wishing to relocate with the Trust have already sought alternative job opportunities.



The combination of these issues means that our customer service, although rated between 'satisfactory' and 'very good', has not been as high as we would wish.

#### SUBSTANTIAL IMPROVEMENT IN INVESTMENT

Whilst the Trust has continued to achieve high rates of return on its investments, we have previously reported that our annual returns in recent years have been marginally below the results of other pension funds. Our results have been high in absolute terms and have been significantly in excess of increases in National Average Earnings and the Retail Prices Index, the two key factors which determine long-term liabilities in all pension funds.

Since July 1997, all pension funds have been under the disadvantage of losing tax relief on their UK equity dividends. The Chancellor of the Exchequer, Gordon Brown, unilaterally and without consultation, decided to tax these dividends, and this has cost The Pensions Trust approximately £5 million this year in lost investment income. This reduces the investment performance not only of The Pensions Trust, but all pension funds in the UK.

During the period under review we implemented a new investment strategy (utilising both core fund managers and specialists), and our investment managers have achieved 20.7%, compared to the 20.4% return of the average pension fund. This is a substantial improvement in our recent comparative investment performance. I am confident that our strategy will be key to re-establishing medium-term out-performance. Details of our short, medium and long-term performance can be found in the Investment Report on page 15.

Our rates of membership growth and reductions in cost are 'on the right track' to achieve our targets. Overall, I am happy to see that our investment performance is beginning to recover. I am conscious that we will see out-performance impacting on our medium-term returns at a time when the new information technology systems and operation of the Leeds office will positively impact on our levels of service and costs. These improvements will be fundamental in assisting The Pensions Trust in continuing to meet the challenge of the new pensions environment, as we have successfully achieved in the past.

Finally, I wish to thank the Trustees and my colleagues on the Senior Management Team for their efforts during the year. As a provider of services the work of our staff and their commitment is key to our success and the continued development of The Pensions Trust.

A handwritten signature in black ink, appearing to read 'Richard K Stroud', with a long, sweeping horizontal line extending to the right.

**Richard K Stroud**  
Chief Executive

16 December 1999

# BOARD OF TRUSTEES' REPORT

**T**he Pensions Trust was originally established in 1946. It is a centralised (or 'industry-wide') occupational pension scheme for organisations involved in social, educational, charitable, voluntary and other similar work.

The Trust provides a variety of pension arrangements, in the form of money purchase and final salary schemes, together with death benefits for dependants. Some of the Trust's final salary schemes are contracted-out of the State Earnings Related Pension Scheme (SERPS).

## REVIEW OF DEVELOPMENTS

### 1. Membership

The members and participating employers of The Pensions Trust cover the full range of the charitable, voluntary and not-for-profit

sectors. Further details are available on request.

As at the year-end, there were 3,247 registered employers (a net increase of 200 on the figure at 30 September 1998) of which 2,092 had active members. A further 1,155 employers had only deferred pensioners, pensioners, or both.

### 2. Financial highlights

The financial results of the Trust during the year are summarised in the table below.

### 3. Benefits – Growth Plan

Due to changes in pensions legislation, effective from April 1997, benefits are classified as Growth Plan Series 1 and Series 2 pensions.

Growth Plan Series 2 pensions are for pensionable service from April 1997 and include the guarantee of annual pension increases (5% or RPI, if lower). Series 2 pensions for all members and pensioners were increased by 1.6% (the rise in RPI) for this scheme year, paid in October 1999.

Growth in membership (as at 30 September)			
	1998	Net Increase	1999
Active members	39,193	4,157	43,350
Deferred pensioners	16,999	3,059	20,058
Pensioners	8,361	797	9,158
Beneficiaries' pensions	605	62	667
Total	65,158	8,075	73,233

Summarised financial results	
	£000
Contributions receivable	104,004
Transfers in	28,609
Benefits payable	(43,660)
Administrative expenses (and exceptional costs)	(9,566)
<b>Net new money</b>	<b>79,387</b>
Net investment income	32,457
Change in market value of investments	227,415
<b>Net returns on investments</b>	<b>259,872</b>
<b>Net increase during year</b>	<b>339,259</b>
Fund at beginning of year	1,277,916
<b>Fund at end of year</b>	<b>1,617,175</b>

Annualised bonus (to 30 September 1999)		
	5 years (%)	10 years (%)
<b>Bonus</b>	<b>3.1</b>	<b>5.1</b>
Total compound return	8.1	10.1
Average Earnings Index*	4.1	4.8
Retail Prices Index	2.8	3.6

\* Figures are provisional.

Growth Plan Series 1 pensions are for pensionable service before April 1997. Under Growth Plan Series 1, all entitlements were also increased by a bonus of 1.6% (the rise in RPI) following advice received from the Trust's actuary.

These annual increases are in addition to an agreed investment return already included in the pension calculations: 1.6% also represents the increase in the RPI for the year to April, prior to the declaration of the bonus. Bonuses are related to the long-term return achieved on the Trust's investments, which is in turn influenced by general economic conditions.

The precise rate of return earned by members depends on individual circumstances. The table above compares the bonus and the total compound return (the bonus plus the basic return) to September 1999 with changes in the Index of Average Earnings (all industries and services) and in the General

Index of Retail Prices over the last five and ten years.

#### 4. Actuarial – Growth Plan

The Trust's actuary undertakes a full actuarial valuation of the Growth Plan every three years. The most recently completed valuation is to 30 September 1996 and copies of the valuation results are available on request. The results of the valuation to 30 September 1999 will be available after July 2000.

The Actuary's Statement appears on page 27.

#### 5. Benefits – Final Salary Schemes

Under final salary schemes, increases in pay during pensionable service are automatically reflected in the pension payable at retirement or in the deferred pension provided on leaving before retirement. All schemes also provide for at least statutory annual increases to these deferred pensions up to the time of receiving the pension.

In addition, some schemes may pay discretionary pension increases.

Once pensions are being paid, decisions on increases are made by individual employers or pensions committees. Increases are made in accordance with the provisions of each scheme, taking into account the financial state of the scheme, other relevant factors and considering the interests of all categories of beneficiaries.

The relevant details in respect of increases to pensions and deferred pensions, and to what extent they may be discretionary, are shown in the supplementary accounts for the individual schemes.

#### 6. Actuarial – Final Salary Schemes and the MFR

Each final salary scheme within the Trust is valued every three years and each year a different number of the Trust's schemes are valued. The financial position of each final salary scheme is discussed with the sponsoring employer or pensions committee, as the case may be.

As a result of the Minimum Funding Requirement (MFR) of the Pensions Act 1995, each scheme must be individually assessed on a new basis. The MFR stipulates that under a prescribed set of new actuarial assumptions, the actuarial value of assets should not be less than the actuarial value

# BOARD OF TRUSTEES' REPORT

of the liabilities. The full implications of MFR will be phased in over the years ahead to April 2007.

Discussions are held with individual schemes to determine appropriate action to meet MFR requirements.

The actuary's statement appears on page 27.

## 7. Unitised Ethical Plan

The Unitised Ethical Plan is an ethically invested money purchase plan providing an alternative to the Growth Plan. It can be used as a main investment for retirement under the Trust's money purchase plans or for additional voluntary contributions (AVCs) from other schemes within the Trust.

(Friends Ivory & Sime plc) and not by the Trust. The Board of Trustees does not direct that the investments should be ethically invested.

However, Money Purchase and AVC members have the option to decide for themselves and the Unitised Ethical Plan is available for this purpose.

The Board has decided that, from 1 October 1999, there will be no initial charge on new contributions (previously 5%). Instead there will be an annual asset charge of 1% (inclusive of the annual charge already made by the investment manager of 0.24%) and the bid/offer spread.

Contributions are invested with Friends Provident (now part of Friends Ivory & Sime plc) in a separate ethical fund (called the 'Stewardship Managed Fund') which is divided into units. These investments are held outside the Trust's main portfolio and the external performance results are given in the table on the left. For comparing investment performance, because this is a 100% equity portfolio, it is appropriate to use an equity benchmark – the FTSE All-Share Index. Performance is compared to this Index over rolling five year periods. When joining this plan, members are advised that investment performance may be more volatile than in a balanced fund that does not have ethical constraints.

## GOVERNANCE

### 1. Awards

The Pensions Trust is pleased to have received four industry awards:

- Professional Pensions – Scheme Achievement Award 1999
- OPDU\* Trustee Excellence Award 1998
- Baring Asset Management Large Scheme Award 1996
- Henderson Investors Industry Wide Scheme Award 1995

\* *Occupational Pensions Defence Union*

The 1995 to 1998 awards were organised by *Pensions Management* magazine in association with the Pensions Management Institute.

### 2. The Board of Trustees

The Pensions Trust is governed by an elected Board of Trustees. The full Board normally consists of 18 people, nine of whom are elected by the qualifying employers and nine by the members. At the time of writing there is one vacancy. An election for one-third of the Board takes place each year. The Board has decided that the next elections will be for Trustees to take office on 1 March each year from 2001 and, therefore, nominations will be invited next in November 2000.

Annualised ethical fund returns – Friends Provident (to 30 September 1999)

	Short- (1 year)	Medium- (5 years)	Long-term (10 years)
	%	%	%
<b>Ethical fund</b>	<b>25.0</b>	<b>16.2</b>	<b>12.7</b>
FT Actuaries All-Share Index	23.6	17.4	13.7

This Plan invests, as far as is practical, only in specially selected UK companies, the bulk of whose products, services and operations are considered to make a positive contribution to society in the UK and abroad. The ethical ('socially responsible') criteria are determined by the investment manager



At 30 September 1999, Pamela Gruber, Michael Richmond and Joy Uings retired from the Board. John Constable, John Hanlon and Richard Marshall also retired but were re-elected. John Alleston and Zee-Zee Heine were elected as new Trustees.

It is with great sadness that we report the death, on 9 November 1999, of Chrystall Carter, one of our Trustees. Chrystall had been elected to the Board from 1 October 1999 and had participated in the Independent Schools' Pension Scheme Committee.

As from 1 October 1999, Michael Sturge was re-elected Chair of the Board, and Andrew Cooke was re-elected Vice Chair. John Constable was elected Chair of the Investment Committee. Andrew Cooke remains Chair of the Audit and Compliance Committee.

The members of the Board are volunteers and are not paid for their services to The Pensions Trust, but expenses are reimbursed.

**3. Meetings and sub-committees**  
During the year, the full Board of Trustees met four times for the formal business of The Pensions Trust and had one 'awayday' to consider broader pension issues. In particular, the Board has also considered options for new schemes, future product development and preliminary views on stakeholder pensions.

In addition, there were a number of meetings of sub-committees, namely:

- the Chair's Committee met four times to consider operational issues including the annual budget.
- the Investment Committee met four times to monitor investment performance and for an extensive review of custody arrangements.
- the Audit and Compliance Committee met twice to consider audit reports and the effectiveness of internal controls and compliance.

## Employer Nominated Trustees

from 1 October 1999

*From left to right*

**John Alleston**

The Guinness Trust

**John Constable**

The Harpur Trust

**Andrew Cooke**

Charities Aid Foundation

**Jean Dougherty**

Viewpoint Housing Association

**David Kelly**

Scottish Council for Voluntary Organisations

**Richard Marshall**

The Nuffield Foundation

**Michael Sturge**

Joseph Rowntree Foundation

**Maurice Whiteley**

Chartered Accountant

**Barry Wilkins**

OPAS, The Pensions Advisory Service

# BOARD OF TRUSTEES' REPORT

## Member Nominated Trustees

from 1 October 1999



*From left to right*

**John Hanlon**

Consultant to the Voluntary Sector

**Zee-Zee Heine**

Charity Accountant

**John Kent**

Management Accountant

**Alison Massie**

Kirk Care Housing Association

**Ian Roylance**

OPAS, The Pensions Advisory Service

**Clare Smith**

Leonard Cheshire

**Kate Spain**

Orbit Housing Association

**John Wheatley**

Trustee Adviser, WL Partnership

### 4. Delegation

Investment fund management is delegated to professional external managers as described in the investment report. In addition, and apart from the aforementioned sub-committees, the Board of Trustees has approved a wide range of delegated authority to facilitate the day-to-day operations of The Pensions Trust.

### 5. Professional advisers

The following changes have been formally approved by the Board:

- The Northern Trust Company was appointed as our global custodian with effect from 2 August 1999 to take over our previous custody arrangements.
- The appointment of Richard Ellis St Quintin was revised from 20 May 1999 to allow discretionary management of our property investments.

For a full listing of the Trust's professional advisers please refer to page 32.

### 6. Trust Deed and Rules

The present Trust Deed and Rules were adopted from 17 April 1996 and updated with effect from 1 April 1997 and 1 October 1998. All amendments meet the requirements of section 67 of the Pensions Act 1995, ensuring that members' rights are not adversely affected. A copy of the Trust Deed and Rules and amendments are available on request.

### 7. Complaints procedure

In the first instance contact should be made with the team leader who deals with the scheme's administration. Full guidelines are provided automatically to members and a copy is available on request. The Trust's policy is to consider everything, including complaints, from the customer's point of view. Where a mistake has been made, this will be openly acknowledged and every effort made to resolve the issue without the necessity of recourse to OPAS, the Pensions Advisory Service, or the Pensions Ombudsman (though such action is the statutory right of members and others).

## INVESTMENT REPORT

The day-to-day management of the Trust's investments is delegated by the Board of Trustees to authorised investment managers, who are given discretion, within defined limits, to invest in the range of asset classes in which UK pension funds normally invest. The appointment of the managers is normally reviewed every six years, but they are subject to continuous monitoring. The managers report regularly to the Investment Committee (consisting of eight Trustees), which monitors the managers' activities.

### 1. Policy and management

As a growing fund, The Pensions Trust has a positive cash flow and has no special maturity constraints. The Trust is therefore able to pursue its objective of maximising long-term total investment returns while maintaining a wide diversification of risk by employing the following professional fund managers:

- Schroders – *balanced*
- Legal & General  
– *consensus index-tracking*
- Fidelity Pensions Management  
– *for UK equities*
- Capital International  
– *for overseas equities*
- Henderson Investors  
– *for global bonds and cash*
- Richard Ellis St Quintin  
– *for direct property*

*For terms used, please see next page.*

Investment management expenses are market related and the increase this year (note 11, page 23) is explained partly by our new diverse management strategy (including the appointment of a global custodian) and partly by the increase in the market value of our assets (26%).

Within the global bond portfolio, subject to appropriate strict management controls being in place, and after considering professional advice, the Trustees have agreed to the limited use of derivatives for some modest improvement in long-term performance. The Legal & General fund also allows the limited use of derivatives to ensure the efficient management of the portfolio. During the year the Trustees agreed that the proportion of the total portfolio invested with Legal & General should be increased to 30%.

As a further diversification, approximately 5% of the total investments are in a directly held UK commercial property portfolio managed by Richard Ellis St Quintin. The table above right shows the allocation between fund managers.

Allocation between fund managers (as at 30 September)			
	1999		1998
	£m	%	%
Schroders	549.9	34.1	48.3
Fidelity	252.0	15.6	3.7
Capital	107.2	6.7	6.2
Hendersons	115.6	7.2	4.9
Legal & General	476.3	29.5	26.4
Richard Ellis	67.5	4.2	5.0
Friends Ivory & Sime*	22.3	1.4	1.2
Others	20.6	1.3	4.3
<b>Total</b>	<b>1,611.4</b>	<b>100.0</b>	<b>100.0</b>

*\* The assets held by Friends Ivory & Sime are invested in the Friends Provident Stewardship Managed Fund. A proportion of these assets are in relation to Money Purchase Plan members who have chosen to invest their contributions in the Unitised Ethical Plan and other individuals who have selected that option for additional voluntary contributions. The balance of the assets is attributed to one of the Trust's final salary pension schemes (for a specific employer) which requires a proportion of that Scheme's fund to be invested in the Friends Provident Stewardship Managed Fund.*

# BOARD OF TRUSTEES' REPORT

## TERMS USED

### **Consensus Index-Tracking:**

A passive type of investment management where the aim is to match the performance of the 'average' pension fund. Asset allocation is based solely on the consensus (average) of a large number of pension funds. The portion of the fund within each asset class is then invested in an index fund designed to track an appropriate index.

### **Derivatives:**

Financial instruments used by investment managers based on the price movement of an underlying asset – they are not investments themselves but reflect the investment's value.

### **Balanced:**

An active type of investment management where the manager is free to invest in all asset classes. 'Active' means the manager will seek some out-performance of the average fund.

In total, our allocations are not expected to diverge significantly from the average asset allocation of the 'peer group' of UK occupational pension funds.

This means that The Pensions Trust, in aggregate, normally holds between 75% and 90% of the portfolio in 'real assets', such as UK and overseas equity shares, index-linked gilts, unitised funds and property. The balance is in monetary assets which are fixed interest stocks and short-term deposits.

The total returns, particularly capital appreciation, are inherently unpredictable, but the long-term benefits of equity type investment are widely recognised, despite fluctuations in stock market values.

## 2. Target investment return

To achieve our long term funding plan we require a total return of at least 5.5% per annum gross greater than the Retail Prices Index over the long term (20 years). After allowing for expenses this is broadly equivalent to exceeding salary inflation (National Average Earnings) by 2.5% net.

The overall comparative investment performance target is to exceed The WM\* All Funds Weighted Average (including property) by 0.5% per annum over rolling 5-year periods. In any one year under-performance should be no worse than 1.5% below the Average.

Investment managers are advised separately of their asset allocation controls (also measured against the Average) and individual targets which may differ from the combined target due to their different investment styles.

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\* *The WM Company is an independent organisation which measures the returns on approximately 75% of the assets of pension funds in the UK and provides the benchmark performance figures we use.*

## 3. Portfolio summary

The combined total portfolio summary, as at 30 September 1999, is shown in the table above right.

At 30 September 1999 the Trust had **£564.0m** (1998: £400.8m) invested in managed and unitised funds. In preparing the portfolio summary (and in subsequent tables) these amounts have been re-analysed by underlying asset type. For example, any overseas equities held in managed and unitised funds are included in the 'overseas equities' figure.

Portfolio summary (as at 30 September)			
	1999		1998
	£m	%	%
UK equities	819.0	50.8	49.3
Overseas equities	330.3	20.5	19.6
Index-linked	84.1	5.2	5.6
UK properties	77.9	4.8	5.5
<b>Total 'real' assets</b>	<b>1,311.3</b>	<b>81.3</b>	<b>80.0</b>
UK fixed interest	126.9	7.9	7.4
Overseas fixed interest	71.0	4.4	4.3
Short-term deposits	98.9	6.1	8.2
Other investments	3.3	0.3	0.1
<b>Total 'monetary' assets</b>	<b>300.1</b>	<b>18.7</b>	<b>20.0</b>
<b>Total</b>	<b>1,611.4</b>	<b>100.0</b>	<b>100.0</b>

Exposure to overseas equity markets (as at 30 September)			
	1999		1998
	Market value £m	% of portfolio	% of portfolio
Europe	134.1	8.3	10.0
North America	76.7	4.8	3.9
Japan	66.3	4.1	3.1
Pacific Basin (excl. Japan)	36.2	2.2	2.3
Others	17.0	1.1	0.3
<b>Total</b>	<b>330.3</b>	<b>20.5</b>	<b>19.6</b>

10 largest direct UK equity holdings (as at 30 September 1999)	
Market value £m	
BP Amoco	32.6
Vodafone Airtouch	30.2
HSBC Holdings	21.7
Glaxo Wellcome	21.5
Lloyds TSB Group	19.5
British Telecom	19.5
Shell Transport & Trading	15.7
National Westminster Bank	12.7
AstraZeneca Group	12.4
SmithKline Beecham	11.8
<b>Total</b>	<b>197.6</b>

There were **186** (1998: 186) UK equity holdings at the year-end, spread over various market sectors. The ten largest UK equity holdings are shown in the table above.

There were **274** (1998: 289) overseas equity holdings at the year end, in the geographical areas shown left.

No individual investment in UK or overseas equities exceeded 5% of any class of issued shares of any company at any time during the year.

# BOARD OF TRUSTEES' REPORT

## 4. Property

The UK direct property portfolio at the year end comprised freehold properties, analysed by use as shown below.

All properties acquired as investments are let to major companies and organisations. Rent review periods are mainly five years. Previously the Trustees have directly approved property purchases or sales after taking professional advice, but from May 1999 all decisions have been delegated to our property managers, Richard Ellis St Quintin, under a discretionary management agreement.

UK direct properties (as at 30 September 1999)		
	Market value £m	%
Offices	28.1	36.1
Industrial	21.0	26.9
Retail	13.4	17.2
Retail warehouses	15.4	19.8
<b>Total</b>	<b>77.9</b>	<b>100.0</b>

Properties in this portfolio are valued each year by our property managers as stated previously. In line with best practice an independent valuation was completed in 1998 by Cluttons Daniel Smith, Chartered Surveyors; there were no material differences to report between the different valuations. Included in the office sector (but valued under separate arrangements from the above) is the combined total market value of £10.2m of the properties in London and Edinburgh occupied by the Trust, together with the development in Leeds, to be part occupied by the Trust during the next financial year.

## 5. Fund performance and medium-term review

Our comparative investment performance target is to out-perform the average pension fund by 0.5% per annum over rolling five-year periods (see section 2, page 12). The benchmark is The WM Average and, for example, if this Average were to be 9.5% per annum over five years, we would aim to achieve 10% per annum over the same five-year period.

■ *During the 12-month period ending 30 September 1999:* the fund achieved a return of 20.7% compared to the WM All Funds Average (including property) of 20.4%. Over the same 12-month period, the Retail Prices Index (which determines pension increases) was 1.1% and the increase in national average earnings (which determines pre-retirement liabilities) was 4.4%.

A new investment strategy was put in place to improve the longer term returns, but also with the desire of obtaining lower short-term under-performance, whilst recognising the consequent increase in investment management expenses. The new strategy has not been completely in place for 12 months but the initial results are an improvement compared to the previous year.

■ *Over the 5-year period ending 30 September 1999:* we achieved an investment return of 12.6% per annum over the 5 years, compared with the benchmark of 13.6%. This was expected because until recently our short-term investment performance had been disappointing. It is inevitable that the 5-year annualised performance will not meet our target for some time to come

Annualised investment returns (to 30 September 1999)				
	Short- (1 year)	Medium- (5 years)	Long-term (10 years) (20 years)	
	%	%	%	%
<b>The Pensions Trust</b>	<b>20.7</b>	<i>12.6</i>	<b>12.0</b>	<b>15.6</b>
Average pension fund	20.4	<i>13.6</i>	11.6	15.2
Average Earnings Index*	4.4	<i>4.1</i>	4.8	7.3
Retail Prices Index	1.1	<i>2.8</i>	3.6	5.3

\* Figures are provisional.

until our future investment returns start to fully impact on the 5-year period.

Over the same 5-year period the increase in the RPI was 2.8% per annum and the increase in national average earnings was 4.1% per annum. Whilst compared to the average pension fund our performance has been disappointing, the performance has been far in excess of RPI and national average earnings which drive pension liabilities.

There is evidence that our new investment strategy is delivering positive results with less downside volatility. We shall continue to monitor this very closely.

For the short- to long-term total investment returns on a combined basis, please refer to the summarised table above with comparisons against indices of inflation.

## 6. Investment principles

The Statement of Investment Principles (SIP), produced as required by the Pensions Act 1995, is set out in the following section and a separate copy is available on request. The investment managers have confirmed that they have complied with these principles. Specific information, to be read in conjunction with the SIP, is provided in this investment report. In addition, for information on ethical investment performance, see page 8.

New regulations issued this year require the Board of Trustees to include additional statements in the SIP by 3 July 2000. The proposed statements are included *in italics* in the following SIP and employers will be consulted before this is finalised.

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*The Board of Trustees' Report was agreed at the Board meeting on 16 December 1999.*

## STATEMENT OF INVESTMENT PRINCIPLES

### 1. Introduction

The Pensions Trust provides pensions for many employees and former employees of charities and voluntary organisations. The investment requirements are the long-term security and maintenance of value of diverse assets in real terms for all types of pension scheme design. Growth assets such as equity shares are therefore a major part of the portfolio. Since we invest in much the same way as most other pension funds, their average performance provides a comparative benchmark.

### 2. Appointments and delegation

Investment management is delegated to authorised discretionary and non-discretionary managers. These appointments are regularly reviewed. The names of individual managers and details of their portfolios and other relevant information are published each year in the Investment Report within the Trustees' Annual Report and Accounts. Investment and compliance stewardship are delegated to a formal investment committee of trustees who report back to the full Board of Trustees.

# BOARD OF TRUSTEES' REPORT

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## 3. Investment strategy

The discretionary managers determine the investments held, subject to world-wide diversification; the non-discretionary managers are constrained according to special criteria agreed from time to time. Each investment manager executes its own stock selection policy within asset allocation control targets agreed with the Investment Committee. The Investment Committee ensures it is comfortable with the balance between all investments made after comparison with the current disposition of other pension funds. The vast majority of assets are quickly marketable on recognised stock exchanges. While the Trust's contributions and investment income continue to exceed current expenditure, it is not necessary to realise assets to pay benefits.

## 4. Target investment return

Investment performance is monitored on the basis of professional reports received each quarter. The Trustees aim to achieve a long-term percentage return in excess of the increase in national average earnings. In addition, the Trustees are seeking some medium to long-term higher performance over that of the average pension fund, as measured by The WM Company in its annual "All Funds" survey. The WM Company is the major investment

performance measurement service for UK pension funds.

## 5. Risk management

Investments are held by custodians for the Trust's corporate trustee, Socpen Trustees Limited, whose members and directors are the elected Board of Trustees. Only designated persons can authorise the transfer of assets. Formal meetings are held regularly with the investment managers. By using a number of investment managers the risk attached to adverse performance by any one manager is reduced. *It is our policy to leave social, environmental and ethical considerations in the selection, retention and realisation of investments to the prudent judgement of our investment managers. However, where requested we do provide a specialist ethical investment vehicle. It is also our policy to give discretion to our investment managers in the exercise of rights attaching to investments (including voting rights).*

Derivative contracts can only be used with the prior agreement of the Trustees.

## 6. Funding requirements

The Trustees receive independent professional advice from the Trust's actuary in order to ensure that the funding obligations of the Pensions Act 1995 are complied with. Each scheme operated by the Trust is individually valued in order to

assess its own funding position relative to its obligations to members. The Trustees may agree to a separate investment strategy for individual schemes.

## 7. Compliance

The investment committee requires the managers to confirm annually that the investments are diversified and suitable, and that they have complied with the principles set out in this statement. This statement and our investment strategy are regularly reviewed. All our investment activities are supported by independent professional advice. In producing this statement the Trustees have consulted with the participating employers. Future consultation will be undertaken only if the principles change.

# AUDITORS' REPORT

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## *Auditors' Report to the Board of Trustees and Members of The Pensions Trust*

We have audited the accounts on pages 18 to 26.

### RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS

As described on page 28, the Trustees are responsible for obtaining audited accounts and for procuring that contributions are made to the Trust in accordance with:

- the Rules of the Trust and the recommendations of the Actuary; or
- for final salary schemes which have had their first minimum funding valuation, the schedules of contributions agreed with the employers as set out in the Compliance Statement on page 29 from the date of those schedules; or
- in respect of the Ethical Plan, the Payment Schedule.

It is our responsibility to form independent opinions, based on our audit, on those accounts and about contributions to the Trust and to report our opinions to you.

### BASES OF OPINIONS

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustees in the preparation of the accounts, and of

whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed. The work that we carried out also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Trust and the timing of those payments.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error, and that contributions have been paid in accordance with the relevant requirements.

In forming our opinions we also evaluated the overall adequacy of the presentation of the information in the accounts.

### OPINIONS

In our opinion, the accounts show a true and fair view of the financial transactions of the Trust during the scheme year ended 30 September 1999, and of the amount and disposition at that date of the assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year) and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor)

Regulations 1996 made under the Pensions Act 1995.

As explained in the Compliance Statement on page 29, during the year there have been various minor departures as regards the timing and amount of contributions from the requirements of certain schedules of contributions and the Payment Schedule, for some final salary schemes and the Ethical Plan respectively.

In our opinion, contributions payable to the Trust during the year ended 30 September 1999 have been paid:

- in respect of final salary schemes, in accordance with the Rules of the Trust and with the recommendations of the Actuary, where relevant up to the date of certification of a schedule of contributions, and, where such a schedule has been introduced, subsequently in accordance with the schedule, except for the breaches noted above; or
- in respect of the Ethical Plan, except for the breaches noted above, in accordance with the Payment Schedule.



KPMG  
Chartered Accountants  
Registered Auditors  
8 Salisbury Square  
London EC4Y 8BB  
16 December 1999

# FINANCIAL STATEMENTS


## Fund Account for the year ended 30 September 1999

		1999			1998
	Note	Final Salary Schemes £000	Money Purchase Schemes £000	Total £000	Total £000
<i>Contributions &amp; Benefits</i>					
Contributions receivable	3	79,435	24,569	<b>104,004</b>	88,657
Transfers in	4	25,054	3,555	<b>28,609</b>	17,709
Life assurance receipts		10	269	<b>279</b>	664
		<u>104,499</u>	<u>28,393</u>	<u><b>132,892</b></u>	<u>107,030</u>
Benefits payable	5	(19,787)	(17,896)	<b>(37,683)</b>	(32,066)
Payments to leavers	6	(4,794)	(1,183)	<b>(5,977)</b>	(8,011)
Net internal transfers	7	(1,561)	1,561	<b>0</b>	0
Life assurance payments		(269)	(10)	<b>(279)</b>	(666)
Administrative expenses	8	(4,015)	(3,545)	<b>(7,560)</b>	(6,759)
Exceptional costs	9	0	(1,803)	<b>(1,803)</b>	0
Specific expenses allocated		(198)	(5)	<b>(203)</b>	(171)
		<u>(30,624)</u>	<u>(22,881)</u>	<u><b>(53,505)</b></u>	<u>(47,673)</u>
<b>Net additions from dealings with members</b>		<u>73,875</u>	<u>5,512</u>	<u><b>79,387</b></u>	<u>59,357</u>
<i>Returns on investments</i>					
Investment income	10	25,127	10,742	<b>35,869</b>	41,050
Change in market value of investments	12	158,019	69,396	<b>227,415</b>	(72,262)
Investment management expenses	11	(2,389)	(1,023)	<b>(3,412)</b>	(2,390)
<b>Net returns on investments</b>		<u>180,757</u>	<u>79,115</u>	<u><b>259,872</b></u>	<u>(33,602)</u>
<b>Net increase in the fund during the year</b>		<b>254,632</b>	<b>84,627</b>	<b>339,259</b>	25,755
<i>Net assets of the scheme</i>					
<b>At 1 October</b>		<u>885,507</u>	<u>392,409</u>	<u><b>1,277,916</b></u>	<u>1,252,161</u>
<b>At 30 September</b>	16	<u><u>1,140,139</u></u>	<u><u>477,036</u></u>	<u><u><b>1,617,175</b></u></u>	<u><u>1,277,916</u></u>

## Net Assets Statement at 30 September 1999

	Note	1999 £000	1998 £000
<i>Investments</i>	12		
UK equities		515,005	366,926
Overseas equities		183,344	157,907
Managed and unitised funds		563,966	400,780
Index-linked securities		56,679	59,663
UK properties		77,850	69,823
Fixed interest securities		133,889	121,043
Cash deposits		82,785	91,402
Other investment balances		(2,146)	1,453
		<u>1,611,372</u>	<u>1,268,997</u>
<i>Fixed assets</i>	13	1,615	1,572
<i>Current assets</i>	14	9,749	10,732
<i>Current liabilities and provision</i>	15	(5,561)	(3,385)
<i>Net assets of the scheme</i>	16	<u><u>1,617,175</u></u>	<u><u>1,277,916</u></u>

Approved at a meeting of the Board of Trustees on 16 December 1999.



M W Sturge  
Chair, Board of Trustees



G A Cooke  
Vice Chair, Board of Trustees



R K Stroud  
Chief Executive

# NOTES TO THE FINANCIAL

## 1. BASIS OF PREPARATION

The financial statements set out on pages 18 to 26 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 the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The financial statements summarise the transactions and net assets of the Trust. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Trust, which does take account of such liabilities, is set out in a statement by the actuary on page 27 and these financial statements should be read in conjunction with that statement.

## 2. ACCOUNTING POLICIES

### **Contributions receivable\***

Contributions receivable from members are accounted for in the period in which they are deducted from members' salaries. Corresponding employer contributions are accounted for on a similar basis.

### **Additional voluntary contributions**

Members' additional voluntary contributions are used to secure additional benefits within the Trust and are accounted for as contributions receivable. These are disclosed in Note 3.

### **Scheme transfers**

Group transfers from other funds are accounted for when agreed. Individual transfers from other funds are accounted for when received. Transfers to other funds are stated at values recommended by the actuary in accordance with legislation and are accounted for when payment is made.

### **Benefits \***

Benefits payable on leaving are accounted for when the leavers have elected which option to take. Other benefits payable are accounted for as they fall due.

### **Depreciation**

Tangible fixed assets are depreciated from when expenditure is invoiced. This is undertaken over their expected useful economic lives on a straight line basis. The rates used are:

Computers	25.0% pa
Software development	33.3% pa
Motor vehicles	25.0% pa
Office equipment	25.0% pa
Office furniture	10.0% pa

Software development expenditure relating to a new information technology system is being capitalised.

### **Investment income**

Dividends and interest from quoted securities are accounted for when the investments are quoted ex-dividend or ex-interest. Dividends on unquoted securities are accounted for when declared. Other income is accounted for on an accruals basis. Investment income is stated inclusive of any related taxation recoverable, but net of any irrecoverable taxation.

### **Investments\***

Listed investments are stated at the mid-market value at the year end. Unlisted investments in managed funds and unit trusts are stated at the mid-point of the bid and offer prices obtained from the investment managers at the year end. Other unlisted securities are stated at the values assigned by the Board of Trustees based on the advice of the Trust's investment managers. Investment properties, including those in the course of development, are stated at open market value at the year end. Properties in owner occupation are stated at existing use

value, whilst the investment properties in the course of development have been valued at open market value at the year end. Derivatives are accounted for using the economic exposure basis.

### **Foreign exchange translation**

Assets and liabilities denominated in overseas currencies are translated to sterling at the rate at the year end. Translation differences are dealt with as part of the change in market values. Dividends and interest from overseas investments are translated to sterling at the rate applicable when they are received.

### **Schemes**

The individual employers' final salary schemes are shown in aggregate and distinguished from the money purchase schemes in the accounts. No individual final salary scheme has any call on the share of the assets of any other scheme.

Expenses which relate specifically to individual schemes (except for actuarial valuations) are charged to the appropriate scheme.

The allocation of income and expenses which do not directly relate to any scheme is as follows:

- (i) Net returns on investments are allocated to each scheme in proportion to the average invested funds of that scheme.
- (ii) Administrative expenses, other than those relating specifically to a particular scheme, are apportioned on the basis of a resolution of the Trustees dated 21 October 1993 (as amended).
- (iii) Exceptional costs are allocated as an adjustment to (ii) as determined by the Trustees.

\* For related-party transactions, see note 8 on page 30.

# STATEMENTS

	1999		1998
	Final Salary Schemes £000	Money Purchase Schemes £000	Total Total £000
<b>3. CONTRIBUTIONS</b>			
From participating employers			
Normal	54,132	12,239	66,371
Special receipts	971	128	1,099
	<u>55,103</u>	<u>12,367</u>	<u>67,470</u>
From the members			
Normal	24,299	7,551	31,850
Additional voluntary contributions	33	4,651	4,684
	<u>24,332</u>	<u>12,202</u>	<u>36,534</u>
Total contributions	<u><u>79,435</u></u>	<u><u>24,569</u></u>	<u><u>104,004</u></u>
<b>4. TRANSFERS IN</b>			
Group transfers	4,362	50	4,412
Individual transfers	20,692	3,505	24,197
	<u>25,054</u>	<u>3,555</u>	<u>28,609</u>
<b>5. BENEFITS PAYABLE</b>			
Pensions	12,082	15,125	27,207
Commutations and lump sum retirement benefits	5,365	2,233	7,598
Lump sum death benefits	2,340	538	2,878
	<u>19,787</u>	<u>17,896</u>	<u>37,683</u>
<b>6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS</b>			
Individual transfers to other schemes	3,999	871	4,870
Group transfers to other schemes	293	0	293
Refunds to members leaving service	351	158	509
Payments for members joining state scheme	151	0	151
Contribution credits for employers	0	154	154
	<u>4,794</u>	<u>1,183</u>	<u>5,977</u>

# NOTES TO THE FINANCIAL

	<b>1999</b> <b>£000</b>	<b>1998</b> <b>£000</b>
<b>7. NET INTERNAL TRANSFERS</b>		
From final salary schemes to money purchase schemes	1,840	1,453
From money purchase schemes to final salary schemes	<u>(279)</u>	<u>(23)</u>
	<u>1,561</u>	<u>1,430</u>
<b>8. ADMINISTRATIVE EXPENSES</b>		
Gross salaries	3,238	3,079
National insurance costs	303	282
Pension costs	<u>240</u>	<u>218</u>
	3,781	3,579
Other related salary costs	744	686
Office costs	645	623
Stationery, postage and telephone	407	351
Computer costs	530	390
Publicity and design	185	185
Depreciation	703	440
Other costs	<u>108</u>	<u>68</u>
	7,103	6,322
Professional fees		
Actuarial	294	239
Audit	79	68
Legal	40	67
Business plan projects	0	37
Other	<u>44</u>	<u>26</u>
	457	437
	<u>7,560</u>	<u>6,759</u>

## Employee Statistics

	<b>1999</b>	<b>1998</b>
Average number of employees	<b>134</b>	126
The number of employees whose emoluments (including pension contributions and other benefits in kind) fell in the following bands was:		
£40,001 – £50,000	5	4
£50,001 – £60,000	7	6
£60,001 – £70,000	1	2
£70,001 – £80,000	1	1
£80,001 – £90,000	0	1
£90,001 – £100,000	1	0
£120,001 – £130,000	0	1
£130,001 – £140,000	1	0

■ All employees are eligible to join The Pensions Trust pension scheme, which participates in the Money Purchase schemes.

# STATEMENTS

## 9. EXCEPTIONAL COSTS

During the year the Board of Trustees announced the decision to relocate the majority of The Pensions Trust's London operations to Leeds in 2000. As a result, the Board of Trustees expects to incur expenditure on closing down the London offices and setting up an office in Leeds. It is expected that the majority of this expenditure will be incurred in 2000 and consequently the Board of Trustees has established a provision based on the best estimate of the total costs of the relocation using currently available information. The allocation shown in the Fund Account (page 18) will be redistributed between all participating schemes over a maximum period of four years. In the meantime, the Actuary has confirmed that the Growth Plan bonus distribution will not be adversely affected.

	<b>1999</b> <b>£000</b>
Amount brought forward	0
Provision made in the year	1,803
Expenditure charged against the provision during the year	(174)
Amount carried forward	<u>1,629</u>

The total provision is higher than that which would have been established in complying with Financial Reporting Standard 12 – Provisions, Contingent Liabilities and Contingent Assets. However, the Board of Trustees considers it is appropriate for the Trust to take a prudent view and provide fully for the total expected costs of the relocation in the 1999 financial statements. The difference between the provision made in these financial statements and that which would have been established to comply with FRS 12 is **£0.779m**.

	<b>1999</b> <b>£000</b>	<b>1998</b> <b>£000</b>
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## 10. INVESTMENT INCOME

Dividends from UK equities and convertibles	13,452	16,404
Dividends from overseas equities and convertibles	2,513	2,612
Income from managed and unitised funds	1,079	1,369
Interest from index-linked securities	1,386	1,420
Net rents from UK properties	5,073	4,340
Interest from fixed interest securities	7,714	6,709
Income from short-term investments (incl. cash deposits)	4,652	8,196
	<u><b>35,869</b></u>	<u><b>41,050</b></u>

- As part of an ongoing review of the Trust's investment strategy, further funds were transferred during the year to a consensus index-tracking fund. Investment income of **£11.790m** (1998: £4.893m) has been rolled-up into the unit prices for this fund and accordingly is not reflected in the above figures.

	<b>1999</b> <b>£000</b>	<b>1998</b> <b>£000</b>
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## 11. INVESTMENT MANAGEMENT EXPENSES

Management, administration and custody	3,194	2,294
Performance measurement services	50	12
Other advisory fees	168	84
	<u><b>3,412</b></u>	<u><b>2,390</b></u>

# NOTES TO THE FINANCIAL

12. INVESTMENTS	Value at 01/10/98 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 30/09/99 £000
Equities and convertibles:					
UK	366,926	267,228	(181,756)	62,607	<b>515,005</b>
Overseas	157,907	118,285	(161,175)	68,327	<b>183,344</b>
Managed and unitised funds	400,780	82,921	(18,660)	98,925	<b>563,966</b>
Index-linked securities:					
UK Government	52,910	58,906	(62,981)	2,915	<b>51,750</b>
Overseas Government	6,753	0	(1,833)	9	<b>4,929</b>
UK properties	69,823	20,982	(15,883)	2,928	<b>77,850</b>
Fixed interest securities:					
UK public sector	75,053	83,993	(70,178)	(5,581)	<b>83,287</b>
Overseas public sector	45,990	75,618	(67,769)	(3,237)	<b>50,602</b>
Cash deposits:					
Sterling	91,402	780,133	(789,001)	0	<b>82,534</b>
Foreign currency	0	0	(468)	468	<b>0</b>
Forward currency contracts	0	28	169	54	<b>251</b>
Net outstanding settlements	(2,672)	(541)	(2,281)	0	<b>(5,494)</b>
	<u>1,264,872</u>	<u>1,487,553</u>	<u>(1,371,816)</u>	<u>227,415</u>	<u><b>1,608,024</b></u>
Investment income receivable	5,315				<b>4,543</b>
Prepaid rent from UK properties	(1,190)				<b>(1,195)</b>
	<u>1,268,997</u>				<u><b>1,611,372</b></u>

- The Trust's holdings in managed and unitised funds may be analysed as follows: UK investments **£396.6m** (1998: £302.0m); overseas investments **£167.4m** (1998: £98.8m).
- All managed and unitised funds are operated by companies registered in the UK.
- No individual investment exceeded 5% of the value of the Trust's investment assets at any time during either year.
- Included in investments, other than UK properties, are unquoted securities valued at **£0.621m** (1998: £0.982m).
- All properties are valued annually by either Richard Ellis St Quintin, Chartered Surveyors, or Edward Charles & Partners, Chartered Surveyors, at open market value, except for properties in owner occupation, which are stated at existing use value.
- Included within forward currency contracts at the year end are derivatives contracts valued at **£231,563** using the economic exposure basis. Cash deposits are stated net of the cash backing for these contracts of £231,563.
- Included in UK properties are properties in the course of development with an open market value of **£10.329m** (1998: £2.615m). One of the properties is for future part owner-occupation.
- For further analysis please refer to the portfolio summary table on page 13 and for disclosure of related-party transactions see the Compliance Statement on page 30.

# STATEMENTS

13. FIXED ASSETS	Total £000	Computers £000	Software development £000	Motor vehicles £000	Office equipment £000	Office furniture £000
<b>Cost</b>						
At beginning of year	2,769	1,321	949	167	101	231
Additions	830	238	513	21	26	32
Disposals	(335)	(241)	0	(36)	(1)	(57)
<b>At end of year</b>	<b>3,264</b>	<b>1,318</b>	<b>1,462</b>	<b>152</b>	<b>126</b>	<b>206</b>
<b>Depreciation</b>						
At beginning of year	(1,197)	(636)	(240)	(98)	(87)	(136)
Charge for year	(685)	(239)	(381)	(34)	(12)	(19)
Elimination on disposal	233	142	0	35	0	56
<b>At end of year</b>	<b>(1,649)</b>	<b>(733)</b>	<b>(621)</b>	<b>(97)</b>	<b>(99)</b>	<b>(99)</b>
<b>Net book value</b>						
<b>At end of year</b>	<b>1,615</b>	<b>585</b>	<b>841</b>	<b>55</b>	<b>27</b>	<b>107</b>
At beginning of year	1,572	685	709	69	14	95

- Freehold properties occupied by the Trust or under development for future part owner-occupation are treated as investments and are therefore not included in the above figures.

	1999 £000	1998 £000
14. CURRENT ASSETS		
Contributions due	8,840	7,413
Group transfers receivable	0	2,161
VAT recoverable	359	617
Other debtors	372	324
Bank and cash balances	178	217
	<b>9,749</b>	<b>10,732</b>

## 15. CURRENT LIABILITIES AND PROVISION

Benefits payable	446	172
Taxation payable	1,238	1,097
Expense accruals	1,475	1,558
Provision for relocation	1,629	0
Other creditors	773	558
	<b>5,561</b>	<b>3,385</b>

	<b>1999</b> <b>£000</b>	<b>1998</b> <b>£000</b>
<b>16. FUND ACCOUNT</b>		
Final salary schemes	1,140,139	885,507
Growth Plan	468,059	387,209
Ethical Plan	8,977	5,200
	<u><u>1,617,175</u></u>	<u><u>1,277,916</u></u>

- The assets of the final salary schemes and the Growth Plan (which provides defined, with-profits benefits) are invested in a common investment portfolio and as such are not designated to individual members. The Ethical Plan is a unit-linked scheme and the assets relating to it are designated in units to the individual members of that scheme. The above fund values include investments purchased with members' additional voluntary contributions.

#### 17. FINANCIAL COMMITMENTS

	<b>1999</b> <b>£000</b>	<b>1998</b> <b>£000</b>
As at 30 September the Trust had the following financial commitments		
Capital expenditure contracted for	<u>0</u>	<u>40</u>
Capital expenditure authorised but not contracted for	<u>286</u>	<u>413</u>
Capital expenditure authorised for properties in the course of development	<u>8,034</u>	<u>7,338</u>

#### 18. TRUSTEES

Trustees are not remunerated but are reimbursed their expenses for performing their duties.

Expenses incurred and reimbursed	<u>15</u>	<u>14</u>
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- The Trust has received contributions and paid benefits in respect of trustees who are members of the pension schemes administered by the Trust. These transactions are on normal terms in accordance with the rules of the Trust.

# ACTUARIAL STATEMENT

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## GROWTH PLAN

I made a valuation of the Growth Plan of the Trust as at 30 September 1996 and my calculations confirmed that this Plan continues to be in a healthy state with reasonable bonus prospects. The audited financial statements of the Trust for the year to 30 September 1999 show that the value of the assets attributable to the Growth Plan amounted to some £468.1m; I confirm that the bonus granted at the rate of 1.6% as at 30 September 1999 for members and pensioners of the Growth Plan was within the financial capacity of the Trust.

## FINAL SALARY SCHEMES

The Fund includes numerous individual final salary schemes, each of which has its own individual benefit and contribution structure. The financial statements show that the total assets for the final salary schemes amounted to some £1,140.1m on 30 September 1999. Each year, valuations of a number of the final salary schemes are made, and each scheme is valued at least once every three years. All valuations made as at 30 September 1998 have been completed.

To include in this report a separate actuarial statement for each scheme would not be practical. Each scheme is issued with its own individual certificate and copies are available on request. A certificate has been issued for each scheme valued in 1996, 1997, or 1998. These valuations covered all the final salary schemes operated by the Trust as at 30 September 1999.

The basis of the certificate has changed, following the coming into force in April 1997 of the Pensions Act 1995. This meant that the assets of each final salary scheme are to be compared, at a valuation, with a statutory minimum.

The certificates that have been issued fall into three categories:  
*(i) For schemes valued as at 30 September 1996, to which the old basis applied.* In every case accrued liabilities, having regard to salary and service up to the valuation date, could be met from the then current assets of each scheme.

*(ii) For schemes valued as at 30 September 1997, to which the new basis applied.* In every case the assets held by the scheme were sufficient to meet the statutory Minimum Funding Requirement.

*(iii) For schemes valued as at 30 September 1998, to which the new basis applied.* In four cases the assets held by each scheme were less than 100% of those required to meet the statutory Minimum Funding Requirement. In all other cases the assets held by each scheme were sufficient to meet the statutory Minimum Funding Requirement.

The certificates also showed the contributions which are to be paid to the schemes concerned. All the certificates contained statements that, in my opinion, the resources of each scheme can reasonably be expected, after allowing for contributions at the rates set out, to be sufficient to provide the promised benefits in full when they become payable.

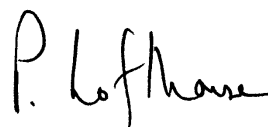
A copy of the relevant certificate is attached to the supplementary accounts for the individual schemes; these papers are sent automatically to members requesting this Trustees' report.

## DISCONTINUANCE OF INDIVIDUAL FINAL SALARY SCHEMES

In the event of the discontinuance of an individual final salary scheme, the Trust would consider the accrued liabilities.

The statutory minimum, it should be pointed out, is not necessarily high enough to guarantee the benefits through the purchase of insurance policies should the scheme be wound-up. Similarly, in making the statements about accrued liabilities appearing in the certificates for schemes valued as at 30 September 1996, the underlying calculations assume that the scheme would be able to secure investment returns in line with those assumed for ongoing schemes, and do not mean that the benefits could be guaranteed on winding-up.

If it had been decided to secure members' accrued liabilities by the purchase of annuities – although I understand that this is not the normal practice of the Trust – then, in the light of the comparatively unfavourable terms currently available from life assurance companies in the UK, the realisable value of the assets of many schemes would not have been sufficient to guarantee the promised benefits in full. Where this is the case, a statement to this effect is made in the appropriate valuation report.



Peter Lofthouse, Scheme Actuary  
Watson Wyatt Partners  
Actuaries & Consultants  
Watson House, London Road  
Reigate, Surrey RH2 9PQ  
16 December 1999

# COMPLIANCE STATEMENT

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## 1. TRUSTEES' RESPONSIBILITIES

The audited accounts are the responsibility of the Board of Trustees.

Pension scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited

accounts 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 the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pensions Schemes'.

The Trustees have supervised the preparation of the accounts and have agreed suitable accounting policies to be applied consistently, making estimates and judgements on a reasonable and prudent basis.

The Trustees are responsible under pensions legislation for ensuring that there is a prepared, maintained and from time to time revised payment or contributions schedule showing the rates of contributions payable by or on behalf of the par-

ticipating employers and the active members and the dates on or before which such contributions are to be paid. This year this requirement ('the schedules') applies only to the Ethical Plan and 12 of the Trust's Final Salary Schemes.

The Trustees are responsible under pensions legislation for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Scheme rules and with the recommendation of the Actuary and, in accordance with the schedules where these are in place.

The Trustees also have 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.

## 2. TAX STATUS/CONSTITUTION

The Pensions Trust is an exempt approved occupational pension scheme, established 1 April 1946 by a Trust Deed made 26 November 1946, and approved by the Board of the Inland Revenue for the purposes of Chapter 1 Part 14, of the Income and Corporation Taxes Act 1988, under their reference number SF16/37941. The Trust has also been approved for the purpose of contracting-out of SERPS for certain final salary schemes. To the best knowledge of the Board, there is no

reason why the Inland Revenue's approval should be prejudiced or withdrawn.

## 3. CORPORATE TRUSTEE/CUSTODY

The elected members of the Board of Trustees are the directors of Socpen Trustees Limited, The Pensions Trust's corporate trustee. Socpen Trustees Limited is the sole trustee of the Fund's assets and was incorporated on 13 December 1962 (Company Number 744017). It is a company limited by guarantee and is not a trading company.

The investments are held in the name of Socpen Trustees Limited, or to the order of Socpen Trustees Limited in the custodians' records. All of the assets are held by custodians as shown in our list of professional advisers on page 32. Changes to custody arrangements are reported on page 10.

## 4. TRUSTEESHIP

All members of the Board of Trustees have been given a copy of OPRA's "A Guide for Pension Scheme Trustees", which gives guidance on their duties and responsibilities. Training is available for all Trustees, and 11 current Board members have obtained the Pensions Management Institute's Trustee Certificate of Essential Pensions Knowledge.

## 5. APPOINTMENT AND REMOVAL OF TRUSTEES

The power of appointment and removal of Trustees is vested in the Board of Trustees, the members of which are elected in the manner described on page 8.

A Board member who has signed a declaration regarding legal eligibility prior to appointment will be removed from office immediately if subsequently this declaration is shown to be untrue, and will not be eligible for re-election.

Any person will be disqualified from being or becoming a member of the Board of Trustees if that person has been convicted of any offence involving fraud, theft, deception or other dishonesty; or has been adjudged bankrupt (and has not been discharged); or is disqualified from being or becoming a company director; or for any other reason as required by legislation or the Board.

Under the articles of association of the Trustee Company, the directors of the Company are the members of the Board of Trustees of the Fund. Anyone who ceases for whatever reason to be a member of the Board automatically ceases to be a director of the Trustee Company.

## 6. PENSION CONTRIBUTIONS

Under the rules, each participating employer determines a joint contribution rate for the particular scheme it operates with the Trust. There is no standard contribution rate, as a wide range of benefits is provided. The auditors' report to

the accounts also addresses late payment of contributions. The Trust has made every effort to remind employers of their legal responsibility to pay contributions to the Trustees by the due date. Schedules of Contributions Under the requirements of the Pensions Act 1995 the final salary schemes of the Trust are required to put in place schedules of contributions following the completion of their Minimum Funding Requirement valuations. These schedules set out the rate of contribution and the dates by which they should be paid to the Trust. The following 12 final salary schemes had schedules of contributions certified by the Scheme Actuary on 14 December 1998:

Anchor Trust; Arthritis Care; The Bedford Charity; Boys and Girls Welfare Society; The Children's Society; Council for World Mission; The Edward James Foundation; Help the Aged; Leonard Cheshire; The Shaftesbury Society; Stonham Housing Association; Winchester College.

In respect of one final salary scheme, an amount of £32,950 of employer contributions was not paid to the Trust in accordance with the schedule of contributions. This was due to an error in implementing an increase in the actuarially recommended rate of employer contributions. The amounts involved are in the process of being recovered by the Trust.

During the year a number of employers who had schedules in place on occasion remitted contributions later than the date set out in the schedules. There were 47 late payments representing total contributions of approximately £266,523 relating to 35 employers. The average number of days late was 4 with the latest remittance being 18 days late.

### Payment Schedule

Under the Pensions Act 1995 the Trust is required to put in place a Payment Schedule for the United Ethical Plan setting out the agreed rates of contributions to the Plan and the date by which they should be paid to the Plan; the Schedule for the year is dated 24 September 1998. During the year a number of employers participating in the Ethical Plan on occasion remitted contributions later than the date set out in the Payment Schedule. There were 99 late payments representing total contributions of approximately £45,900 relating to 71 employers. The average number of days late was 8 with the latest remittance being 51 days late.

## 7. SCHEME TRANSFERS

Transfer values have been paid in a manner consistent with the requirements of Section 97 of the Pension Schemes Act 1993. An allowance for any discretionary benefits, as applicable under Final Salary Rules, is included in the calculation of transfer values within the rates provided by the actuary. Under the Growth Plan Rules discretionary benefits

# COMPLIANCE STATEMENT

are not included. Some of the final salary schemes participate in the Public Sector Transfer Club system.

## 8. RELATED-PARTY TRANSACTIONS

### Employer/staff-related

The staff of the Trust are employed by the Board of Trustees and occupy premises owned by the Fund. The Fund's investments comply with restrictions prescribed by regulations made under section 40 of the Pensions Act 1995 relating to 'employer-related investments'. Not more than 5% of the current market value of the resources of the Fund may at any time be invested in employer-related investments.

Technically, the following are employer-related investments:

- A. The Trust occupies all the offices at 15, and part of 17, Rathbone Street, London, and all of 30 York Place, Edinburgh. It owns the freeholds of the London offices, valued at £4.2m and the Edinburgh office, valued at £0.5m, in total being 0.8% by value of the appropriate part of the portfolio. Most of the Trust's staff participate in the Trust's pension schemes and, for this reason only, the offices are regarded as an 'employer-related investment'. The Trust's new offices at Leeds were still being developed, and therefore unoccupied, during this financial year.
- B. The Trust owns investments in The Housing Finance Corporation (THFC) 11.5% Bonds 2016, valued at £2.3m. An associate company of THFC participates in the Social Housing Pension Scheme and this

investment represents 0.4% by value of the assets of that scheme.

### Trustee-related

All Trustees are elected either by participating employers or by Scheme members. Usually therefore a Trustee is either a contributing active member, a deferred pensioner or a pensioner of one of the Trust's schemes.

## 9. SECURITY

The Trustees are satisfied as to the nature, disposition, marketability, security and valuation of the portfolio and as to the long-term results achieved. The Statement of Investment Principles also comments on these issues.

## 10. REGISTRATION

Details of The Pensions Trust (including the names of all participating employers) have been recorded by the Pensions Registrar (OPRA) under reference 101704185. The purpose of this registration is to help individuals trace their pension rights, should they lose contact with the Trust. The address of the Pension Schemes Registry is: PO Box 1NN, Newcastle upon Tyne NE99 1NN. Telephone 0191 225 6393.

## 11. YEAR 2000

Since July 1997 The Pensions Trust has undertaken significant work to prepare the business for the rollover into the new Millennium.

We are pleased to confirm that all tasks identified in relation to the Year 2000 issue were completed by the end of October 1999, leaving The Pensions Trust in a strong

position to deal with the date change at the end of the year. Due to the Trust's financial year-end falling on 30th September, the most critical failure dates were passed without a single problem occurring, giving a good indication of the Trust's level of compliance.

We intend to continue to expend effort to minimise our exposure to the Year 2000 issue, so that neither the functionality nor the performance of the services we provide to our clients are adversely affected by the advent of the Year 2000.

Whilst we can assure you that The Pensions Trust has made every effort to ensure our systems are Year 2000 compliant (in accordance with BSI Standards) the outcome of the Year 2000 problem is too complex to predict. Therefore, it is not possible for our organisation to give an unequivocal statement of compliance.

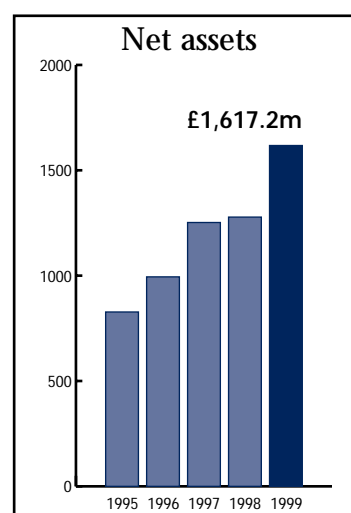
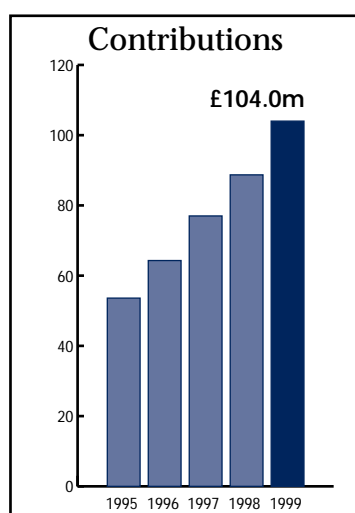
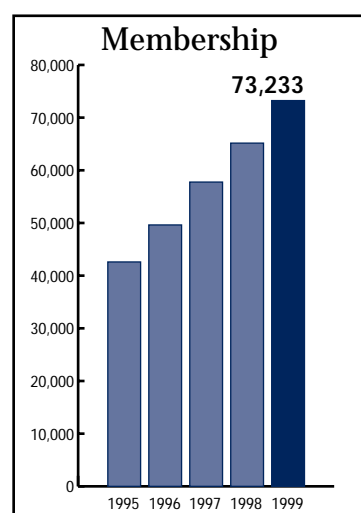
## ADDITIONAL INFORMATION

The following is published after the approval on 16 December 1999 of, and does not form part of, the Annual Report and Accounts.

- *We are pleased to inform all our clients that the 1 January 2000 passed without any significant incident relative to the Year 2000 Project.*
- *Michael Richmond, of Youth Hostels Association, has rejoined the Board to fill the vacancy for a Member Nominated Trustee.*

# FIVE-YEAR SUMMARY

	1995	1996	1997	1998	1999
<b>Active members</b>	25,905	30,709	35,720	39,193	<b>43,350</b>
<b>Deferred pensioners</b>	9,995	11,670	13,827	16,999	<b>20,058</b>
<b>Pensioners (incl. beneficiaries)</b>	6,698	7,245	8,217	8,966	<b>9,825</b>
<b>Total membership</b>	42,598	49,624	57,764	65,158	<b>73,233</b>
<b>Employers</b>	2,558	2,688	2,893	3,047	<b>3,247</b>
	£m	£m	£m	£m	£m
<b>Contributions receivable</b>	53.6	64.3	77.0	88.7	<b>104.0</b>
<b>Transfers in</b>	23.4	34.2	25.8	17.7	<b>28.6</b>
<b>Benefits payable</b>	(25.9)	(30.3)	(32.4)	(40.1)	<b>(43.7)</b>
<b>Administrative expenses (incl. exceptional costs)</b>	(4.8)	(5.4)	(6.3)	(6.9)	<b>(9.5)</b>
<b>Net investment income</b>	29.3	39.0	43.2	38.7	<b>32.5</b>
<b>Change in market value of investments</b>	67.3	64.9	150.7	(72.2)	<b>227.4</b>
<b>Net assets at end of year</b>	827.5	994.2	1,252.2	1,277.9	<b>1,617.2</b>



# PROFESSIONAL ADVISERS AND BANKERS

## ACTUARIAL AND INVESTMENT CONSULTANTS

Watson Wyatt Partners  
Watson House  
London Road  
Reigate  
Surrey RH2 9PQ

Watson Wyatt Partners  
11 Abercromby Place  
Edinburgh EH3 6LB

Scheme Actuary  
Peter Lofthouse of  
Watson Wyatt Partners,  
Reigate (as above)

## AUDITORS

KPMG  
8 Salisbury Square  
London EC4Y 8BB

## SOLICITORS

Rowe & Maw  
20 Black Friars Lane  
London EC4V 6HD

McGrigor Donald  
68-73 Queen House  
Edinburgh EH2 4NF

## BANKERS

The Royal Bank of Scotland plc  
28 Cavendish Square  
London W1M 0DB

## INVESTMENT MANAGERS

Schroder Investment  
Management (UK) Ltd  
31 Gresham Street  
London EC2V 7QA

Fidelity Pensions Management  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

Capital International Ltd  
25 Bedford Street  
London WC2E 9HN

Henderson Investors Ltd  
3 Finsbury Avenue  
London EC2M 2PA

Legal & General Investment  
Managers  
3 Queen Victoria Street  
London EC4N 8EL

Friends Ivory & Sime plc  
15 Old Bailey  
London EC4M 7AP

## PROPERTY MANAGERS

Richard Ellis St Quintin  
Berkeley Square House  
London W1X 6AN

Edward Charles & Partners  
12-14 Wigmore Street  
London W1M 0PM

## MEASURERS OF INVESTMENT PERFORMANCE

The WM Company  
World Markets House  
Crewe Toll  
Edinburgh EH4 2PY

## CUSTODIANS

The Northern Trust Company  
155 Bishopsgate  
London EC2M 3XS

Rowe & Maw  
(for property deeds)

## PENSION CONSULTANTS

SBJ Benefit Consultants Ltd  
18/21 Queen Square  
Bristol BS1 4PF

Hymans Robertson Financial  
Services  
13 Charlotte Street  
Edinburgh EH2 4DZ

# MANAGEMENT OF THE TRUST

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## RICHARD STROUD

Chief Executive

E-mail: [richard.stroud@thepensiontrust.org.uk](mailto:richard.stroud@thepensiontrust.org.uk)

Telephone: 020 7927 8100

## TREVOR SMITH

Deputy Chief Executive

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## PETER CHIVERS

Finance Director

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Telephone: 020 7927 8221

## JOHN COY

Head of Compliance

E-mail: [john.coy@thepensiontrust.org.uk](mailto:john.coy@thepensiontrust.org.uk)

Telephone: 020 7927 8111

### FURTHER INFORMATION

Further details about the Trust, its schemes and services can be obtained from The Pensions Trust. Literature is available on topics such as investment management policy, business objectives, the Service Commitment and details of the type of benefit schemes operated by the Trust. The staff will be pleased to assist with any information that may be requested. All enquiries about any scheme and about any individual's entitlement or amount of benefit should be made direct to the Trust's offices. Office addresses are given on the outside back cover.

E-mail: [enquiries@thepensiontrust.org.uk](mailto:enquiries@thepensiontrust.org.uk)

Website: [www.thepensiontrust.org.uk](http://www.thepensiontrust.org.uk)

This Annual Report and Accounts, when issued to members of final salary schemes, must be accompanied by the supplementary accounts for the individual scheme.



## The Pensions Trust

for Charities and Voluntary  
Organisations since 1946

15 Rathbone Street, London W1P 2AJ  
Tel: 020 7636 1841

30 York Place, Edinburgh EH1 3EP  
Tel: 0131 557 4123

Verity House, 6 Canal Wharf, Leeds LS11 5BQ  
Tel: 0113 234 5500

Internet: [www.thepensiontrust.org.uk](http://www.thepensiontrust.org.uk) e-mail: [enquiries@thepensiontrust.org.uk](mailto:enquiries@thepensiontrust.org.uk)

