



ANNUAL REPORT AND ACCOUNTS 2000

# Building for the future



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## *Building for the future*

The Trust has moved into its new office in Leeds, retaining its office in Edinburgh and a smaller London office. We continue in our commitment to work towards improving our service standards and reducing our costs over the long term.

We are confident that we now have firm foundations for the continued success of the Trust in the future.

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.*

**This report will be provided  
in larger print on request.**

THE CHAIR IS AN ELECTED MEMBER OF THE BOARD OF TRUSTEES. THE CURRENT CHAIR, MICHAEL STURGE, HAS BEEN A MEMBER OF THE BOARD OF TRUSTEES FOR 14 YEARS, 8 AS CHAIR. MICHAEL IS THE DEPUTY DIRECTOR AND DIRECTOR OF FINANCE AT THE JOSEPH ROWNTREE FOUNDATION.

## Chair's Statement

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The Pensions Trust's growth continued in the 12 months to 30 September 2000.

- Active membership increased by 9.5% to 47,455. Over the past 5 years, the number of active members has increased by 83%. Total membership now exceeds 83,000.
- Annual contributions receivable rose by 11% to £115 million.
- Total benefits payable increased by 12% to over £49 million.
- Scheme assets increased by more than 17% to £1.9 billion.



*Councillor Keith Parker, Lord Mayor of Leeds, officiated at the opening ceremony of Verity House*

The past 12 months have presented significant challenges across a number of fronts – funding of pensions, investment management, pension products, and internal organisation.

The funding of pensions has become increasingly onerous. The impact of the tax changes in the 1997 Budget, the increase in longevity, the reduction of interest rates, and the low inflationary environment, have all made it more expensive to purchase £1 of pension today than in earlier years. Nearly all our final salary schemes have needed to address issues of contribution rates and benefit design.

Our Investment Portfolio is now approaching £2 billion, and rapid changes are taking place in the external environment. With some sadness the Trustees took the decision to end our long relationship with Schroders. We have moved away from a balanced investment management holding in the Portfolio in favour of more specialist management, including the appointment of a further active manager for UK Equities, Barclays Global Investors.

The Government's proposals for stakeholder pensions have become clearer over the past 12 months. After much discussion, the Trustees decided not to promote a new scheme, which was feared would be an inferior product as compared to the Trust's existing products. Rather, the Trust should encourage employers to extend eligibility



for joining their occupational pension scheme, either within their final salary schemes, or offer membership of the Trust's Money Purchase Plan. We are also considering launching some new products to provide a greater range of options for members and employers: further details are given on page 8.

We were pleased to move to our new purpose-built offices at Granary Wharf in Leeds in March and were delighted that Councillor Keith Parker, Lord Mayor of Leeds, could join us for the official opening on 17 May. Sadly, the move meant that we had to say farewell to a number of long-standing colleagues who did not wish to transfer from London. At the same time we have been in the midst of implementing our new computer system, PensionsOffice. The combined impact of a significant turnover of staff with a major change of computer system has meant that the level of service to our customers fell below the standard which we set ourselves. Strenuous efforts have been made to improve the position which are showing positive results. In the longer-term, we are sure that the internal changes will enable us to provide a better service at a lower cost.

There are no changes to report amongst the Trustee body except for Michael Richmond rejoining the Board following the sad death of Chrystall Carter. Further changes will take place from 1 March 2001.

Having served 14 years as a Trustee, 8 years as Chair, I have decided not to stand for re-election and so shall be retiring on 28 February 2001. The Trust's assets are currently more than 12 times their level when I was first elected, and the number of members has grown 5 times, both remarkable figures. I shall be stepping aside with some regret since I have much enjoyed being a part of the Trust's success, and I have also greatly appreciated the warmth of the support and friendship from both Trustees and members of staff. Above all I have been pleased to have been able to make a contribution to the charitable and voluntary sector which means so much to me. I shall be leaving with confidence that the Trust will continue to provide a real service to all those associated with the sector.

As ever, special thanks are due to Richard Stroud, Trevor Smith and colleagues for their dedicated service.

A handwritten signature in black ink that reads "Michael W Sturge". The signature is written in a cursive, flowing style.

**Michael W Sturge**

Chair

13 December 2000

RICHARD STROUD, A FELLOW OF THE PENSIONS MANAGEMENT INSTITUTE, HAS BEEN CHIEF EXECUTIVE OF THE PENSIONS TRUST FOR 22 YEARS. RICHARD IS ALSO A MEMBER OF THE COUNCIL OF THE NATIONAL ASSOCIATION OF PENSION FUNDS.

## *Chief Executive's Review*

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Our mission is “to provide the best pension service to charities and voluntary organisations”. All UK pensions organisations are going through the biggest upheaval I have ever experienced in my 37 years in the business. The Government is now launching its stakeholder initiative and, having been very much involved in the consultation exercise over the last few years, we were somewhat disappointed with the outcome. It seems to be aimed at providing business opportunities to huge pension providers (many of whom were involved in the personal pensions mis-selling scandal). Paradoxically most of the financial benefits will be reaped by the higher paid rather than the low-to-moderate income groups where stakeholder is supposed to be targeted.

We have decided not to run a stakeholder scheme principally because we do not believe the structure is designed to provide at least a reasonable level of pensions for the targeted group. We will, in its place, be offering our Money Purchase Plan (Growth Plan or Unitised Ethical Plan) but subject to an employer paying a minimum low contribution rate of at least 1% of salaries.

The Money Purchase Plan has very similar charging structures to the stakeholder requirements. Many of our employers will not have to consider offering a stakeholder if their scheme is offered to all employees. An announcement was issued in late October and anyone wishing extra copies of this should contact me.

The controversial Minimum Funding Requirement (MFR), which affects final salary schemes and the Growth Plan, was introduced a few years ago and, as predicted by the pensions industry, has caused many problems. Indeed, the Government is already reviewing it! The Inland Revenue authorities have

introduced a new money purchase tax regime which, instead of simplifying life, makes it more complicated. We have to operate pension schemes under very complicated tax structures and despite a massive plea from the industry there is at present no sign of simplicity happening. Added to that, regulation is a real cost burden.

### **OUR COSTS**

We measure our expenses in a number of ways but probably the most useful measure is what we call our “Unit Cost per Member”. Excluding investment expenses which are measured separately, our unit cost per member for the 12-month period was **£106.13** compared to the previous year's figure (excluding exceptional expenses) of £107.31. This represents a reduction in unit cost of **1.1%** compared to an increase in the retail price index (measured April to April) of 3%, a real reduction of 4%. It is a very creditable achievement. We also analyse our costs as an overall percentage reduction in investment return known as the Reduction In Yield (RIY). In the year this was **0.71%** compared to last year's figure of 0.92%. The Government, for its stakeholder initiative, is only allowing an overall charging structure on the basis of charges not exceeding 1%.

### **MEMBERSHIP**

Membership growth is slightly below expectations, mainly due to the Government's delay in launching its stakeholder initiative. There has been a period of “pension planning stagnation”, and this has affected all pension providers in the UK. Nevertheless, our total membership figures (including employers) reached 83,719 compared to the previous year's figure of 76,480. This represents an increase of just over 9%.



### SERVICE AND ADMINISTRATION

During the year we opened our main office in Leeds as part of our long-term strategy to continue to reduce costs and improve service. Sadly, very few staff wished to relocate to Leeds, resulting in the redundancy of the majority of our London-based administrative workforce, but I am pleased that they generally found new jobs very quickly.

The move to Leeds has caused some disruption but added to that we are still having challenges in getting our new IT system to deliver what we want it to deliver. The fact that many other service providers have similar difficulties is of no comfort. I deeply regret any inconvenience our customers may have experienced.

Our Customer Satisfaction Surveys still indicate that our average performance, is rated either 'satisfactory' or 'good'. It is our priority to get the IT system delivering as we would all want it: reducing backlogs and enabling the Trust to grow successfully on a much lower cost base.

### INVESTMENTS

Last year I reported that we continued to achieve high rates of return but that in recent years these have been marginally below the average results of other pension funds. We had implemented a new investment strategy and this was delivering significant improvements and I was able to report upon that. Unfortunately in the quarter from 1 October 1999 to 31 December 1999 one of our existing managers had very disappointing results and this spoilt the calendar year results somewhat. During the calendar year 1999 we achieved a 20.7% return whereas the WM All Funds Average was 21.3%. However, if we look at the other major performance measurer, CAPS, their result was 19.8% so whilst we underperformed compared to the WM survey we did outperform the CAPS survey.

If we look at the results for the nine months to 30 September 2000 we have achieved a performance of 0.7% whereas the average pension fund as measured by the WM Company has achieved a -0.4% return. This is an outperformance of 1.1%. At 1 October 2000 we extended our investment strategy further and this is explained in more detail in the investment report on page 12.

### SUMMARY

Our unit costs and reduction in yield measures are dropping significantly and are budgeted to continue to reduce. We have not yet achieved our medium term investment objectives but I believe that our investment strategy will deliver the results we all want. Most of our efforts must be concentrated on getting our new IT system to operate more efficiently so that we can reduce backlogs and improve customer service.

An enormous amount has been achieved in the last 12 months and the new Leeds office is a fundamental part of our future vision. The Senior Management Team, with the consistent support of our Trustees, has enabled The Pensions Trust to achieve this. I wish to make a special point of thanking all those London-based staff who have since left but who have, over the years, helped build up The Pensions Trust to what it is today. We must continue that legacy in the future.

**Richard Stroud**

Chief Executive

13 December 2000

# Board of Trustees' Report

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The Pensions Trust began 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. Financial Highlights

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

SUMMARISED FINANCIAL RESULTS	
	£000
Contributions receivable	115,617
Transfers in	19,211
Benefits payable	(49,225)
Administrative expenses	(8,508)
<b>Net new money</b>	<b>77,095</b>
Net investment income	36,820
Change in market value of investments	171,968
<b>Net returns on investments</b>	<b>208,788</b>
<b>Net increase during year</b>	<b>285,883</b>
Fund at beginning of year	1,617,175
<b>Fund at end of year</b>	<b>1,903,058</b>

### 2. Membership

The members and participating employers of The Pensions Trust cover the full range of the charitable, voluntary and not-for-profit sectors. As at the year-end, there were 3,418 registered employers, a net increase of 171 over the year.

GROWTH IN MEMBERSHIP (AS AT 30 SEPTEMBER)			
	1999	Net Increase	2000
Active members	43,350	4,105	47,455
Deferred pensioners	20,058	2,286	22,344
Pensioners	9,158	547	9,705
Beneficiaries' pensions	667	130	797
<b>Total</b>	<b>73,233</b>	<b>7,068</b>	<b>80,301</b>

### 3. Growth Plan

ANNUALISED BONUS (TO 30 SEPTEMBER 2000)		
	5 years (%)	10 years (%)
<b>Bonus</b>	<b>2.9</b>	<b>4.0</b>
Total compound return	7.9	9.0
Average Earnings Index*	4.7	5.2
Retail Prices Index	2.8	3.3

\* figures are provisional

Growth Plan pensions for all members, deferred members and pensioners were increased by 3% for this scheme year, paid in October 2000. This increase is in addition to an agreed investment return already included in the pension calculations. The 3% increase equates to the increase in the RPI for the year to April, prior to the declaration of the bonus. Bonuses are related to long-term actuarial assessments, and not to investment results for the current scheme year.

The table on the previous page compares the bonus and the total compound return (the bonus plus the basic return) to September 2000 with changes in the relevant indices over the last five and ten years.

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 1999 and copies of the valuation results are available on request.

The Actuary's Statement appears on page 27.

**4. 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.

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.

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

Each final salary scheme within the Trust is valued every three years and each year a different group 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.

The Actuary's Statement appears on page 27.

**5. 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.

<b>ANNUALISED ETHICAL FUND RETURNS – FRIENDS PROVIDENT (TO 30 SEPTEMBER 2000)</b>			
	<b>Short- (1 year)</b>	<b>Medium- (5 years)</b>	<b>Long-term (10 years)</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b>Ethical fund</b>	<b>15.2</b>	<b>15.8</b>	<b>16.3</b>
FT Actuaries	9.5	14.9	15.6
All-Share Index			

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 (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 such investment for themselves and the Unitised Ethical Plan is available for this purpose.

Contributions are invested 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 – *which are not included in the Trust’s own investment performance figures* – are given in the table on the previous page. Because this is an equity portfolio, to compare investment performance, 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.

## **6. New Developments**

### ■ **Growth Plan**

The Growth Plan is the principal component of our Money Purchase Plan which has provided with-profits pensions since 1946. Following the latest professional advice, instead of declaring an annual bonus, which is in addition to an agreed investment return included in the pension secured for each contribution, we shall in future be awarding an annual investment credit which combines these two elements. We shall therefore no longer be using monthly pension purchase factors, but future Growth Plan contributions will accumulate in a cash fund which members will be able to convert to pension on retirement. The start date for the new arrangement is expected to be October 2001.

### ■ **Stakeholder**

From October 2001 all UK employers with at least five employees must offer a stakeholder

pension arrangement if they do not already offer all their employees the opportunity to join an occupational pension scheme or (within certain limits) a personal pension scheme. Our response is therefore to encourage all our participating employers either to remove all restrictions on eligibility for joining their current scheme, or to ensure that a money purchase scheme option with The Pensions Trust is offered to their staff. Such action would free employers from stakeholder responsibilities.

### ■ **Revalued Salary – “CARE”**

During 2001 we also hope to be ready to announce our plans for what is a ‘middle road’ scheme between the money purchase and final salary level of benefits. The scheme’s design will provide stability in funding at an affordable level. The new Revalued Salary Scheme (to be launched under the name of “CARE” the acronym for ‘Career-Average Revalued Earnings’) will enable participating employers to provide salary related benefits based on earnings which will be revalued by prices inflation throughout a member’s career.

### ■ **Socially Responsible Investment – “SRI”**

The Trustees are actively considering the launch of a new SRI employer’s option for salary-related schemes where the employer pays the balance of the contributions required to meet the benefit promises. This will be in addition to our Unitised Ethical Plan. Details will be available in 2001.



## GOVERNANCE

### 1. Awards

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

- 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 consists of 18 people, nine of whom are elected by the qualifying employers and nine by the members. Invitations for nominations are published each year to all members and employers. During the year Michael Richmond rejoined the Board to fill the vacancy for a Member Nominated Trustee caused by the sudden death, on 9 November 1999, of Chrystall Carter, who had been elected to the Board from 1 October 1999, as reported last year. The next elections will be for Trustees to take office on 1 March each year commencing 2001, and nominations have been invited.

### EMPLOYER NOMINATED TRUSTEES

from left to right

#### **John Alleston**

Retired, 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

From 1 October 2000, a member of the Social Housing Pension Scheme (SHPS) attends the Board of Trustees and Investment Committee meetings as an observer.

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



### **MEMBER NOMINATED TRUSTEES**

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

**Michael Richmond**

Youth Hostels Association

**Ian Roylance**

OPAS – the Pensions Advisory Service

**Clare Smith**

Leonard Cheshire

**Kate Spain**

Orbit Housing Association

**John Wheatley**

Trustee Adviser, WL Partnership

### **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 ‘away-day’ to consider broader pension issues. In particular, the Board has also considered options for new schemes, future product development and 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 also managed the review of managers mentioned in the Investment Report.

- the Audit and Compliance Committee met twice to consider audit reports, the effectiveness of internal controls, compliance and the annual report and accounts.

### **4. Delegation**

Investment fund management is delegated to professional external managers as described in the investment report. In addition to the sub-committees and the Pensions 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**

Barclays Global Investors Limited were appointed, by an agreement dated 29 August 2000, as an additional active investment manager for UK equities.

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

### **6. Complaints Procedure**

In the first instance contact should be made with the client manager or team leader who deals with the scheme’s administration. Guidelines are provided automatically to members and a copy is available on request. The Trust’s policy is to resolve all complaints internally without outside intervention being necessary from OPAS – the Pensions Advisory Service, or the Pensions Ombudsman (though these may be contacted at any time).

## 7. Trust Deed and Rules

The Trust Deed & Rules are kept up to date regularly and this year all previous amendments have been consolidated into a complete replacement edition, effective from 1 July 2000. A number of minor changes have been made to reflect the requirements of legislation, administration or the Inland Revenue, and as well the following main provisions have been incorporated:

### ■ **Divorce:**

For divorces where proceedings begin from 1 December 2000, courts are able to order that the value of a member's pension rights is shared with the ex-spouse. The Trust will allow the ex-spouse to keep their part of the fund as pension rights payable from the Trust, or the ex-spouse may take a transfer-value to another provider.

### ■ **Indemnity:**

Employers are required to pay a small levy to enable the Trustees to have an insurance policy against the unlikely event of a civil penalty. It is illegal for this type of insurance for Trustees to be met as an administration expense, and this is the reason for the levy. The first levy of £5 was raised this year. It is anticipated that the next levy will be charged in 2003.

### ■ **Minimum Funding Requirement:**

It has now been established that the MFR provisions of the Pensions Act apply to the Growth Plan as well as for Final Salary Schemes, and this is reflected in the rules.

### ■ **Growth Plan Rules:**

The combined effect of MFR and current investment conditions has resulted in changes being planned for future benefit accruals. In future contributions will be accepted on a purely money purchase cash accumulation basis, with explicit disclosure of investment credits and expenses. Members will then be able to secure a pension from the Growth Plan on retirement. There are no changes to benefits already secured. This should start from October 2001.

### ■ **Revalued Salary Rules:**

A new scheme of the Trust will provide a centralised scheme based on actual gross earnings revalued each year by the RPI. The pension provided will be 1/80th of total "Career Average Revalued Earnings" – our "CARE" scheme. It is designed to be of lower cost and greater stability than traditional final salary schemes, and is expected to commence in about a year's time.

### ■ **Retirements due to Ill-health:**

The rules have been improved to provide further clarity following legal advice and Ombudsman's decisions. There are no changes to benefits.

### ■ **Trustees' Elections:**

Elections for new trustees will in future be held over the winter months, with the newly appointed trustees commencing each 1 March. For this reason there are no general appointments to report this financial year.

The present Trust Deed and Rules were adopted on 5 July 2000. Notes of changes are given in the box indicated. All amendments meet the requirements of Section 67 of the Pensions Act 1995, ensuring that members' accrued rights are not adversely effected. Further information and copies of the Trust Deed and Rules are available upon request.

# 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 within 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, which monitors their activities.

## 1. Policy and Management

As a growing fund, The Pensions Trust has a positive cash flow with no special investment constraints relating to its membership profile. 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 investment managers:

INVESTMENT MANAGERS	
Manager	Type of investment
Legal & General	Consensus index-tracking
Schroders (to September 2000)	Balanced
Fidelity Pensions Management	UK equities
Barclays Global Investors	UK equities
Capital International	Overseas equities
Henderson Global Investors	Global bonds and cash
Insignia Richard Ellis	Direct property

This year we have continued the work on our investment strategy and decided by the end of the year to move the balanced section of the portfolio from management by Schroders. As a result of this change in strategy we have increased our holdings with Legal & General, Capital International and Henderson Global Investors. We also appointed a new UK Equity Manager, Barclays Global Investors. Performance benchmarks are currently being reviewed following this latest development.

The Trustees have agreed to the limited use of derivatives within the global bond portfolio managed by Henderson Global Investors. This is subject to appropriate strict management controls being in place and after receiving professional advice, with the objective of some modest improvement in long-term performance. Legal & General and Barclays Global Investors also have limited use of derivatives principally to ensure the efficient management of the portfolio.

As a further diversification, approximately 4.3% of the total investments are in a directly held UK commercial property portfolio managed by Insignia Richard Ellis. The table below shows the allocation between investment managers.

## ALLOCATION BETWEEN INVESTMENT MANAGERS (AS AT 30 SEPTEMBER)

	2000		1999
	£m	%	%
Legal & General	926	48.8	29.5
Schroders	5	0.3	34.1
Fidelity	289	15.2	15.6
Barclays Global Investors	149	7.9	0.0
Capital	199	10.5	6.7
Henderson Global Investors	196	10.3	7.2
Insignia Richard Ellis	81	4.3	4.2
Friends Ivory & Sime*	27	1.4	1.4
Others	24	1.3	1.3
<b>Total</b>	<b>1,896</b>	<b>100.0</b>	<b>100.0</b>

\* The assets held by Friends Ivory & Sime are invested in their Stewardship Managed Pension 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 Stewardship Managed Pension Fund.

Overall, our allocation is 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**

The Trust’s 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. 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.

Investment managers are advised of the individual controls and targets for the assets they manage. Actual asset allocation may vary from the target according to the investment performance of each manager.

### **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 (eg the Financial Times – FTSE All Share 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.

**Asset allocation:** means how assets are distributed between various investment classes: UK equities; overseas equities; bonds; cash; property, etc.

**Benchmark:** means a base against which performance results can be measured.

### 3. Portfolio Summary

The combined total portfolio summary, as at 30 September 2000, is shown in the table below.

At 30 September 2000 the Trust had £1,102m (1999: £564m) 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.

<b>PORTFOLIO SUMMARY (AS AT 30 SEPTEMBER)</b>			
	<b>2000</b>		<b>1999</b>
	<b>£m</b>	<b>%</b>	<b>%</b>
UK equities	935	49.3	50.8
Overseas equities	422	22.2	20.5
Index-Linked	92	4.8	5.2
UK Properties	90	4.7	4.8
<b>Total 'real' assets</b>	<b>1,539</b>	<b>81.0</b>	<b>81.3</b>
UK fixed interest	155	8.2	7.9
Overseas fixed interest	79	4.1	4.4
Short-term deposits	121	6.4	6.1
Other investments	2	0.3	0.3
<b>Total 'monetary' assets</b>	<b>357</b>	<b>19.0</b>	<b>18.7</b>
<b>Total</b>	<b>1,896</b>	<b>100.0</b>	<b>100.0</b>

<b>EXPOSURE TO OVERSEAS EQUITY MARKETS (AS AT 30 SEPTEMBER)</b>			
	<b>2000</b>		<b>1999</b>
	<b>Market value £m</b>	<b>% of portfolio</b>	<b>% of portfolio</b>
Europe	152	8.0	8.3
North America	131	6.9	4.8
Japan	82	4.3	4.1
Pacific Basin (excl. Japan)	47	2.5	2.2
Others	10	0.5	1.1
<b>Total</b>	<b>422</b>	<b>22.2</b>	<b>20.5</b>

### 4. Property

The UK direct property portfolio at the year-end comprised freehold properties, including offices, industrial units, retail premises and retail warehouses.

All properties acquired as investments are let to major companies and organisations. Rent review periods are mainly five years. Properties in this portfolio are valued each year by our property managers. 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. The next such valuation is due in 2001. Included in the office sector (but valued under separate arrangements from the above) is the combined total market value of £10.6m of the properties in Leeds, London and Edinburgh occupied by the Trust.

### 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. 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 2000:* the fund achieved a return of 13.1% compared to The WM All Funds Average (including property) of 13.0%. Over the same 12-month period, the Retail Prices Index (which determines pension increases) was 3.3% (provisional) and the increase in national average earnings (which determines pre-retirement liabilities) was 4.4% (provisional).

ANNUALISED INVESTMENT RETURNS				
	To September 2000		Year to December 1999	
	Short- (1 year)	Medium- (5 years)	Long-term	
			(10 years)	(20 years)
	%	%	%	%
<b>The Pensions Trust</b>	<b>13.1</b>	<b>12.4</b>	<b>12.9</b>	<b>16.0</b>
Average pension fund	13.0	13.2	12.5	15.8
Average Earnings Index*	4.4	4.4	5.0	7.2
Retail Prices Index	3.3	2.8	3.5	5.2

\*Figures are provisional

■ *Over the 5-year period ending 30 September 2000:* We achieved an investment return of 12.4% per annum over the 5 years, compared to the benchmark of 13.2%. Although the performance of the last 12 months has been satisfactory, the previous 4 years were disappointing. It is likely that the 5-year annualised performance will not meet our target for some time to come until our future investment returns start to fully impact on the 5-year period. The shorter term results are encouraging. Over the last 8 quarters we have now outperformed in 6 quarters.

Over the same 5-year period the increase in the RPI was 2.8% (provisional) per annum and the increase in national average earnings was 4.4% (provisional) per annum.

## 6. Results over the Longer Term

For the short-to-long total investment returns on a combined basis, please refer to the summarised table above with comparisons against indices of inflation. *The results in this table exclude the Ethical Plan investments which are separately held outside the main portfolio and reported on page 7.*

## 7. Investment Principles

The Statement of Investment Principles (SIP), produced as required by the Pensions Act 1995, is set out in this report 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 7. Regulations issued last year required the Board of Trustees to include additional statements in the SIP by 3 July 2000. The required statements are included in part 5 of the following SIP and employers were consulted when this was prepared.

# 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.

## **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 delegate 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.

29 February 2000

# Auditors' Report

## AUDITORS' REPORT TO THE BOARD OF TRUSTEES AND MEMBERS OF THE PENSIONS TRUST

We have audited the accounts on pages 18 to 26 which have been prepared on the basis of the accounting policies set out on page 20.

### **Respective Responsibilities of Trustees and Auditors**

As described on page 28, the Trustees are responsible for obtaining audited accounts which comply with applicable United Kingdom law and Accounting Standards. They are also responsible for making available, commonly in the form of a Trustees' report, certain other information about the scheme which complies with applicable United Kingdom law. Further, as described on page 28, they are also responsible 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.

Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view 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. We also report to you our opinion as to whether the contributions have been paid in accordance with the relevant requirements. We report to you if we have not received all the information and explanations we require for our audit.

We read the Trustees' report and other information accompanying the accounts and consider whether it is consistent with those accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### **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 amount of contributions paid 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 year ended 30 September 2000, 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 2000 have been paid:

- in respect of final salary schemes, in accordance with the Rules of the Trust and 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,  
1 The Embankment, Neville Street, Leeds LS1 4DW  
13 December 2000

# Financial Statements

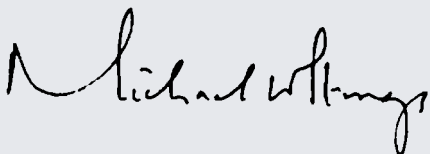
## FUND ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2000

		2000			1999
	Note	Final Salary Schemes	Money Purchase Schemes	Total	Total
		£000	£000	£000	£000
<b><i>Contributions &amp; Benefits</i></b>					
Contributions receivable	3	87,533	28,084	115,617	104,004
Transfers in	4	16,273	2,938	19,211	28,609
Life assurance receipts		88	232	320	279
		<u>103,894</u>	<u>31,254</u>	<u>135,148</u>	<u>132,892</u>
Benefits payable	5	(21,787)	(19,190)	(40,977)	(37,683)
Payments to leavers	6	(6,526)	(1,722)	(8,248)	(5,977)
Net internal transfers	7	(3,441)	3,441	0	0
Life assurance payments		(232)	(88)	(320)	(279)
Administrative expenses	8	(4,407)	(3,947)	(8,354)	(7,560)
Exceptional costs	9	0	0	0	(1,803)
Specific expenses allocated		(154)	0	(154)	(203)
		<u>(36,547)</u>	<u>(21,506)</u>	<u>(58,053)</u>	<u>(53,505)</u>
<b>Net additions from dealings with members</b>		<u>67,347</u>	<u>9,748</u>	<u>77,095</u>	<u>79,387</u>
<b><i>Returns on investments</i></b>					
Investment income	10	28,737	11,772	40,509	35,869
Change in market value of investments	12	120,840	51,128	171,968	227,415
Investment management expenses	11	(2,619)	(1,070)	(3,689)	(3,412)
<b>Net returns on investments</b>		<u>146,958</u>	<u>61,830</u>	<u>208,788</u>	<u>259,872</u>
<b><i>Net increase in the fund during the year</i></b>		<b>214,305</b>	<b>71,578</b>	<b>285,883</b>	<b>339,259</b>
<b><i>Net assets of the scheme</i></b>					
At beginning of year		<u>1,140,139</u>	<u>477,036</u>	<u>1,617,175</u>	<u>1,277,916</u>
At end of year	16	<u>1,354,444</u>	<u>548,614</u>	<u>1,903,058</u>	<u>1,617,175</u>

## NET ASSETS STATEMENT AT 30 SEPTEMBER 2000

	Note	2000 £000	1999 £000
<b><i>Investments</i></b>	12		
UK equities		285,982	515,005
Overseas equities		188,214	183,344
Managed and unitised funds		1,101,860	563,966
Index-linked securities		37,744	56,679
UK properties		89,949	77,850
Fixed interest securities		111,802	133,889
Cash deposits		78,983	82,785
Other investment balances		996	(2,146)
		<u>1,895,530</u>	<u>1,611,372</u>
<b><i>Fixed assets</i></b>	13	2,434	1,615
<b><i>Current assets</i></b>	14	11,476	9,749
<b><i>Current liabilities and provision</i></b>	15	(6,382)	(5,561)
<b><i>Net assets of the scheme</i></b>	16	<u><u>1,903,058</u></u>	<u><u>1,617,175</u></u>

Approved at a meeting of the Board of Trustees on 13 December 2000.



M W Sturge  
Chair, Board of Trustees



G A Cooke  
Vice Chair, Board of Trustees



R K Stroud  
Chief Executive

# Notes to the Financial Statements

## 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. The report and accounts has been prepared and audited in accordance with the regulations made under sections 41(1) and (6) of the Pensions Act 1995.

## 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 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%
Software development	33.3%
Motor vehicles	25.0%
Office equipment	25.0%
Office furniture, fixtures and fittings	2.0 – 10.0%

**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 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 investment properties in the course of development are 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.

	<b>2000</b>	<b>1999</b>	
	<b>Final Salary Schemes £000</b>	<b>Money Purchase Schemes £000</b>	<b>Total £000</b>
<b>3. CONTRIBUTIONS</b>			
From participating employers			
Normal	60,481	13,917	74,398
Special receipts	574	422	996
	<u>61,055</u>	<u>14,339</u>	<u>75,394</u>
From the members			
Normal	26,421	8,774	35,195
Additional voluntary contributions	57	4,971	5,028
	<u>26,478</u>	<u>13,745</u>	<u>40,223</u>
Total contributions	<u><u>87,533</u></u>	<u><u>28,084</u></u>	<u><u>115,617</u></u>
<b>4. TRANSFERS IN</b>			
Group transfers	610	0	610
Individual transfers	15,663	2,938	18,601
	<u>16,273</u>	<u>2,938</u>	<u>19,211</u>
<b>5. BENEFITS PAYABLE</b>			
Pensions	14,115	16,115	30,230
Commutations and lump sum retirement benefits	4,845	2,265	7,110
Lump sum death benefits	2,827	810	3,637
	<u>21,787</u>	<u>19,190</u>	<u>40,977</u>
<b>6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS</b>			
Individual transfers to other schemes	5,978	1,379	7,357
Group transfers to other schemes	0	0	0
Refunds to members leaving service	386	160	546
Payments for members joining state scheme	162	0	162
Contribution credits for employers	0	183	183
	<u>6,526</u>	<u>1,722</u>	<u>8,248</u>

	<b>2000</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>7. NET INTERNAL TRANSFERS</b>		
From final salary schemes to money purchase schemes	3,511	1,840
From money purchase schemes to final salary schemes	<u>(70)</u>	<u>(279)</u>
	<u><u>3,441</u></u>	<u><u>1,561</u></u>
<b>8. ADMINISTRATIVE EXPENSES</b>		
Gross salaries	3,522	3,238
National insurance costs	309	303
Pension costs	<u>253</u>	<u>240</u>
	4,084	3,781
Other related salary costs	609	744
Office costs	849	645
Stationery, postage and telephone	419	407
Computer costs	806	530
Publicity and design	204	185
Depreciation	788	703
Other costs	<u>46</u>	<u>108</u>
	7,805	7,103
Professional fees		
Actuarial	364	294
Audit	84	79
Legal	50	40
Other	<u>51</u>	<u>44</u>
	549	457
	<u><u>8,354</u></u>	<u><u>7,560</u></u>
<b>Employee Statistics</b>		
	<b>2000</b>	<b>1999</b>
Average number of employees	<b>134</b>	134
The number of employees whose emoluments (including pension contributions and other benefits in kind) fell in the following bands was:		
£40,001 – £50,000	9	5
£50,001 – £60,000	4	7
£60,001 – £70,000	2	1
£70,001 – £80,000	1	1
£90,001 – £100,000	0	1
£100,001 – £110,000	1	0
£130,001 – £140,000	0	1
£140,001 – £150,000	1	0

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

	<b>2000</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>9. EXCEPTIONAL COSTS</b>		
Amount brought forward	1,629	0
Provision made in the year	0	1,803
Expenditure charged against the provision during the year	<u>(1,538)</u>	<u>(174)</u>
Amount carried forward	<u>91</u>	<u>1,629</u>

■ The Trust's London administration operations were relocated to Leeds during 2000 and the associated expenditure, as reported in the 1999 accounts, was fully provided for in the 1999 financial statements.

	<b>2000</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>10. INVESTMENT INCOME</b>		
Dividends from UK equities and convertibles	13,518	13,452
Dividends from overseas equities and convertibles	2,662	2,513
Income from managed and unitised funds	447	1,079
Interest from index-linked securities	1,802	1,386
Net rents from UK properties	5,493	5,073
Interest from fixed interest securities	12,786	7,714
Income from short-term investments (incl. cash deposits)	<u>3,801</u>	<u>4,652</u>
	<u>40,509</u>	<u>35,869</u>

	<b>2000</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>11. INVESTMENT MANAGEMENT EXPENSES</b>		
Management, administration and custody	3,650	3,194
Performance measurement services	33	50
Other advisory fees	<u>6</u>	<u>168</u>
	<u>3,689</u>	<u>3,412</u>

	Value at 01/10/99 £000	Purchases at cost £000	Sales proceeds £000	Manager transfers £000	Change in market value £000	Value at 30/09/00 £000
<b>12. INVESTMENTS</b>						
Equities and convertibles:						
UK	515,005	216,086	(193,417)	(313,671)	61,979	285,982
Overseas	183,344	171,050	(110,276)	(108,449)	52,545	188,214
Managed and unitised funds: UK	563,966	256,369	(193,085)	422,120	52,490	1,101,860
Index-linked securities:						
UK Government	51,750	68,857	(78,774)	0	(4,089)	37,744
Overseas Government	4,929	1,245	(7,409)	0	1,235	0
UK properties	77,850	10,819	(6,868)	0	8,148	89,949
Fixed interest securities:						
UK public sector	83,287	146,488	(155,325)	0	(5,279)	69,171
Overseas public sector	50,602	124,734	(138,282)	0	5,577	42,631
Cash deposits:						
Sterling	82,534	12,708	(16,259)	0	0	78,983
Forward currency contracts	251	0	0	0	(247)	4
Net outstanding settlements	(5,494)	6,801	0	0	(391)	916
	<u>1,608,024</u>	<u>1,105,157</u>	<u>(899,695)</u>	<u>0</u>	<u>171,968</u>	<u>1,895,454</u>
Investment income receivable	4,543					1,399
Prepaid rent from UK properties	(1,195)					(1,323)
	<u>1,611,372</u>					<u>1,895,530</u>

- The Trust's holdings in managed and unitised funds may be analysed as follows: UK investments £869m (1999: £397m); overseas investments £233m (1999: £167m).
- For further analysis please refer to the portfolio summary table of page 14 and for disclosure of related-party transactions see the Compliance Statement page 30.
- 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 during either year.
- Included in investments, other than UK properties, are unquoted securities valued at nil (1999: £0.621m).
- All properties are valued annually by either Insignia Richard Ellis, 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 in UK properties are properties in the course of development with an open market value of £2.150m (1999: £10.329m).
- Manager transfers represent the changes in the distribution of the portfolio arising from the disinvestment from Schroders.

	<b>Total</b>	<b>Computers</b>	<b>Software development</b>	<b>Motor vehicles</b>	<b>Furniture, fixtures and fittings</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>13. FIXED ASSETS</b>					
<b>Cost</b>					
At beginning of year	3,264	1,318	1,462	152	332
Additions	1,636	53	168	75	1,340
Disposals	(109)	(42)	0	(67)	0
<b>At end of year</b>	<b><u>4,791</u></b>	<b><u>1,329</u></b>	<b><u>1,630</u></b>	<b><u>160</u></b>	<b><u>1,672</u></b>
<b>Depreciation</b>					
At beginning of year	(1,649)	(733)	(621)	(97)	(198)
Charge for year	(807)	(255)	(475)	(35)	(42)
Elimination on disposal	99	42	0	57	0
<b>At end of year</b>	<b><u>(2,357)</u></b>	<b><u>(946)</u></b>	<b><u>(1,096)</u></b>	<b><u>(75)</u></b>	<b><u>(240)</u></b>
<b>Net book value</b>					
<b>At end of year</b>	<b><u>2,434</u></b>	<b><u>383</u></b>	<b><u>534</u></b>	<b><u>85</u></b>	<b><u>1,432</u></b>
At beginning of year	<u>1,615</u>	<u>585</u>	<u>841</u>	<u>55</u>	<u>134</u>

■ Freehold properties occupied by the Trust are treated as investments and are therefore not included in the above figures.

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
<b>14. CURRENT ASSETS</b>		
Contributions due	9,801	8,840
VAT recoverable	0	359
Other debtors	325	372
Bank and cash balances	<u>1,350</u>	<u>178</u>
	<b><u>11,476</u></b>	<b><u>9,749</u></b>
<b>15. CURRENT LIABILITIES AND PROVISION</b>		
Benefits payable	714	446
Taxation payable	2,502	1,238
Expense accruals	1,837	1,475
Provision for relocation	91	1,629
Other creditors	<u>1,238</u>	<u>773</u>
	<b><u>6,382</u></b>	<b><u>5,561</u></b>

	<b>2000</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>16. FUND ACCOUNT</b>		
Final salary schemes	1,354,444	1,140,139
Growth Plan	536,311	468,059
Ethical Plan	12,303	8,977
	<u>1,903,058</u>	<u>1,617,175</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.

	<b>2000</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>17. FINANCIAL COMMITMENTS</b>		
As at 30 September the Trust had the following financial commitments		
Capital expenditure contracted for	<u>0</u>	<u>0</u>
Capital expenditure authorised but not contracted for	<u>222</u>	<u>286</u>
Capital expenditure authorised for properties in the course of development	<u>1,339</u>	<u>8,034</u>

#### 18. TRUSTEES

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

Expenses incurred and reimbursed	<u>18</u>	<u>15</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

## Growth Plan

I made a valuation of the Growth Plan of the Trust as at 30 September 1999 and my calculations confirmed that this Plan continues to be in a healthy state with reasonable bonus prospects and that the assets held are sufficient to meet the statutory Minimum Funding Requirement (MFR). The audited financial statements of the Trust for the year to 30 September 2000 show that the Growth Plan amounted to some £536.3m; I confirm that the bonus granted at the rate of 3% as at 30 September 2000 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 £1,354.4m on 30 September 2000. Each year, valuations of a number of the final salary schemes takes place and each scheme is valued at least once every three years. All valuations made as at 30 September 1999 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 1997, 1998, or 1999. These valuations covered all the final salary schemes operated by the Trust as at 30 September 2000. Since the coming into force in April 1997 of the Pensions Act 1995 the assets of each salary scheme are to be compared, at a valuation, with a statutory minimum. The certificates which have been issued fall into three categories:

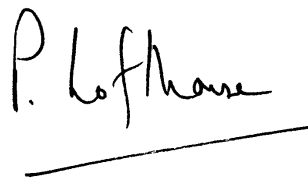
- i. For schemes valued as at 30 September 1997. In every case the assets held by the scheme were sufficient to meet the statutory MFR.
- ii. For Schemes valued as at 30 September 1998. In four cases the assets held by each scheme were less than 100% of those required to meet the statutory MFR. In all other cases the assets held by each scheme were sufficient to meet the statutory MFR.

- iii. For schemes valued as at 30 September 1999. In three cases the assets held by each scheme were less than 100% of those required to meet the statutory MFR. In all other cases the assets held by each scheme were sufficient to meet the statutory MFR.

The certificates also showed the contributions which are to be paid to the schemes concerned, including those which did not fully meet the MFR. All the certificates contained statements that, in my opinion, the resources of each scheme can reasonably be expected, after allowing for future 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 an Individual Final Salary Scheme

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. 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*

*13 December 2000*

# Compliance Statement

## I. 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 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.

They are also responsible for making available each year, commonly in the form of a Trustees' annual report, information about the scheme prescribed by pensions legislation, which they should ensure is consistent with the audited accounts it accompanies.

The Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a Payment Schedule or Schedules of Contributions ('the Schedules') showing the rates of contributions payable towards the scheme by or on behalf of the participating employers and the active members of the scheme and the dates on or before which such contributions are to be paid. This year, this requirement applies only to the Ethical Plan and 25 of the Trust's Final Salary Schemes.

The Trustees are also responsible 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 the 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.

#### 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. Regular training sessions are provided before most Board meetings.

#### 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 9.

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 for 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 on 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 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 12 final salary schemes which had schedules of contributions certified by the Scheme Actuary in December 1998 were recertified in January 2000 and a further 13 final salary schemes had valuations completed in 1999 and their schedules of contributions certified by the Scheme Actuary between October – December 1999; in one case the schedule was recertified in August 2000.

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 63 late payments representing total contributions of approximately £778,459 relating to 42 employers. The average number of days late was 12 with the latest remittance being 53 days late.

#### ■ Payment Schedule

Under the Pensions Act 1995 the Trust is required to put in a place a Payment Schedule for the Unitised 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 6 September 1999. 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 111 late payments representing total contributions of approximately £72,735 relating to 73 employers. The average number of days late was 10 with the latest remittance being 121 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 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 Fund may at any time be invested in employer-related investments.

Technically, the following are employer-related investments:

- A. The Trust occupies part of Verity House, Leeds (since March 2000) and part of 17, Rathbone Street, London, and all of 30 York Place, Edinburgh. Until June 2000 the Trust occupied all of 15, Rathbone Street, London. This property was sold in September 2000. It owns the freeholds of the Leeds office, valued at £7.9m; the remaining London office, valued at £2.0m and the Edinburgh office, valued at £0.7m, in total being 0.6% 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'.

- B. During the year the Trust sold its investments in The Housing Finance Corporation (THFC) 11.5% Bonds 2016, for £2.2m. An associate company of THFC participates in the Social Housing Pension Scheme and this investment represents 0.3% 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.

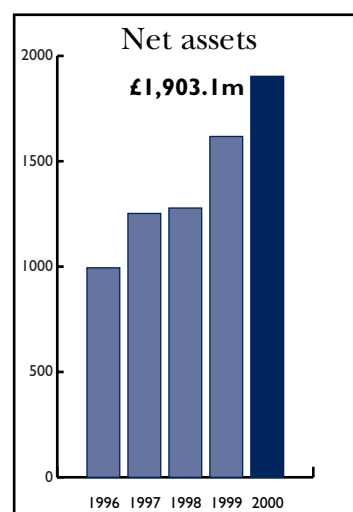
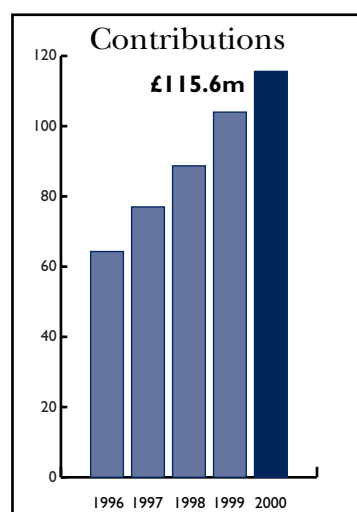
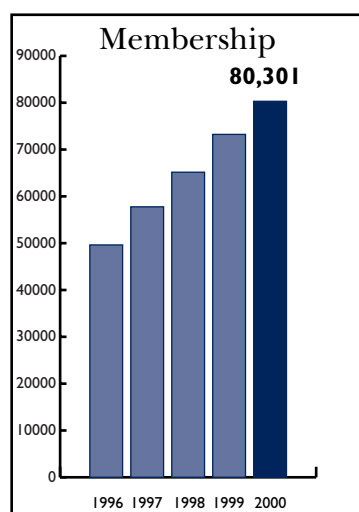
## 10. REGISTRATION

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.

## Five-year Summary

	1996	1997	1998	1999	2000
<b>Active members</b>	30,709	35,720	39,193	43,350	<b>47,455</b>
<b>Deferred pensioners</b>	11,670	13,827	16,999	20,058	<b>22,344</b>
<b>Pensioners (incl. beneficiaries)</b>	7,245	8,217	8,966	9,825	<b>10,502</b>
<b>Total membership</b>	49,624	57,764	65,158	73,233	<b>80,301</b>
<b>Employers</b>	2,688	2,893	3,047	3,247	<b>3,418</b>
	£m	£m	£m	£m	£m
<b>Contributions receivable</b>	64.3	77.0	88.7	104.0	<b>115.6</b>
<b>Transfers in</b>	34.2	25.8	17.7	28.6	<b>19.2</b>
<b>Benefits payable</b>	(30.3)	(32.4)	(40.1)	(43.7)	<b>(49.2)</b>
<b>Administrative expenses (incl. specific costs)*</b>	(5.4)	(6.3)	(6.9)	(9.5)	<b>(8.5)</b>
<b>Net investment income</b>	39.0	43.2	38.7	32.5	<b>36.8</b>
<b>Change in market value of investments</b>	64.9	150.7	(72.2)	227.4	<b>172.0</b>
<b>Net assets at end of year</b>	994.2	1,252.2	1,277.9	1,617.2	<b>1,903.1</b>

\* The administrative expenses figure for 1998/99 includes £1.8 million in respect of the relocation of the Trust's London administration operations from London to Leeds.



# Professional Advisers and Bankers

## ACTUARIAL AND INVESTMENT CONSULTANTS

### **Watson Wyatt Partners**

Watson House  
London Road  
Reigate  
Surrey RH2 9PQ

### **Scheme Actuary**

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

## AUDITORS

### **KPMG**

1 The Embankment  
Neville Street  
Leeds LS1 4DW

## 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

### **Legal & General Investment Managers**

3 Queen Victoria Street  
London EC4N 8EL

### **Schroder Investment Management (UK) Ltd**

31 Gresham Street  
London EC2V 7QA  
(until September 2000)

### **Fidelity Pensions Management**

Lower Kingswood  
Tadworth  
Surrey KT20 6RP

### **Barclays Global Investors Ltd**

Murray House  
1 Royal Mint Court  
London EC3N 4HH  
(from September 2000)

### **Capital International Ltd**

25 Bedford Street  
London WC2E 9HN

### **Henderson Global Investors Ltd**

3 Finsbury Avenue  
London EC2M 2PA

### **Friends Ivory & Sime plc**

15 Old Bailey  
London EC4M 7AP

## PROPERTY MANAGERS

### **Insignia Richard Ellis**

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**

12 Charlotte Street  
Edinburgh EH2 4DZ

## *Management of the Trust*

### **RICHARD STROUD**

#### ***Chief Executive***

E-mail: richard.stroud@thepensionstrust.org.uk

Telephone: 020 7927 8100/0113 394 2500

### **MICHAEL MONTOYA**

#### ***General Manager, Edinburgh***

E-mail: michael.montoya@thepensionstrust.org.uk

Telephone: 0131 556 7431

### **TREVOR SMITH**

#### ***Deputy Chief Executive***

E-mail: trevor.smith@thepensionstrust.org.uk

Telephone: 0113 394 2511

### **GARY NICHOLSON**

#### ***Head of Information Technology***

E-mail: gary.nicholson@thepensionstrust.org.uk

Telephone: 0113 394 2530

### **MARK ROGERSON**

#### ***Head of Finance***

E-mail: mark.rogerson@thepensionstrust.org.uk

Telephone: 0113 394 2630

### **ANDREW WALSH**

#### ***Head of Human Resources***

E-mail: andrew.walsh@thepensionstrust.org.uk

Telephone: 0113 394 2520

### **CALLUM WALKER**

#### ***Head of Customer Services***

E-mail: callum.walker@thepensionstrust.org.uk

Telephone: 0113 394 2670

### **JOHN COY**

#### ***Head of Compliance***

E-mail: john.coy@thepensionstrust.org.uk

Telephone: 0113 394 2560/020 7927 8111

### **FURTHER INFORMATION**

This report may be accessed through the Internet. 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@thepensionstrust.org.uk

Internet: [www.thepensionstrust.org.uk](http://www.thepensionstrust.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

Verity House, 6 Canal Wharf, LEEDS LS11 5BQ  
Tel: 0113 234 5500 Fax: 0113 234 5599

30 York Place, EDINBURGH EH1 3EP  
Tel: 0131 557 4123 Fax: 0131 557 3234

17 Rathbone Street, LONDON W1P 1AF  
Tel: 0113 234 5500 Fax: 0113 234 5599

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

