



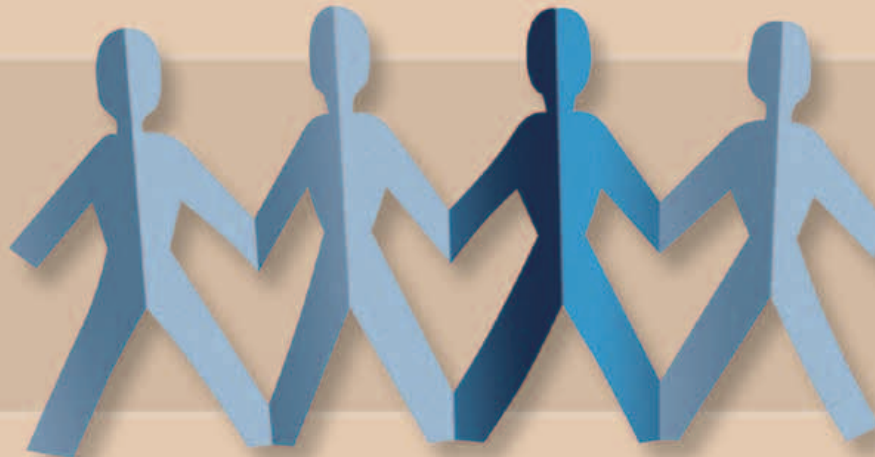
## The Pensions Trust

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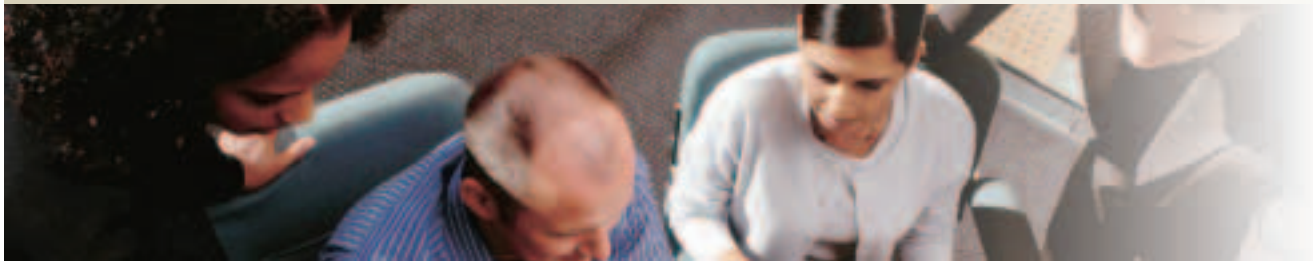
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## The Pensions Trust Annual Review 2003

# Annual Review 2003



Welcome to the annual review of The Pensions Trust for the year ended 30 September 2003. This review provides all scheme members and pensioners with a brief summary of the Trust's performance and achievements over the last financial year. The Trust's mission statement is;

"The aim of The Pensions Trust is to be our customers' preferred choice in all the products and services we offer."

Implicit in this is that the Trust will:

- be a customer-focused organisation;
- offer a range of attractive and high quality products, designs and options;

- have a good and consistent investment performance;
- have very competitive administration and investment costs;
- have an excellent service delivery;
- be a good employer;
- have very effective communications in all areas;
- have a very high level of governance coupled with total integrity.

These values signify for the Trust the very best in the business world of service delivery.

The Trust's ethos is:

"The Pensions Trust is a mutual organisation, accountable to its members."

Membership of the Trust is open only to those engaged in social, educational, charitable, voluntary or other similar work; no commission is paid to staff or third parties.

This Annual Report is an important part of the Trust's accountability.

The Pensions Trust has offices in Edinburgh, Leeds and London.

**This Annual Review will be provided in larger print or as an audio version (on CD) on request.**



# Chair's Statement



The Chair, Andrew Cooke, is an elected member of the Trustee Board. He has been a member of the Board for 12 years and Chair for 3 years. Before retirement from full-time work in 1998, he was a Director of the Charities Aid Foundation.

The Pensions Trust's growth continued in the 12 months to 30 September 2003.

- Scheme assets increased by more than 24% to over £1.9 billion.
- The 100,000th member joined in January 2003.
- Active membership increased by 1.6% to 54,976. Total membership now exceeds 103,000.
- Annual contributions receivable rose by 10% to £162.5 million.
- Total benefits payable, including leavers, increased by 14% to £73.3 million.

I am pleased to present this Summary Report from the Board of Directors. Like so many in the recent past, this year has

been one of seemingly ceaseless pressure for pensions change.

The scope of the change now facing pension schemes is truly so vast that here I can only touch briefly on some of the most significant issues.

The financial security of all pension scheme members was at the forefront of concerns when, on 11 June 2003, the Government announced that with immediate effect employers with defined benefit schemes would be obliged to ensure that their pension arrangements are fully funded should they wish to terminate their scheme. The effect of this new requirement is to ensure there are sufficient funds to meet the full cost of buying annuities for all

members. This issue has not yet affected the Trust, but our Trust Deed and Rules requires employers to pay contributions sufficient to fund all benefits in such circumstances.

The almost complete removal of Inland Revenue constraints on schemes, together with a new Pensions Act introducing widespread improvements, is now planned for implementation from April 2005. Significant items to be included are:

- A new pension protection fund will be started and, although it will add to the cost of defined benefit schemes, it will provide some insurance for members of these schemes against the loss of promised benefits.

- In future it will become easier to rationalise old outdated scheme benefits as only an overall value of rights test will be required. This will be an important opportunity for schemes to start afresh if they wish.
- A higher standard of care is to be enacted: *"Pension scheme trustees should act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims."*





The above quotation is from the “Myers Review” and the words printed in bold represent the move to the “prudent expert” requirement. The training opportunities and professional advice available to the Board indicate that the Trust is already taking this approach very seriously.

The Trust is well equipped to handle these changes. All proposed pension developments are monitored and reviewed for application to our schemes. As indicated by the above examples, this work has to continue unabated.

Last year I referred to problems that had arisen as a result of a backlog of work and to our target for improvement. I am pleased to say that the target has been substantially met and our members and their employers are now receiving a significantly better level of customer service.

This is something which we are determined to maintain and we shall continue to look for further opportunities for improvement.

During the year the Board completed an organisational review and progressed much of its business risk analysis. This included a review of the Trustee structure itself. From March 2003 the Board became a body of 16 elected Trustees and reorganised its delegations to its own sub-committees and to the operational management. From December 2003, the Board of Trustees ceased to be a separate body. The members of the Board now exercise all of their responsibilities through the Trust Company.

On a personal note, I was first elected to be a Trustee of The Pensions Trust, nominated by my then employer, Charities Aid Foundation, in October 1991.

Having completed 12 years, which is the maximum for a continuous term allowed by our constitution, I shall be retiring on 29 February 2004, after being Chair for 3 years. I should like to say how much I have enjoyed being able to make some contribution to the charitable and voluntary sector through my varied work for the Trust. Since its inception in 1946 the Trust has been in strong partnership with the sector and I wish it every success and prosperity for the future. I leave the Trust in safe hands and with much confidence. I thank all of my colleagues – present and past Trustees and staff – for all of the help and support given to me during this time.

**Andrew Cooke**  
**Chair, The Pensions Trust**



# Chief Executive's Review



**Richard Stroud, a Fellow of The Pensions Management Institute, has been Chief Executive of The Pensions Trust for 25 years. Richard is also a Council Member of the National Association of Pension Funds.**

Our Mission Statement is:

“The aim of The Pensions Trust is to be our customers' preferred choice in all the products and services we offer.”

In these difficult days for pensions it is very important that we strive to meet this Mission Statement as it is my belief in the 25 years I have been at The Pensions Trust that we are here to provide value for money pensions in the voluntary sector. It is important that we conduct our business with all our suppliers, members and employers on the basis of a true partnership in order that we can deliver good pensions to all members and beneficiaries. As part of this partnership culture we do recognise that we are a democratic, mutual organisation fully

accountable to all our members and employers and those who provide services to the Trust.

I set out, what I believe we have been able to achieve in the last year under a number of headings:

## Service Delivery

Over the last 12 months our service has dramatically improved. The amount of work in progress has reduced significantly, the number of complaints has fallen to very low levels and we have made significant progress towards a 72-hour response time, enabling us to meet our Customer Service Turnaround Times in more than 95% of cases. We intend to build upon this on the basis of what is good enough for today is not good enough tomorrow

and this will include a review of future performance measures for our customer service delivery.

## Quality Products

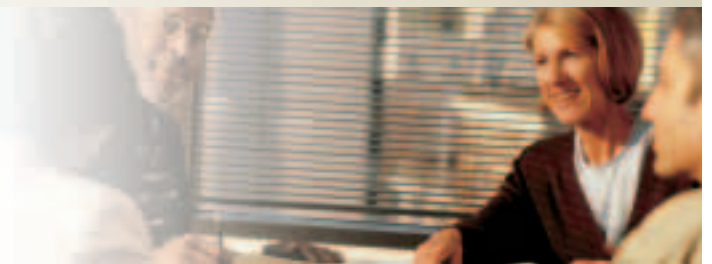
We are only prepared to offer products which we believe are in the members' best interests. It is our view that many of the products available in the marketplace are flawed and quite often dangerous.

We are sometimes criticised for not offering sufficient investment choice and, whilst I understand the criticism, there are problems with multi-choice investment money purchase products in the marketplace. The “so called answers”, such as lifestyling and drawdown, do not work and frankly have backfired over the last 2 or 3 years.

Our unit cost per member has now reduced further and is now about 75% of the cost in 1993 and if this is adjusted for Retail Price Inflation, in real terms this represents a 41% reduction. We have done this by working hard at our costs and productivity and through investment in technology. Further reductions remain one of our priorities.

## Membership

We want the organisation to continue to grow. Whilst membership is growing at a lower rate than in the recent past this is very much in line with national trends. Our membership growth is running at about 7.7% per annum which in my view is very satisfactory and is the envy of our competitors.





## Effective Communication

As before we continue to work at improving all our literature and our website. We are also experimenting with a CD (oral) version of our summarised report and accounts. This is going to be of benefit to those who have difficulty in reading normal print. By now many members will have received the new pension forecast benefit statements we now have to provide. These are based on Government requirements and we very much hope that this will improve members' understanding of their likely pensions when they retire.

## Investments

Whilst investment returns have improved, the results over the last few years have been very disappointing but this is the case with all pension funds. We are now more satisfied with our comparative performance, and look forward to this continuing.

## The Future

The Government intends to implement a huge simplification of pension schemes as from April 2005. We very much support these proposals.

I am afraid that the only answer to the so called "pension problem" is for people to invest realistic sums of money in contracts which will not let them down. I am fully aware that this is the issue. Over the last few years some people have joined stakeholder schemes, but have not been paying much in at all – and certainly not enough to pay for a decent pension.

It is very dangerous to try and predict the future but as an organisation we are totally committed to continuing to provide an excellent service, high quality contracts and low costs all bound up within our philosophy of integrity. The name of our administration offices in Edinburgh and Leeds is "Verity House" and we have to live up to that name.

## Our Employees

We believe that we can deliver the very best service to our customers only if we have a skilled, motivated and dedicated workforce. To this end we invest heavily in our people and are committed to achieving the 'Investors In People' Award. We have also been recently awarded the 'Good Corporation' standard which is a national indicator of fair and ethical businesses.

**Richard Stroud**  
**Chief Executive, The Pensions Trust**



# Value of the Fund 2003



## Summarised Financial Results

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

|                                       | £m             |
|---------------------------------------|----------------|
| Contributions receivable              | 162.5          |
| Transfers in                          | 64.7           |
| Benefits payable                      | (73.3)         |
| Administrative expenses               | (9.7)          |
| <b>Net new money</b>                  | <b>144.2</b>   |
| Net investment income                 | 23.7           |
| Change in market value of investments | 220.5          |
| <b>Net returns on investments</b>     | <b>244.2</b>   |
| <b>Net increase during year</b>       | <b>388.4</b>   |
| Fund at beginning of year             | 1,589.1        |
| <b>Fund at end of year</b>            | <b>1,977.5</b> |

The above is not intended to be a summary financial statement within the terms defined by SORP (Statement of Recommended Practice: Financial Reports of Pension Schemes).

## Membership

At the year-end, there were 3,986 registered employers, a net increase of 137 over the year. The changes in membership are illustrated in the table below.

|                            | %          | 2002          | %          | 2003           |
|----------------------------|------------|---------------|------------|----------------|
| Active members             | 56         | 54,099        | 53         | 54,976         |
| Deferred pensioners        | 31         | 29,399        | 33         | 33,884         |
| Pensioners & beneficiaries | 13         | 12,776        | 14         | 14,814         |
| <b>Total</b>               | <b>100</b> | <b>96,274</b> | <b>100</b> | <b>103,674</b> |

# Investment Report

The Board is satisfied that the Trust achieved a positive return of 15.1% for the scheme year, and that we exceeded our relative performance target. The Board is also now satisfied with the Trust's relative performance over the five-year period to 30 September 2003. However, the Board is well aware that investment markets are still significantly below the levels of 2 years ago and that our returns over the five-year period have not quite matched wage inflation.

## Annualised Investment Returns

|                           | Short (1 year) % | Medium (5 years) % |
|---------------------------|------------------|--------------------|
| <b>The Pensions Trust</b> | <b>15.1</b>      | <b>3.7</b>         |
| Average Pension Fund      | 14.5             | 3.2                |
| Average Earnings Index    | 2.6              | 4.0                |
| Retail Prices Index       | 2.9              | 2.1                |

We have an aspiration that our costs in relation to investment activities will be less than 20 basis points, i.e. 0.20% of average assets. This year, costs have been about 20 basis points or 0.20% of average assets.

## Allocation between Investment Managers

|                              | 2003 £m      | 2003 %       | 2002 %       |
|------------------------------|--------------|--------------|--------------|
| Legal & General              | 924          | 47.3         | 46.8         |
| Fidelity Pensions Management | 223          | 11.4         | 12.1         |
| Barclays Global Investors    | 193          | 9.9          | 6.6          |
| Capital International        | 251          | 12.9         | 10.0         |
| Henderson Global Investors   | 240          | 12.3         | 14.3         |
| CB Richard Ellis Investors   | 94           | 4.8          | 6.2          |
| ISIS Managed Pension Funds   | 17           | 0.9          | 3.1          |
| Others                       | 10           | 0.5          | 0.9          |
| <b>Total</b>                 | <b>1,952</b> | <b>100.0</b> | <b>100.0</b> |

# Executive Management of the Trust



## **Andrew Walsh**

Head of Human Resources & Facilities

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Telephone: 0113 394 2520

## **David Galbraith**

Head of Strategy and Technology

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## **John Coy**

Head of Compliance

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## **Logan Anderson**

Head of Customer Services – Leeds

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## **Mark Rogerson**

Head of Finance

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## **Martin Hoskins**

Head of Customer Services – Edinburgh

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Telephone: 0131 341 1264

## **Philip Worbey**

Head of Product Development

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Telephone: 0113 394 2673

## **Richard Stroud**

Chief Executive

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Telephone: 020 7788 0101

## **Stephen Nichols**

Deputy Chief Executive

Email: [stephen.nichols@thepensiontrust.org.uk](mailto:stephen.nichols@thepensiontrust.org.uk)

Telephone: 0113 394 2514



# The Trustee Company



## Employer Nominated Directors *(from left to right)*

**John Alleston**  
*formerly, Administration Director,  
The Guinness Trust*

**Jacqueline Bliss**  
*formerly, Director of Finance &  
Administration, Coram Family*

**Andrew Cooke**  
*Retired, Charities Aid Foundation*

**Jean Dougherty**  
*Financial Accountant,  
Viewpoint Housing Association*

**George Gray**  
*Treasurer and Trustee, Abbeyfield Richmond*

**Dennis Jones**  
*Payroll Manager, ExtraCare Charitable Trust*

**Clive Unitt**  
*Finance Director, Sadeh Lok  
Housing Group Ltd*

**Maurice Whiteley**  
*Chartered Accountant*



## Member Nominated Directors *(from left to right)*

**Valerie Ching**  
*Administrator, Medina Valley Centre*

**Philip Edwards**  
*Retired, Pensions Manager*

**John Hanlon**  
*Consumer Representative*

**John Kent**  
*Retired, Management Accountant*

**Alison Massie**  
*Finance Director, Kirk Care Housing  
Association*

**Ian Roylance**  
*Technical Specialist, OPAS - the Pensions  
Advisory Service*

**Clare Smith**  
*Director of Human Resources, Leonard  
Cheshire*

**John Wheatley**  
*Trustee Adviser, W L Partnership*

Those serving on the principal sub-committees of The Pensions Trust, from March 2003 are:

### Investment Committee

John Alleston  
Jacqueline Bliss  
Andrew Cooke  
Jean Dougherty  
John Hanlon  
John Kent

### Co-opted to the Investment Committee

Philip Ashfield  
Neil Dunford

### Audit & Compliance Committee

John Alleston  
Philip Edwards  
John Hanlon  
Maurice Whiteley

### Remuneration & Appointments Committee

John Alleston  
Andrew Cooke  
Clare Smith



# Professional Advisers and Bankers

## Actuarial Consultants

**Scheme Actuary**  
Steven Robinson of HSBC  
Actuaries and Consultants Ltd  
(from 1 October 2003)

Peter Lofthouse of  
Watson Wyatt LLP  
(to 30 September 2003)

**HSBC Actuaries and  
Consultants Ltd**  
Quay West  
Trafford Wharf Road  
Manchester M17 1PL  
(from 1 October 2003)

**Watson Wyatt LLP**  
1 Wellington Place  
Wellington Street  
Leeds LS1 4AP  
(to 30 September 2003)

## Auditors

**KPMG LLP**  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

## Solicitors

**Mayer, Brown, Rowe & Maw LLP**  
11 Pilgrim Street  
London EC4V 6RW

**McGrigor Donald**  
Princes Exchange  
1 Earl Grey Street  
Edinburgh EH3 9AQ

## Bankers

**The Royal Bank of Scotland plc**  
8 Park Row, Leeds LS1 1QT

## Investment Managers

**Legal & General Investment  
Management Ltd**  
3 Queen Victoria Street  
London EC4N 8NH

**Fidelity Pensions Management Ltd**  
25 Cannon Street  
London EC4M 5TA

**Barclays Global Investors Ltd**  
Murray House  
1 Royal Mint Court  
London EC3N 4HH

**Capital International Ltd**  
40 Grosvenor Place  
London SW1X 7GG

**Henderson Global Investors Ltd**  
4 Broadgate  
London EC2M 2DA

**ISIS Managed Pension Funds Ltd**  
100 Wood Street  
London EC2V 7AN

## Property Investment Managers

**CB Richard Ellis Investors Ltd**  
64 North Row  
London W1K 7DA

## Investment Consultants

**Watson Wyatt  
Investment Consulting**  
Watson Wyatt LLP  
London Road, Reigate  
Surrey RH2 9PQ

**Mercer Human Resource  
Consulting Ltd**, 14 Tothill Street  
London SW1H 9NB

## Custodians

**The Northern Trust Company  
(inc Illinois)**  
50 Bank Street, Canary Wharf  
London E14 5NT

**Mayer, Brown, Rowe  
& Maw LLP**  
(for property deeds)

## Measurement of Investment Performance

**The Northern Trust Company  
(inc Illinois)**

**The WM Company Ltd**  
525 Ferry Road  
Edinburgh EH5 2AW

## Custody Consultants

**Chatham Partners**  
Suite 302  
One Newton Executive Park  
Newton  
Massachusetts 02462, USA

## Pension Consultants

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

# Further Information



You can obtain further information about the Trust, its schemes and services, by either accessing our website or contacting the Trust direct. Literature is available on topics such as investment management policy, business objectives and details of the type of benefit schemes operated by the Trust. Our customer services team will be pleased to assist with any information that may be requested. All enquires about any scheme and about any individual's entitlement or amount of benefit should be made direct to the Trust's offices whose addresses appear opposite.

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