

Registered number: 10251440

**SPIRIT (LEGACY) PENSION SCHEME  
REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 30 JUNE 2020**

# SPIRIT (LEGACY) PENSION SCHEME

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## SPIRIT (LEGACY) PENSION SCHEME

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### TRUSTEE AND ITS ADVISERS YEAR ENDED 30 JUNE 2020

<b>Trustee</b>	Spirit (Legacy) Pension Trustee Limited
<b>Company Appointed Directors</b>	John Freeman (appointed 17 January 2020) Amy Newson Daniel Robinson (resigned 17 January 2020)
<b>Member-Nominated Directors</b>	Richard Bell Robert McDonald
<b>Independent Director</b>	BESTrustees Limited Represented by Iain Urquhart (Chairman)
<b>Principal Employer</b>	Spirit Pub Company (Services) Limited, a subsidiary of Greene King Limited. Greene King was acquired (on 30 October 2019) by CK Noble (UK) Limited, a wholly owned subsidiary of CK Asset Holdings Limited
<b>Secretary to the Trustee</b>	Wendy Evershed Aon Solutions UK Limited (formerly Aon Hewitt Limited)
<b>Actuary (DB Section)</b>	Roger Moring, FIA Aon Solutions UK Limited (formerly Aon Hewitt Limited)
<b>Administrator (DB and DC Section)</b>	Aon Solutions UK Limited (formerly Aon Hewitt Limited)
<b>Independent Auditor</b>	Crowe U.K. LLP
<b>Bankers (DB and DC Section)</b>	Bank of Scotland plc HSBC Bank plc (from 30 September 2019)
<b>Covenant Adviser (DB and DC Section)</b>	Darren Masters Mercer LLC
<b>Investment Adviser (DB and DC Section)</b>	Aon Solutions UK Limited (formerly Aon Hewitt Limited)
<b>Investment Managers (DB Section)</b>	Aviva Investors Global Services Limited ('Aviva IGSL') BlackRock Advisors (UK) Limited ('BlackRock') Invesco Fund Managers Limited ('Invesco') Russell Investments Limited ('Russell')
<b>Investment Manager (DC Section)</b>	Standard Life Assurance Limited ('Standard Life')
<b>AVC Providers (DB Section)</b>	Aviva plc ('Aviva') Standard Life Assurance Limited ('Standard Life') The Prudential Assurance Company Limited ('Prudential') Utmost Life and Pensions Limited (transferred from The Equitable Life Assurance Society on 1 January 2020) ('Utmost')
<b>Insurance Policy Annuity Provider (DB Section)</b>	Scottish Widows Limited
<b>Custodian (DB Section)</b>	Bank of New York Mellon (International) Limited
<b>Legal Adviser</b>	Linklaters LLP

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **TRUSTEE AND ITS ADVISERS YEAR ENDED 30 JUNE 2020**

#### **Contact Details**

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HD8 1EG

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0370 850 6840

# **SPIRIT (LEGACY) PENSION SCHEME**

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## **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

### **Introduction**

The Trustee of Spirit (Legacy) Pension Scheme (the 'Scheme') is pleased to present the annual report together with the audited financial statements for the year ended 30 June 2020.

### **Constitution and management**

The Scheme is a hybrid scheme comprising of Defined Benefit ('DB') and Defined Contribution ('DC') sections. The Scheme is governed by a Trust Deed as amended from time to time and is administered by Aon Solutions UK Limited in accordance with the establishing document and Rules solely for the benefit of its members and other beneficiaries.

The Scheme came into existence on 9 July 2014 to facilitate the merger of the Spirit Group Pension Scheme ('SGPS') and the Spirit Group Retail Pension Plan ('SGRPP'). A merger deed was signed on 2 June 2015. The assets and liabilities were transferred to the Scheme following the merger. Communications were issued to all members explaining the changes.

The DB Section is no longer open to new members and was closed to future accrual under SGPS and SGRPP on 5 April 2005. The DC section was closed to new members under SGPS on 31 May 2000 and SGRPP on 31 January 2004.

The Trustee Board decided that the Spirit Group Retail Retirement Savings Plan (the 'Plan') would better placed and more efficiently managed as part of the much larger Spirit (Legacy) Pension Scheme. The Plan therefore merged with the Scheme on 30 September 2019 as per the Transfer and Amendment Deed dated 30 September 2019. The assets and liabilities were transferred to the Scheme via a Deed of Novation signed on the same date. 141 members were transferred from the Spirit Group Retail Retirement Savings Plan into the Scheme. 44 members have been allocated to the DB Section and 97 members to the DC Section.

The Trustee and the Trustee Directors are shown on page 1.

Under the Trust Deed and Rules of the Scheme, the Trustee is appointed and removed by Principal Employer, subject to the Member- Nominated arrangements.

The power of appointing and removing the Trustee Directors is contained in the Articles of Association of Spirit (Legacy) Pension Trustee Limited, subject to the Member-Nominated arrangements.

In accordance with the Pensions Act 2004 at least one third of the total number of Trustee Directors must be nominated by Scheme members. The Member-Nominated Trustee Directors ('MNTD's') are elected from the membership.

A Trustee Director can choose to retire from office at any time. A MNTD can only be removed with the agreement of all other Trustee Directors.

The Trustee Directors have appointed professional advisers and other organisations to support them in delivering the Scheme's objectives. These individuals and organisations are listed on page 1. The Trustee Directors have written agreements in place with each of them.

### **Trustee meetings**

The Trustee Board met formally fourteen times during the year to consider the business of the Scheme.

### **Financial statements**

The financial statements included in this annual report have been prepared and audited in accordance with the regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

## SPIRIT (LEGACY) PENSION SCHEME

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Membership

Details of the membership changes of the Scheme in the year are as follows:

	Actives	Deferreds	Pensioners	Total
Members at the start of the year	50	3,668	3,016	6,734
Adjustments to members	(4)	(21)	18	(7)
New spouses and dependants	-	-	35	35
Group transfer in	-	147	-	147
Retirements	-	(98)	98	-
Members leaving with preserved benefits	(4)	4	-	-
Deaths	-	(7)	(110)	(117)
Trivial commutations	-	(7)	(38)	(45)
Cessation of pension	-	-	(1)	(1)
Transfers out	-	(37)	-	(37)
Members at the end of the year	42	3,649	3,018	6,709

Pensioners include 440 (2019: 440) individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 14 (2019: 18) child dependants in receipt of a pension.

These membership figures do not include movements notified to the Administrator after the completion of the annual renewal.

These membership figures include 14 members who have a separate DC record in addition to their DB record.

147 members have been transferred from the Spirit Group Retail Retirement Savings Plan into the Scheme including 97 members with a DC record.

The adjustments shown above are the result of retrospective updating of member records.

#### Pension increases

Pensions with an increase anniversary on 1 November 2019 were increased as follows: pensions in excess of Guaranteed Minimum Pensions ('GMP') were increased at 2.8%, with the exception of a small number of pensions which do not increase in payment. Post 88 GMPs were increased at 2.4%, Pre-88 GMPs were not increased, in accordance with the Scheme Rules and statutory requirements.

Pensions with an increase anniversary on 1 May 2020 were increased as follows: pensions in excess of Guaranteed Minimum Pensions ('GMP') were increased at 2.2% (minimum of 3% for the Ex-Allied Domecq pensioners), with the exception of a small number of pensions which do not increase in payment. Post 88 GMP's were increased at 1.7%, Pre-88 GMP's were not increased, in accordance with the Scheme Rules and statutory requirements.

There were no discretionary pension increases in the year.

Deferred benefits are increased in line with legislation and the Scheme Rules.

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

#### **Transfers**

Members leaving service can normally transfer the value of their benefits under the Scheme to another scheme that they join or to an insurance contract or personal pension.

The transfer value of the Scheme members' benefits does not include an allowance for any discretionary benefits which might be awarded in the future.

Individual and group transfers into the Scheme are allowed.

#### **Contributions**

Contributions were paid in accordance with the Schedule of Contributions certified by the Scheme Actuary on 9 May 2019.

The requirements of the Schedule of Contributions during the year were as follows:

#### **DB Section**

Employer expense contributions:

The Employer to contribute expense contributions of £76,950 per month from 1 May 2019 onwards.

It will also contribute an additional expense contribution for the Pension Protection Fund ('PPF') levy recalculated each year to reflect the expected levy.

#### **DC Section**

Employer normal contributions:

Clerical and retail staff – 4% of basic pay/salary for employees under the age of 40 and 6% of basic pay/salary for employees aged 40 and over.

Middle managers and retail management team – 6% of basic pay/salary for employees under the age of 40 and 9% of basic pay/salary for employees aged 40 and over.

Executives – 13% of basic salary.

Employees who pay contributions via salary sacrifice:

Employees who are active members of the Scheme and who are not 25-year members, pay 3% of basic pay/salary. Additional voluntary contributions are paid at rates selected by the employee, in accordance with the Trust Deed and Rules.

#### **Spirit Group Retail Retirement Savings Plan**

Following the merger of the Spirit Group Retail Retirement Savings Plan on 30 September 2019, the Employer will contribute expense contributions of £5,733 per month to cover the expenses of administering the Plan, PPF levies and other levies. This is under the Transfer and Amendment Deed dated 30 September 2019.

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

#### **GMP equalisation**

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes which affects many defined benefit pensions contracted out of SERPS between 17 May 1990 and 5 April 1997. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. As Trustee of the Scheme we are aware that the issue will affect the Scheme and we will be considering this at future meetings when decisions will be made as to the next steps. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the potential backdated amounts and related interest these are not expected to be material therefore we have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

There has been a recent further High Court judgement in relation to the equalisation of GMP benefits. This judgement focused on the GMP treatment of historic transfers out of members, an issue which had not been addressed in the 2018 GMP ruling. Under the recent ruling, the Trustee is required to review historic transfer values paid from May 1990 to assess if any top up payment is required to the receiving scheme, to reflect the member's right to equalised GMP benefits. The impact of this court case will be considered by the Trustee at future meetings and decisions will be made as to the next steps.

#### **COVID-19**

At the time of approval of the financial statements, the Covid-19 virus continues to develop and has been designated a global pandemic by the World Health Organisation. The Trustee has considered the impact of the Covid-19 virus on the assessment of the Employer's ability to support the Scheme as a going concern.

In particular, the Trustee considers the potential impact of Covid-19 on the Scheme's investment strategy and the Employer's business, taking into account the Scheme's funding level, investment strategy, and the strength of the Employer covenant.

The Trustee and their advisers continue to monitor the investment strategy and member experience in light of the COVID-19 pandemic. The regular reporting and monitoring will also help to identify any investment related issues in a timely manner which may lead to 'deeper dive' analysis of fund managers and / or investment strategy immediately if this is required. The Trustee will consider revisions to the investment strategy where any fundamental shortcomings during this period are identified.

Having assessed the circumstances, the Trustee has determined there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and therefore believes it remains appropriate to prepare the financial statements on a going concern basis.

#### **Greene King acquisition**

Greene King was acquired by CK Noble (UK) Limited, a wholly owned indirect subsidiary of CK Asset Holdings Limited (CKA). The acquisition was undertaken by means of a scheme of arrangement which became effective on 30 October 2019. CKA is a well-established and respected business and already has significant investments in the UK, including the freeholds of some of the Greene King pubs.



## SPIRIT (LEGACY) PENSION SCHEME

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ('FRS 102'), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 30 June 2018. Additionally, an Annual Actuarial Report was produced as at 30 June 2019. These showed that on these dates:

	30 June 2018	30 June 2019
The value of the technical provisions was:	£488.9 million	£511.4 million
The Scheme's assets were valued at:	£500.2 million	£525.5 million
Surplus	£11.3 million	£14.1 million
Value of assets as a percentage of the technical provisions	102.3%	102.8%

The values of the assets and liabilities above include the value of insurance policies (annuities) held by the Scheme in the Trustee's name.

Valuations will normally be carried out every three years, with the next actuarial valuation of the Scheme due to take place no later than as at 30 June 2021.

**Note:** the above does not include the post-merger of the Spirit Group Retail Retirement Savings Plan.

#### The method and significant assumptions used were as follows:

Method – the actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

## SPIRIT (LEGACY) PENSION SCHEME

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Report on Actuarial Liabilities (continued)

#### Significant actuarial assumptions

The key assumptions are:

Basis item	Description
Investment return	Based on the Bank of England ('BoE') gilt yield curve plus an outperformance premium.
Outperformance premium	The difference between corporate bond yields and UK gilt yields at the approximate duration of the liabilities, subject to a maximum of 1% p.a.
Retail Price Inflation ('RPI')	Based on the BoE inflation curve.
Consumer Price Inflation ('CPI')	<p>The difference between the long-term assumption for RPI and CPI inflation will vary over time to reflect the Scheme Actuary's views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.</p> <p>As at 30 June 2018 this was RPI less 1.1% p.a. at each term.</p> <p>As at 30 June 2019 this was RPI less 1.0% p.a. at each term.</p>
Pension increases in payment: - GMP - Pension in excess of GMP	<p>Statutory</p> <p>- RPI capped at 5% p.a. - RPI capped at 5% p.a., subject to a 3% p.a. minimum - Nil increases</p>
Mortality post-retirement	In line with the standard SAPS S2 heavy tables scaled to reflect the demographic profile and experience of the Scheme, with an allowance for improvements in line with the CMI_2017 Core Projections with smoothing parameter of 7.5 and a long term annual rate of improvement in mortality rates of 1.5% p.a.

**Note:** Liabilities in respect of the insurance policy with Scottish Widows are valued making approximate allowance for insurer pricing at the calculation date.

## **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

### **Management and custody of investments**

As required by the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles ('SIP') setting out its policy on investment, which includes the Trustee's policy on Socially Responsible Investment. A copy of the SIP is shown on pages 33 to 47.

Per the new investment regulations which came into effect in October 2019 and 1 October 2020, updated information has now been set out in the SIP for 'Environmental, Social and Governance Considerations' (page 35), 'Arrangements with asset managers' (page 39) and 'Costs, transparency and the monitoring of performance and remuneration' (page 39).

The Trustee has delegated management of investments to the investment managers shown on page 1. These managers, who are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments in line with the investment managers agreements which are designed to ensure that the objectives and policies captured in the SIP are followed.

The Trustee has considered environmental, social and governance factors for investments (including but not limited to climate change) and has delegated to the investment managers the responsibility for taking these considerations into account when assessing the financial potential and suitability of an investment and for exercising the rights (including voting rights) relating to the Scheme's investments.

The investment managers are paid fees for their services. The fees are calculated as a percentage of the market value of the part of the Scheme that they manage.

The Trustee has appointed the Bank of New York Mellon (International) Limited as the custodian of the Scheme's investments.

The Custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Investments are held in the name of the Custodian's nominee company, in line with common practice for pension scheme investments.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and believe them to be appropriate relative to the reasons for holding each class of investments.

### **Investment report**

#### **Investment strategy and principles**

The Trustee is responsible for determining the Scheme's investment strategy.

The Trustee's objectives for the investment strategy have been set with regard to the Scheme's Statutory Funding Objectives as set out in the Statement of Funding Principles. The Trustee's primary investment objectives are:

- Funding objective - to ensure that the Scheme's investments deliver sufficient return such that the Scheme attains and remains fully funded using assumptions that contain a margin for prudence;
- Stability objective - to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- Security objective - to ensure that the solvency position of the Scheme is expected to improve. The Trustee takes into account the strength of the Employer's covenant when determining the expected improvement in the solvency position of the Scheme.

In accordance with section 35 of the Pensions Act 1995, the Trustee has agreed a SIP. This was reviewed in September 2019 and subsequently reviewed after the Scheme year end, in September 2020 and October 2020. A copy of the SIP is included in the Annual Report on pages 33 to 47.

## SPIRIT (LEGACY) PENSION SCHEME

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Investment report (continued)

##### Investment strategy and principles (continued)

The Trustee's current investment strategy is to hold approximately:

- 66.7% matching assets, consisting of fixed interest gilts, index-linked gilts, interest rate swaps, inflation swaps, corporate bonds; and
- 33.3% growth assets, consisting of equities, diversified growth funds and property.

In addition to the Trustee may choose to invest in bulk annuity buy-in policies in order to reduce risk. Given the illiquid nature of these investments the Trustee considers these separately to the investment strategy. The actual allocation to these will change over time due to market movements and cashflow. The Trustee regularly reviews the allocation.

For the Defined Contribution Section with Standard Life Investments, a Lifestyle arrangement is in place with a 7 year switching period from the Global Equity Fund to the UK Fixed Interest Fund and the Deposit and Treasury Fund. Members are also given the choice of indicating at what age they plan to retire, with the switching period being set in relation to this date. The aim of the Lifestyle arrangement is to strike a reasonable balance between the desire to maximise the opportunity for growth through holding equities and reducing annuity conversion and capital risks as a member approaches retirement. The Lifestyle Strategy is the default option for the Defined Contribution Section. For members who transferred in from the Spirit Group Retail Retirement Savings Plan, their policy is held in the Prudential Long Term Bond Fund Series 3 which invests in 50.0% government bonds and 50.0% in corporate bonds. The Trustee expects bond funds to broadly match the price of annuities, which gives some protection in the amount of secured pension for members closer to retirement. The assets held within each unit fund will depend on the choice(s) made by members for the investment of these contributions. The Plan is closed to member contributions and as such is not in scope for default fund requirements.

#### Investment performance

The Trustee assesses the performance of the Scheme's investments individually, and overall.

The Trustee receives reports from their investment adviser on a quarterly basis, showing performance of individual funds and the overall Scheme against both benchmark and target. Investment managers present to the Trustee upon request, to report on compliance with their agreements and to be questioned on fund performance and outlook.

Performance of the Scheme's DB investments over the 12 month, 3 year and 5 year periods are summarised as follows:

	12 months ending 30 June 2020	3 years p.a. ending 30 June 2020	5 years p.a. ending 30 June 2020
<b>Total Scheme (estimated)</b>	<b>4.7%</b>	<b>6.3%</b>	<b>7.5%</b>
Benchmark	5.4%	7.0%	8.1%

**Notes:** Performance, net of fees, estimated by Aon.

## SPIRIT (LEGACY) PENSION SCHEME

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Investment report (continued)

#### Investment performance (continued)

Performance of the Scheme's DC funds over a 12 month, 3 year and 5 year periods are summarised as follows:

	12 months ending 30 June 2020	3 years p.a. ending 30 June 2020	5 years p.a. ending 30 June 2020
<b>Standard Life Deposit and Treasury Pension Fund</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.3%</b>
Benchmark	0.5%	0.5%	0.5%

**Notes:** Performance, net of fees, provided by Standard Life. Performance has only been shown for funds invested for the year. The Scheme implemented a new investment strategy during the year and performance has only been shown for the period the Scheme has been invested in each fund.

#### General market background

The principal economic factors which have affected the benchmarks against which performance is compared, and implicitly the assets held, were as follows:

Equity markets over the year to 30 June 2020 were extremely volatile. The MSCI AC World Index achieved its highest annual return in 2019 in a decade. However, this was followed by its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms in Q1 2020 due to the COVID-19 virus outbreak. This quickly escalated into a global pandemic, resulting in the shutdown of major economies and causing severe disruption in global markets. Signs emerged in Q2 that the "first wave" of the pandemic had passed in many developed economies and economies re-opened relatively quickly. However, a new wave of cases in the US forced the partial reversal of reopening plans in June 2020. The MSCI AC World Index rose by 3.6% in local currency terms over the past twelve months and returned 5.7% in Sterling terms.

UK fixed interest gilt yields fell in tandem with global government bond yields as monetary easing measures by major central banks took interest rates to near zero. Meanwhile, increased demand for government bonds from investors seeking "safe haven" assets amidst an equity market sell-off and uncertain economic outlook, kept further downward pressure on yields. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 11.2% whilst index-linked gilts returned 10.6% over the last twelve months.

UK Investment grade corporate bond spreads (the difference between corporate and government bond yields), ended the year 18bps higher at 154bps. Credit spreads widened sharply, reaching their highest level since 2012, in Q1 2020, on concern over future corporate earnings and existing corporate leverage. However, spreads reversed substantially in Q2 2020 on the back of central bank purchases, government support measures and better than expected economic data.

UK commercial property returned -2.7% over the year, as the income return of 5.4% failed to offset the 7.8% fall in capital values. The coronavirus outbreak intensified pressure on the already struggling retail sector, delivering a total return of -13.4% over the last twelve months.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

#### Statement of Investment Principles

The SIP notes that the Scheme's actual asset allocation versus the target weight may deviate significantly from target due to factors such as market movements, investment views, governance constraints and implementation issues. The SIP does not have rebalancing ranges in place and we are comfortable with the current asset allocation's deviation from the target given the nature of the Scheme's holdings.

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## SPIRIT (LEGACY) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Spirit (Legacy) Pension Scheme - Implementation Statement

##### Introduction

This is the first implementation statement the Trustee has prepared and covers the year ending 30 June 2020.

The Statement sets out the actions undertaken by the Trustee, service providers and investment managers, to implement the policies as set out in the SIP and includes voting and engagement information that has been gathered from the managers.

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##### Changes to the SIP over the year to 30 June 2020

The SIP was updated on 22 July 2019 to take account of new regulations which came into effect from October 2019, requiring the Trustee to include a number of policies relating to Responsible Investment, Stewardship (e.g. voting and engagement) and non-financial factors such as members' views.

The SIP has been reviewed and revised following 30 June 2020 to take account of further regulatory changes and change in investment arrangements for both the DB and DC sections. The Trustee has outlined its policies regarding how they incentivise asset managers to achieve their long-term objectives, its policies on cost transparency and its policies on voting and stewardship. The most recent SIP includes the changes outlined here and was agreed and approved by the Trustee ahead of the 1 October 2020 deadline.

The Trustee consulted with the company when making these changes and obtained written advice from its investment consultant.

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##### Meeting the objectives and policies as set out in the SIP that apply to both the DB and DC sections

The Trustee outlines a number of key objectives and policies in its SIP. This Statement should be read in conjunction with the SIP and provides an explanation of how these objectives and policies have been met and adhered to over the course of the year.

##### Environmental, Social and Governance ("ESG")

The Trustee receives Quarterly Monitoring Reports ("QMRs") which include Aon's rating of the Scheme's investments. The monitoring includes underlying ratings of sub-categories, such as ESG. The Trustee considers these ratings and takes action where appropriate, whether that be to question the managers on their ESG practices or, if necessary, change the investment arrangements. During the year, the Trustee set up an Investment Sub Committee, to help improve the governance to monitor the Scheme's investments.

There were no changes to the asset allocation or investment managers over the year. The Trustee is comfortable that the ESG policies and objectives have been met over the year.

##### Stewardship

The Trustee expects the Scheme's investment managers to, where appropriate, engage with investee companies and to exercise voting rights in relation to the Scheme's assets.

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

The Trustee has an active dialogue with the Scheme's investment managers and regularly reviews the continuing suitability of their appointment. This review includes consideration of stewardship matters and the managers' exercise of voting rights. The Trustee is supported in this review by their investment adviser.

Details of the managers' stewardship activities over the year are provided at the end of this statement including information on their voting behaviour, significant votes cast and the use of the services of a proxy voter.

#### **Members views**

In line with its policy, over the year, the Trustee has not explicitly taken into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters.

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#### **Meeting the objectives and policies as set out in the SIP that apply to DC section alone**

#### **Setting the Investment Strategy**

The Trustee undertook an investment platform and strategy review during 2018/2019 and this was completed on 20 March 2019. The review took into account the membership profile of the Scheme and the way in which members are expected to take their benefits at retirement. Members were informed of the changes and the implementation of the revised strategy was completed on 2 December 2019.

Following the review and based on investment and legal advice, the Trustee updated the default strategy to reflect the new benefit flexibilities DC members have available to them at the point of retirement and introduced alternative lifestyle strategies so that members are able to select a strategy that fits their expected benefit choices at retirement.

For members who do not wish to take an active role in managing their investment choices, three Lifestyle strategies are available as low-involvement options targeting Income Drawdown, Annuity or Cash at retirement. The default strategy for active members has been set as the Income Drawdown Targeting Lifestyle Strategy. Existing deferred members were transferred to the Cash Targeting Lifestyle Strategy.

In addition to the three Lifestyle strategies, the Trustee makes available to members a range of 8 self-select funds which provide members with a range of investment options covering the main asset classes, ranging from low to high risk options.

The investment strategy review took into account the membership profile of the Scheme and the way in which members are expected to take their benefits at retirement.

The Lifestyle strategies try to ensure that members' savings are invested in funds that are appropriate for them, based on the number of years until their selected retirement date and the way in which members expect to take their benefits at retirement. Members' assets are automatically moved between different investment funds as they approach their target retirement date from higher to lower risk funds as members approach their selected retirement age.

### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

At a member's selected retirement date, the Lifestyle strategy aims to invest the member's assets in the asset class or range of asset classes most appropriate to the way in which the member plans to take their benefits.

The Trustee further decided that remaining with Standard Life Aberdeen and taking advantage of access to their competitively priced Vanguard passive funds would offer the best value in terms of implementing the investment strategy changes.

#### **Reviewing the Investment Strategy**

The Trustee reviews the range of funds offered and the suitability of the Lifestyle options at least triennially with next review due to be completed before 20 March 2022.

In the meantime, the Trustee receives regular updates on the performance of the Lifestyle strategies and self-select funds against their aims and objectives. For example, the Trustee's investment adviser provided a report on the performance of the DC investment strategy during the initial phase of the COVID-19 crisis which detailed the impact of the market turbulence on members' funds.

It should also be noted that the Trustee is currently reviewing the investment strategy for former members of the Spirit Group Retail Retirement Savings Plan which was merged into the Spirit Legacy Pension Scheme during the year. This review applies and aligns with the objectives and policies set out in the SIP and is expected to be completed during the 2020/2021 Scheme year.

#### **Providing Information for Members**

Following completion of the investment strategy review in March 2019, and before implementation in December 2019, the Trustee considered and formulated a comprehensive communication strategy to inform members of the changes, including providing members with appropriate details of the new strategies and potential risks and returns, and associated costs and charges to allow members to make informed decisions regarding their investment strategy. Members were also provided with information about how they can access suitable professional investment advice.

Further information about the Scheme's investment options is provided on the member website and additional communication is undertaken if the Trustee considers it appropriate to do so. For instance, the Trustee communicated with members in May 2020 to provide reassurance that their benefits were being appropriately managed during the COVID-19 crisis and information about accessing suitable professional investment advice before making investment changes.

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#### **Meeting the objectives and policies as set out in the SIP that apply to DB section alone**

##### **Investment risks**

The Trustee receives QMRs from its investment adviser monitoring the valuation of all investments held, the funding level, the performance of the Scheme, and the performance of the investments against their respective benchmarks. The QMR also includes details of any significant issues with the investments that may impact their ability to meet the performance targets.



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## SPIRIT (LEGACY) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

The Trustee is comfortable this policy has been met over the year.

#### Flight Plan

The Trustee receives QMRs from its investment adviser monitoring the funding level against the flight plan triggers. If a funding level trigger is breached, a corresponding increase in the matching component allocation would be proposed at the meeting, or as soon as is reasonably practical thereafter.

There were no funding level triggers breached and no changes to the asset allocation, over the year. The Trustee is comfortable this policy has been met over the year.

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#### Stewardship Policy Introduction

Spirit Legacy is a hybrid pension scheme. The Scheme's investments are well diversified. The Scheme invests in funds, managed by the investment managers, to whom they delegate the right to buy and sell individual company shares (and other instruments) and to exercise voting rights on the Scheme's behalf. The Scheme does not invest in companies directly.

The DC section principally invests in a number of equity, multi-asset and fixed income funds with Standard Life and Vanguard. Additionally, the Scheme has AVC arrangements with Utmost and Prudential.

The DB Section invests in a Blackrock equity fund, a Russell equity fund, an Invesco diversified growth fund, an Aviva Property fund, a BlackRock corporate bonds index and BlackRock Liability Driven Investment (LDI) portfolio.

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#### Stewardship Policy Implementation

The Trustee expects the Scheme's investment managers to, where appropriate, engage with investee companies and to exercise voting rights in relation to the Scheme's assets.

Over the year, the Trustee has had an active dialogue with the Scheme's investment managers and regularly reviews the continuing suitability of their appointment. This review includes consideration of stewardship matters and the managers' exercise of voting rights. The Trustee is supported in this review by its investment adviser.

The investment adviser, on behalf of the Trustee, gathered and reviewed stewardship information relating to all the invested funds over the year and had no major concerns.

The following sections set out stewardship information in relation to the most material investment manager in the Defined Benefit and Defined Contribution Schemes respectively.

#### **BlackRock**

BlackRock does not use a service provider to vote on its behalf, although it does subscribe to research from the proxy advisory firms ISS and Glass Lewis. BlackRock uses several other inputs, including a company's own disclosures and BlackRock's record of past engagement in its voting and engagement analyses.

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## SPIRIT (LEGACY) PENSION SCHEME

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### TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020

#### Blackrock - Aquila Passive Equity - MSCI World Fund

	1 July 2019 – 30 June 2020
% resolutions voted	92%
% of resolutions voted against management	6%
% abstain votes	0.6%

For the Defined Benefit sections investment in the equity fund, over the reporting period BlackRock conducted 1,365 engagements with 778 individual companies. It held multiple engagements with 45% of individual companies.

Over 2020, BlackRock has increased its level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome. More information on specific significant votes and BlackRock's quarterly stewardship report can be found at this website: <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-and-voting-history>.

#### Vanguard

Vanguard vote proxies on behalf of each of its applicable funds at public company shareholder meetings across the globe. In evaluating proxy proposals, Vanguard consider information from many sources, including but not limited to, the investment adviser for the fund, the management or shareholders of a company presenting a proposal and independent proxy research services.

Over the reporting period, at a firm level, Vanguard voted on 168,305 resolutions and engaged with 793 companies. More information, including case studies of engagements and details on significant notes can be found at their 2020 investment stewardship report: [https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/2020\\_investment\\_stewardship\\_annual\\_report.pdf](https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/2020_investment_stewardship_annual_report.pdf)

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#### **Conclusion**

From the information observed and activity implemented, the Trustee is of the opinion that the SIP policies, including the stewardship policy have been adhered to in practice over the year.

#### **Employer related investments**

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995. Details of any Employer related investments are disclosed in note 22 to the financial statements.

# **SPIRIT (LEGACY) PENSION SCHEME**

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## **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

### **Further information**

Further information about the Scheme is available, on request, to members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustee's Statement of Investment Principles can be inspected.

Individual benefit statements are provided to active members and deferred DC members annually and for deferred DB members on request annually. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests are available free of charge once a year.

If members have any queries concerning the Scheme or their own pension position, or wish to obtain further information, they should contact Aon Solutions UK Limited at the contact details on page 2 who will also be able to provide them with a further copy of the Scheme's booklet should they require one and answer any queries that they may have about entitlement to benefits.

Aon Solutions UK Limited processes the personal data as contained in this report and financial statements for the purpose of providing the Trustee with a report and financial statements on the operation of the Scheme. Aon Solutions UK Limited processes personal data in the context of providing pension scheme administration services on behalf of the Trustee, the data controller. Aon Solutions UK Limited, when operating in its capacity as a data processor who provides the members of the Scheme with pension scheme administration services on behalf of the Trustee, will comply with the applicable legislation including any data protection legislation and the instructions of the Trustee.

The Trustee or the Employer will ensure the data subjects of whom personal data is processed for the purposes of this report and financial statements are informed of the processing activities in accordance with the requirements of the applicable data protection legislation.

### **Compliance Statement**

#### **HM Revenue & Customs Registration**

The Scheme is a registered pension scheme in accordance with the Finance Act 2004. This means that the contributions paid by both the Principal Employer and the members qualify for full tax relief, and enables income earned from investments by the Trustee to receive preferential tax treatment.

#### **Pension Tracing**

The Scheme is registered with the Pension Tracing Service which maintains a list of up to date addresses of schemes to assist ex-members in tracing their rights if they have lost contact with the previous Employers' scheme. The address for the Pension Tracing Service is:

The Pension Tracing Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

0800 731 0193  
[www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

#### **The Pensions Regulator**

The Pensions Regulator ('TPR') is the United Kingdom ('UK') regulator of work-based pension schemes.

TPR's role is to act to protect the interest of pension scheme members and to enforce the law as it applies to occupational pension schemes.

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

#### **The Pensions Regulator (continued)**

The regulations set out clearly the areas that TPR covers and the powers that are vested in it. For example, TPR can prohibit or disqualify Trustees or Trustee Directors for acting unlawfully and can impose fines on wrong doers. TPR can be contacted at:

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

0345 600 1011  
[customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)  
[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

#### **Questions about pensions**

If you have any questions about your pension, The Pensions Advisory Service ('TPAS'), which is part of the Money and Pensions Service provides professional, independent and impartial help with pensions for free. Services include independent information and general guidance on pension matters.

TPAS can be contacted at:

Money and Pensions Service  
120 Holborn  
London  
EC1N 2TD

0800 011 3797  
[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

#### **Resolving difficulties/Internal Dispute Resolution**

It is expected that most queries relating to benefits can be resolved with the Scheme's Administrator. In the event that a complaint cannot be resolved members can make a formal complaint using the Scheme's Internal Dispute Resolution ('IDR') procedure details of which can be obtained from the Administrator.

If the complaint is not resolved satisfactorily, the Government appointed Pensions Ombudsman can investigate complaints of injustice due to bad administration either by the Trustee or the Scheme's Administrator, or disputes of fact of law. The Pensions Ombudsman can be contacted at:

The Pensions Ombudsman  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

0800 917 4487  
[enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)  
[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **TRUSTEE'S REPORT YEAR ENDED 30 JUNE 2020**

#### **Statement of Trustee's Responsibilities**

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

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

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

#### **Approval**

Signed for and on behalf of the Trustee:

Trustee Director:

Trustee Director:

Date:

## SPIRIT (LEGACY) PENSION SCHEME

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### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### **Annual statement regarding governance of the DC Section, including AVCs of the Spirit (Legacy) Pension Scheme**

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding governance, which must be included in the annual Trustee's report and accounts. The governance requirements apply to all defined contribution ("DC") pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustee covers the period from 1 July 2019 to 30 June 2020 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

1. The Default arrangement
2. Processing of core financial transactions
3. Member borne charges and transaction costs
  - i. Default arrangement
  - ii. Self-select funds
  - iii. Ex Spirit Group Retail Retirement Savings Plan
  - iv. Illustrations of the cumulative effect of these costs and charges
4. Assessment of value for members
5. Trustee's knowledge and understanding

The Trustee has also taken actions required to manage the Scheme in light of the COVID-19 pandemic and have incorporated additional commentary into this statement.

#### **1. The default arrangement**

The Scheme is used as a Qualifying Scheme for auto-enrolment purposes and the Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement. The default strategy is primarily provided for members who join the Scheme and do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' (SIP). The latest SIP for the Scheme is attached to this statement and included in the Trustee Report and Accounts. The objective of the default arrangement is to automatically move members from higher return, higher risk investments to lower risk, lower return investments as they near their retirement age in order to protect the value of their fund.

The default strategy at the start of the period of review was the Annuity Targeting Lifestyle Arrangement (with allowance for tax free lump sums at retirement), which had a 7-year switching period from Standard Life's Global Equity Fund to the UK Fixed Interest Fund and the Deposit and Treasury Fund.

The aim of this strategy was to strike a reasonable balance between the desire to maximise the opportunity for growth through holding equities and reducing annuity conversion and capital risks as a member approaches retirement.

## SPIRIT (LEGACY) PENSION SCHEME

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### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### **Investment strategy review**

The Trustee undertook an investment provider review and a strategic review of the investment strategy during 2018/2019. The provider review considered the appropriateness of the investment platform (with Standard Life Aberdeen) as well as competitiveness of pricing and the strategic fund review considered the suitability of the default investment strategy, other lifestyle strategies and fund options for existing members of the Scheme in light of the introduction of Freedom and Choice in 2015.

The Trustee, following the reviews and based on investment and legal advice, decided that the default strategy would be updated to reflect the new benefit flexibilities DC members have available to them at the point of retirement, and alternative lifestyle strategies would be introduced so that members are able to select a strategy that fits their expected benefit choices at retirement. The review took into account the membership profile of the Scheme and the way in which members are expected to take their benefits at retirement.

Three Lifestyle strategies are available to members, targeting Income Drawdown, Annuity or Cash at retirement. The default strategy for active members has been set as the Drawdown Targeting Lifestyle Strategy. Existing deferred members were transferred to the Cash Targeting Lifestyle Strategy. This is also deemed to be a default strategy. The underlying funds used to construct the 2 default strategies (and the alternative Annuity Targeting Lifestyle Strategy) and the self-select funds were updated by the Trustee working with the investment adviser.

The Trustee further decided that remaining with Standard Life Aberdeen and taking advantage of access to their competitively priced Vanguard passive funds would offer the best value in terms of implementing the investment strategy changes in the short and long term.

In addition to the three Lifestyle strategies, the Trustee makes available to members a range of 8 self-select funds.

The investment strategy was completed on 20 March 2019. Members were informed of the changes and the implementation of the revised strategy was completed on 2 December 2019. The SIP was updated following the implementation of the investment strategy and for the regulatory changes due from 1 October 2020.

The Trustee undertakes a formal review of the default arrangements at least every 3 years and following changes in the member profile of the Scheme. The next formal review is due to take place by 20 March 2022.

#### **Performance monitoring**

The Trustee also reviews the performance of the default arrangement against its aims and objectives on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance is reviewed against target benchmarks that have been agreed with the investment managers.

The Trustee reviews that took place in the year concluded that the default arrangements were performing broadly as expected.

#### **Ex-members of the Spirit Group Retail Retirement Savings Plan ('the Plan')**

During the year, the Spirit Group Retail Retirement Savings Plan was merged into the Spirit Legacy Pension Scheme and the Plan was wound up.

The Plan did not have a default arrangement in place since the Plan was closed to new entrants and there were no contributing members. Members in the Plan who were contracted out of SERPS before 1997 also benefit from a Guaranteed Minimum Pension (GMP) underpin, which provides a guaranteed minimum value to members on retirement.

# SPIRIT (LEGACY) PENSION SCHEME

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## CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

### Ex-members of the Spirit Group Retail Retirement Savings Plan ('the Plan') (continued)

Although the Plan did not have a default strategy the Plan's investment objective was implemented using the Prudential Long Term Bond Fund which invests in approximately 50% UK government bonds and 50% in corporate bonds. The option offered members a higher long term expected return and protection against movements in the costs of pensions. Members also had the option to invest in the Prudential With-profits Fund.

The members of the Plan were transferred to the Scheme maintaining the same terms and conditions the members had under the Plan. The Prudential investment policies were novated to the Scheme. The Trustee is currently reviewing the investment strategy for these members and this review is expected to be completed during the 2020/2021 Scheme year. The merger of the Plan with the Scheme is expected to provide improved value to these members.

### 2. Processing of core financial transactions

Core financial transactions include the investment of contributions, transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries. The bulk of the core financial transactions are undertaken on behalf of the Trustee by the Scheme administrator, Aon and the Company is responsible for ensuring that contributions are paid to the Scheme promptly. The timing of such payments is monitored by the Trustee from quarterly administration reports submitted by Aon.

In order to determine how well the administration is performing the Trustee has service level agreements ("SLA") in place with Aon. These SLAs detail a number of key administration processes to be performed and the target timescale within which each of these processes needs to be completed. There are SLAs in place for all core financial transactions. Under the current SLA, Aon aims to accurately complete all financial transactions within 5 working days, except for the investment of contributions, which is within 3 working days of reconciliation of the amounts with the Company, and it aims to achieve these at least 95% of the time. This was achieved over the period covered by this Statement.

The Trustee has also reviewed the key processes adopted by the administrator and their output in order to minimise the risks of inaccurate or late payment of core financial transactions. Key processes include:

- A full member and Scheme reconciliation being undertaken annually as part of the annual preparation of the Trustee Report & Accounts
- Provision of quarterly administration reports – enabling the Trustee to check core financial transactions and review processes relative to any member complaints made
- Monthly contribution checks and daily reconciliation of the Trustee's bank account
- Checks for all investment and banking transactions prior to processing
- Straight-through processing where possible, therefore avoiding the need for manual intervention and, in turn, significantly reducing the risk of error.
- Annual data reviews
- Documentation and operation in line with quality assurance policies and procedures
- Operation in line with the business continuity plan and confirmation that the administrator has prioritised core financial transactions during this period.

Standard Life Aberdeen and Prudential (as the investment managers) also have internal controls documented and in place which are independently audited on an annual basis.

- Controls around administration and the processing of transactions are being documented in the Scheme risk register for regular review. The Scheme audit also reviews a sample of calculations carried out during the Scheme year.



## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### 2. Processing of core financial transactions (continued)

The Trustee is satisfied that over the period:

- the administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

#### 3. Member borne charges and transaction costs

The Trustee has set out the costs and charges that are incurred by members, rather than the employer, over the statement year in respect of each investment fund available to members. These comprise the Total Expense Ratio and insofar as we are able to, transaction costs.

The Total Expense Ratio is an explicit charge and represents the costs associated with operating and managing an investment fund. Transaction costs are not explicit and are incurred when the Scheme's fund manager buys and sells assets within investment funds.

Fund managers calculate transaction costs at fund-level not scheme-level therefore the Trustee requested details of transaction costs for the period 1 July 2019 to 30 June 2020 from the Scheme's providers.

The charges and transaction costs have been supplied by the Standard Life and Prudential who are the Scheme's investment managers. Where transaction costs have been provided as a negative cost, a floor of zero has been set by the Trustee so as not to potentially understate investment management costs. Costs and charges are shown as an annual amount for all strategies although members may have been invested in a strategy for part of the year. The costs and charges for the investment strategies implemented from 2 December 2019 are shown below. The costs and charges for the investment strategies for the period 1 July 2019 to 1 December 2019 are shown in the appendix to this statement.

##### (i) Default arrangements

##### Drawdown Targeting Lifestyle Strategy – from 2 December 2019

The Drawdown Targeting Lifestyle Strategy has been set up as a lifestyle arrangement which means that member's assets are automatically moved between different investment fund as they approach their target retirement date. Details of how the assets transition are included in the SIP.

The actual costs that a member paid over the year depends on their term to retirement. The TER ranged from 0.1250% p.a to 0.2178% p.a, which was within the 0.75% p.a charge cap for schemes that are used for auto-enrolling their employees. Transaction costs ranged between 0.0133% p.a. and 0.0551% p.a.

The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	10+	9	8	7	6	5	4	3	2	1	0
TER % p.a.	0.1250	0.1418	0.1586	0.1754	0.1922	0.2090	0.2108	0.2125	0.2143	0.2160	0.2178
Transaction costs %	0.0133	0.0190	0.0247	0.0304	0.0361	0.0418	0.0444	0.0471	0.0498	0.0524	0.0551
Total costs %	0.1383	0.1608	0.1833	0.2058	0.2283	0.2508	0.2552	0.2596	0.2640	0.2684	0.2728

## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### Cash Targeting Lifestyle Strategy – from 2 December 2019

The Cash Targeting Lifestyle Strategy has been set up as a lifestyle arrangement which means that member's assets are automatically moved between different investment fund as they approach their target retirement date. Details of how the assets transition are included in the SIP.

The actual costs that a member paid over the year depends on their term to retirement. The TER ranged from 0.1250% p.a to 0.2090% p.a, which was within the 0.75% p.a charge cap for schemes that are used for auto-enrolling their employees. Transaction costs ranged between 0.0133% p.a. and 0.0519% p.a.

The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	10+	9	8	7	6	5	4	3	2	1	0
TER % p.a.	0.1250	0.1418	0.1586	0.1754	0.1922	0.2090	0.1992	0.1894	0.1796	0.1698	0.1600
Transaction costs %	0.0133	0.0190	0.0247	0.0304	0.0361	0.0418	0.0438	0.0458	0.0478	0.0498	0.0519
Total costs %	0.1383	0.1608	0.1833	0.2058	0.2283	0.2508	0.2430	0.2352	0.2274	0.2196	0.2119

#### (ii) Self-select investment funds

##### From 2 December 2019:

In addition to the Drawdown Targeting Lifestyle Strategy and the Cash Targeting Lifestyle Strategy shown above, members also have the option to invest in an Annuity Targeting Lifestyle Strategy and 8 individual funds.

The Annuity Targeting Lifestyle Strategy has been set up as a lifestyle arrangement which means that member's assets are automatically moved between different investment fund as they approach their target retirement date. Details of how the assets transition are included in the SIP.

The actual costs that a member paid over the year depends on their term to retirement. The TER ranged from 0.1225% p.a to 0.2090% p.a, which was within the 0.75% p.a charge cap for schemes that are used for auto-enrolling their employees. Transaction costs ranged between 0.0133% p.a. and 0.1500% p.a.

The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	10+	9	8	7	6	5	4	3	2	1	0
TER % p.a.	0.1250	0.1418	0.1586	0.1754	0.1922	0.2090	0.1917	0.1744	0.1571	0.1398	0.1225
Transaction costs %	0.0133	0.0190	0.0247	0.0304	0.0361	0.0418	0.0634	0.0851	0.1067	0.1284	0.1500
Total costs %	0.1384	0.1608	0.1833	0.2058	0.2283	0.2508	0.2551	0.2595	0.2638	0.2682	0.2725

## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

The TERs and transaction costs for each of the individual funds are shown in the following table:

Self-select Fund name	TER % p.a.	Transaction Costs % p.a.	Total costs % p.a.
SL Vanguard FTSE Developed World ex UK Pension Fund <sup>123</sup>	0.110	0.0000	0.1100
SL Vanguard FTSE UK All Share Index Pension Fund <sup>123</sup>	0.110	0.0450	0.1550
SL Vanguard Emerging Markets Stock Index Pension Fund <sup>123</sup>	0.260	0.0929	0.3529
SL Vanguard UK Investment Grade Bond Index Pension Fund <sup>123</sup>	0.110	0.0248	0.1348
SL Vanguard UK Inflation Linked Gilt Index Pension Fund <sup>123</sup>	0.110	0.1827	0.2927
SL SLI Absolute Return Global Bond Strategies Pension Fund <sup>123</sup>	0.520	0.0355	0.5555
Standard Life Deposit and Treasury Fund <sup>23</sup>	0.160	0.0519	0.2119
SL Vanguard UK Long Duration Gilt Index Pension Fund	0.110	0.0000	0.1100

1 Funds underlying the Drawdown Targeting Lifestyle Strategy

2 Funds underlying the Cash Targeting Lifestyle Strategy

3 Funds underlying the Annuity Targeting Lifestyle Strategy

#### (iii) Ex Spirit Group Retail Retirement Savings Plan

The Prudential Long Term Bond Fund has levied a Total Expense Ratio of 0.9% p.a. of assets under management for all members during the charges year.

For the small number of members invested in the Prudential With-profits Fund, the charges are not explicit but Prudential estimates that this fund levied a charge of 1.1% p.a. of assets under management for these members during the charges year, assuming investment returns of 5% p.a. These members may also derive value from, for example, intrinsic minimum returns or conversion rates that may apply in certain circumstances.

The transaction costs for each of these funds were as follows:

Prudential Long Term Bond Fund:	0.08%
Prudential With-Profits Fund:	0.0%

#### (iv) Illustrations of the cumulative effect of costs and charges

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided 3 illustrations of their cumulative effect on the value of typical scheme members savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out below.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### (iv) Illustrations of the cumulative effect of costs and charges (continued)

Illustration A is based on the youngest active members of the Scheme invested in the default Drawdown Targeting Lifestyle Strategy, and Illustration B is based on the average deferred member of the Scheme invested in the default Cash Targeting Lifestyle Strategy – as these are the arrangements that most of these members respectively have their retirement savings in. Illustration C is based on the average deferred member of the Ex Spirit Group Retail Retirement Savings Plan invested in the Prudential Long Term Bond Fund.

Each illustration, A, B and C is shown as a Table. As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures with other investments in the Tables. For comparison purposes, for illustrations A and B, we show the projected retirement savings if the typical member were invested in the Developed World Equity Fund - which has the lowest charge level and a higher expected return (risk profile), and the Absolute Return Global Bond Strategies Fund - which has the highest charge level and a lower expected return (risk profile)

All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

**Illustration A:** is based on an existing active Scheme member who has 30 years to go until their retirement at age 65. The member has a current salary of £35,000 and starting fund value of £33,000.

Projected Pension Account in today's money									
Age	Drawdown Targeting Lifestyle Strategy			Developed World Equity Fund			Absolute Return Global Bond Strategies Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
<b>35</b>	33,000	33,000	0	33,000	33,000	0	33,000	33,000	0
<b>40</b>	57,620	57,320	300	57,360	57,110	250	46,080	45,060	1,020
<b>45</b>	93,500	92,620	880	92,740	92,010	730	63,390	61,050	2,340
<b>50</b>	137,420	135,570	1,850	135,800	134,280	1,520	79,650	75,660	3,990
<b>55</b>	191,160	187,800	3,360	188,220	185,470	2,750	94,920	89,010	5,910
<b>60</b>	242,100	236,380	5,720	252,030	247,450	4,580	109,260	101,220	8,040
<b>65</b>	272,010	263,140	8,870	329,700	322,510	7,190	122,740	112,390	10,350

## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

**Illustration B:** is based on an existing deferred Scheme member who has 15 years to go until their retirement at age 65. The member is not contributing and has a starting fund value of £15,000.

Projected Pension Account in today's money									
Age	Cash Targeting Lifestyle Strategy			Developed World Equity Fund			Absolute Return Global Bond Strategies Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
<b>50</b>	15,000	15,000	0	15,000	15,000	0	15,000	15,000	0
<b>55</b>	18,360	18,250	110	18,260	18,160	100	14,090	13,720	370
<b>60</b>	21,140	20,830	310	22,220	22,000	220	13,230	12,530	700
<b>65</b>	21,120	20,600	520	27,050	26,640	410	12,430	11,470	960

**Illustration C:** is based on a deferred ex member of the Spirit Group Retail Retirement Savings Plan who is no longer making contributions and who has 20 years to go until their retirement at age 65. The member has a current fund value of £6,000 and is invested in the Prudential Long Term Bond Fund.

Projected Pension Account in today's money			
Age	Prudential Long-Term Bond Fund		
	Before charges	After charges	Effect of charges
	£	£	£
<b>45</b>	6,000	6,000	0
<b>50</b>	5,800	5,530	270
<b>55</b>	5,600	5,100	500
<b>60</b>	5,410	4,700	710
<b>65</b>	5,220	4,340	880

Members are advised to consider both the level of costs and charges and the expected return on investments (i.e. the risk profile of the strategy) in making investment decisions.

## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### Assumptions and data for illustrations:

*The following assumptions have been made for the purposes of the above illustrations:*

- *Annual salary growth and inflation is assumed to be 2.5% per annum*
- *The starting fund values and future contributions used in the projections is representative of the average for the Scheme. For illustrations based on active members of the Scheme, allowance has been made for total future contributions of 9% p.a. until age 40 and 12% p.a. until age 65*
- *The projected annual returns on assets are:*

Fund	Return (% p.a.)
SL Vanguard FTSE Developed World ex UK Pension Fund	6.5
SL Vanguard FTSE UK All Share Index Pension Fund	6.5
SL Vanguard Emerging Markets Stock Index Pension Fund	7.5
SL Vanguard UK Investment Grade Bond Index Pension Fund	1.0
SL Vanguard UK Inflation Linked Gilt Index Pension Fund	-0.3
SL SLI Absolute Return Global Bond Strategies Pension Fund	0.7
Standard Life Deposit and Treasury Fund	0.8
Prudential Long-Term Bond Fund	0.85

- *For the Drawdown Targeting Lifestyle Strategy and Cash Targeting Lifestyle Strategy, the projection takes into account the changing proportion invested in the different underlying funds. All funds shown above are underlying funds, bar the Prudential Fund.*
- *The transaction costs have been averaged over a 2-year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.*
- *The projected fund values shown are estimates for illustrative purposes only and are not guaranteed*
- *Asset allocations for members invested in the lifestyle strategy are assumed to be rebalanced annually*

# SPIRIT (LEGACY) PENSION SCHEME

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## CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

### 4. Assessment of Value for Members

There is no legal definition of "good value" or the process of determining this for scheme members. Therefore, working in conjunction with our advisers, Aon, the Trustee has developed a cost-benefit analysis framework in order to make an assessment as to whether our members receive good value from the Scheme relative to the costs and charges they pay.

#### • Costs

The costs have been identified as TERs and transaction costs and are set out in section 3 of this statement. Benchmarking relative to other pension arrangements or industry best practice guidelines has been undertaken. In addition, during the year the latest investment strategy was implemented taking advantage of the competitively priced Vanguard range of funds available from Standard Life.

- Based on the profile of the Scheme's DC/AVC arrangements, we believe that the explicit charges are generally competitive when compared to current market rates on a like-for-like basis.
- The level of charges for the legacy AVC arrangements are generally higher than the main Scheme fund options (which in broad terms is common for small legacy AVC arrangements).
- The majority of ex Spirit Group Retail Retirement Savings Plan members are currently invested in the Prudential Long Term Bond Fund. Under the Trustee's assessment framework, the Trustee's assessment concluded that the charges and transaction costs do not currently represent good value for these members.
- The Trustee is currently reviewing the investment strategy for these members with the aim to improve value provided to them. This review is expected to be completed during the 2020/2021 Scheme year.

#### • Benefits

The Trustee has considered the benefits of membership under the following 4 categories:

##### Scheme governance

The Scheme is governed by an experienced group of Trustee Directors including a professional, independent Chair. The Board regularly reviews information about the performance of Scheme investments and the DC members and decisions being made, amongst other information. This helps the Trustee to determine an appropriate strategy to support members and make improvements.

##### Investments

The Scheme provides members with an appropriate range of lifestyle and self-select fund options. The investment strategy and performance are regularly monitored and reviewed by the Trustee. An investment strategy review was completed during the Scheme year and changes were implemented on 2 December 2019. Changes were made to the lifestyle strategies offered to members taking into account Pension Freedom legislation, the membership profile of the Scheme and how members are expected to take their benefits at retirement. Additional lifestyle arrangements were also made available and the self-select range of funds was expanded.

##### Administration

The Trustee regularly monitors the Scheme administration and over the period found that the necessary administration standards were being achieved.

# SPIRIT (LEGACY) PENSION SCHEME

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## CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

### Member communications

The Scheme provides members with regular, clear communications regarding the choices open to members, as well as annual benefit statements and 'at retirement' communications.

#### • **Assessment**

The Trustee's assessment concluded that the charges and transaction costs borne by Scheme members represents good value for members relative to the benefits of Scheme membership. The Trustee is currently reviewing the investment strategy for former members of the Spirit Group Retail Retirement Savings Plan with the aim to improve value for these members.

### **5. Trustee's Knowledge and Understanding**

The comments in this section relate to the Scheme as a whole and not solely the DC Section.

The Trustee has processes and procedure in place to meet the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- A structured training programme for newly appointed Trustee Directors including completion of the Pension Regulator's Trustees toolkit, which is an online learning programme.
- Assessing training needs and identifying gaps in knowledge through regular self-assessments.
- Undergoing regular training for the year this included training on effectively running virtual meetings; investment strategy training; Environmental, Social and Governance investing; DC governance training in respect of bulk transfers without member consent and legal pension developments
- Maintaining training logs for each individual Trustee Director which supports the above.

The Trustee has engaged with its professional advisers regularly throughout the year to ensure that it exercises its functions properly and take professional advice where needed. In exercising its functions this has required knowledge of key scheme documents such as the Trust Deed & Rules, Trustee Report & Accounts and Statement of Investment Principles. A few of the areas that support this statement are set out below:

- Updates to the Statement of Investment Principles for investment strategy changes and regulatory changes required by October 2020 and preparation for the production of an Implementation statement.
- Arrange preparation and audit of the annual Trustee's Report and Accounts.
- Review of Trust Deed & Rules for decisions taken in light of COVID-19 (e.g. additional pension flexibilities, changes permitted to pension contributions, quorum rules).
- The law relating to pensions and trusts through updating the risk register.
- Review of quarterly administration reports to monitor service delivery against agreed service levels standards and assessing the member experience.
- Reviewing quarterly investment reports to assess fund performance against benchmarks, and funds against overall Scheme aim and objectives, as set out in the statement of Investment Principles.
- Maintaining a regime for proper governance - reviewing and updating the Trustee's governance framework for the DC Section of the Scheme.
- Implementing the investment strategy changes following completion of the investment strategy review.
- Considering the investment strategy for members invested in legacy arrangements, and members who have transferred from the Spirit Group Retail Retirement Savings Plan.

The Trustee also considered the impact of the COVID-19 pandemic on the Trustee board and put in place appropriate plans to ensure that the board could continue to perform effectively during this time. Specifically, the Trustee has reviewed the regularity of their Trustee meetings and the format (virtual, shorter Trustee meetings have been held more regularly during this time), identified key man risks, Trustee decision making protocols, and approvals processes and taken steps to mitigate these risks through appropriate identification of designated alternates on the Trustee board and all advisers and providers to ensure business continuity and appropriate Scheme governance during the pandemic.



## SPIRIT (LEGACY) PENSION SCHEME

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### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### 5. Trustee's Knowledge and Understanding (continued)

The Trustee board is made up of 5 Trustee Directors with varying skill sets. The chair of the Trustee is an independent professional trustee and there are 2 other Company appointed Trustee Directors and 2 member nominated Trustee Directors. The composition of the Trustee board aims to demonstrate diversification of skills and breadth and depth of pension knowledge. New Trustee Directors receive comprehensive introductory training which they are required to supplement with the Pensions Regulator's Trustee Toolkit (within 6 months of appointment). There was 1 new Trustee Director during the period who has completed the Trustee Toolkit and received Scheme specific training from the advisers on 28 January 2020. The Trustee also wishes to thank Dan Robinson, who stepped down as a Trustee Director in January 2020, for his invaluable input and many years of dedicated service.

The Trustee Directors consider that they meet the Pension Regulator's Trustee Knowledge and Understanding requirements and are confident that their combined knowledge and understanding, together with the support of their advisers, enables them to properly exercise their functions as the Trustee of the Scheme.

The Trustee will publish this statement on a publicly accessible website (<https://pensioninformation.aon.com/spiritgroup>) and will notify members of details in their annual benefits statement.

Signed on behalf of the Trustee of the Spirit (Legacy) Pension Scheme:

\_\_\_\_\_  
Name: Iain Urquhart, Chair of Trustee

Date: \_\_\_\_\_

## SPIRIT (LEGACY) PENSION SCHEME

### CHAIR'S STATEMENT YEAR ENDED 30 JUNE 2020

#### APPENDIX

#### Member Borne Charges and Transaction costs for the period 1 July 2019 to 1 December 2019

##### i) Default arrangements

##### Annuity Targeting Lifestyle Strategy

The Annuity Targeting Lifestyle Strategy was the default arrangement available until the revised investment strategy was implemented on 2 December 2019.

The actual costs that a member paid over the year depended on their term to retirement. The TER ranged from 0.2720% p.a. to 0.5100% p.a, which was within the 0.75% p.a charge cap for schemes that are used for auto-enrolling their employees. Transaction costs ranged between 0.0380% p.a. and 0.2955% p.a.

The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	7+	6	5	4	3	2	1	0
TER % p.a.	0.5100	0.4760	0.4420	0.4100	0.3638	0.3162	0.2720	0.2720
Transaction costs %	0.2955	0.2509	0.2064	0.1645	0.1214	0.0785	0.0380	0.0380
Total costs %	0.8055	0.7269	0.6484	0.5745	0.4852	0.3946	0.3100	0.3100

##### ii) Self-select investment funds

##### For the period 1 July 2019 to 1 December 2019

In addition to the Annuity Targeting Lifestyle Strategy (the old default), members also had the option to invest in 5 individual funds.

The TERs and transaction costs for each of these are shown in the following table:

Self-select Fund name	TER % p.a.	Transaction Costs % p.a.	Total costs % p.a.
Standard Life Global Equity 50:50 Pension Fund*	0.510	0.2955	0.8055
Standard Life UK Mixed Bond Pension Fund*	0.310	0.0334	0.3434
Standard Life Deposit and Treasury Pension Fund*	0.158	0.0519	0.2099
Standard Life UK Equity Select Fund	0.507	0.0497	0.5567
Standard Life Managed Pension Fund	0.518	0.0909	0.6089

\* funds underlying the old default Annuity Targeting Lifestyle Strategy

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

#### **Spirit (Legacy) Pension Scheme** **Statement of Investment Principles**

##### **Scheme Investment Objective**

For the Defined Benefit Section, the Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy it has selected is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting the Scheme's liabilities.

For the Defined Contribution Section, the Trustee's key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives, in order for the investing of the assets to be done in a prudent manner. It has taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

##### **STRATEGY**

The Scheme has both a Defined Benefit Section and a Defined Contribution section.

##### **Defined Benefit Section**

In the Defined Benefit Section, the current planned asset allocation strategy is set out in the table below.

The Trustee has also adopted a flightplan, which is designed to reduce investment risk and protect the funding level as it improves. Following the breach of a trigger the Scheme's asset allocation will change in order to achieve these objectives. Further details of this strategy can be found within the 'Flightplan Parameters' section of this report.

In order to secure the benefits that are promised to members, the Trustee will consider whether opportunities to enter into buy-in arrangements with an insurance company are appropriate.

Following negotiations with the Company, the Trustee agreed to reduce investment risk and the Trustee entered into a buy-in policy with Scottish Widows during March 2018. This policy remains an asset of the Scheme and, at inception, was valued at c. £50m. As the buy-in policy held by the Trustee is an illiquid asset which will be held until the windup of the Scheme, this has been excluded from the target asset allocation strategy outlined below.

The current target asset allocation strategy chosen to meet the objective above is set out in the table below. The Trustee will monitor the actual asset allocation versus the target weight set out in the table below. The Trustee acknowledges that due to factors such as market movements, investment views, governance constraints and implementation issues the Scheme's strategic asset allocation may deviate significantly from the target. The Trustee does however monitor this regularly.

<b>Asset Class</b>	<b>SLPS (%)</b>
<b>Growth Assets</b>	<b>33.3</b>
Global Equities	16.7
Property	7.8
Diversified Growth Fund	8.9
<b>Matching Assets</b>	<b>66.7</b>
Liability Driven Investment	33.3
Corporate Bonds	33.3

## SPIRIT (LEGACY) PENSION SCHEME

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### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

This strategy was set on advice from the Trustee's investment adviser and following consultation with the sponsoring employer. The strategy has been set on the assumption that growth assets such as equities would outperform gilts over the longer term and assumes that active fund management can be expected to add value. However, the Trustee recognises the potential volatility in equity returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set.

In combination with the Trustee's corporate bond holdings, the Liability Driven Investment portfolio is also designed to protect the Scheme's Technical Provisions funding level against adverse movements in interest rates and inflation expectations of the Scheme's uninsured liabilities.

In choosing the Defined Benefit Section's planned asset allocation strategy, it is the Trustee's policy to consider:

- A full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

#### **Defined Contribution Section**

The overall investment objective in respect of the Defined Contribution Section is implemented using the range of investment options set out in **Table 1**. Details of the Trustee's aims and objectives for the default investment strategies and other investment options are provided below.

**Default Strategies** – For members invested through Standard Life and who were contributing to the Scheme in November 2019, the default strategy is the Drawdown Targeting Lifestyle Strategy. For members invested through Standard Life and who had ceased contributing to the Scheme by November 2019, the default strategy is the Cash Targeting Lifestyle Strategy.

The Trustee has also determined that the Drawdown Targeting Lifestyle Strategy should be used as the default strategy for members currently invested through Prudential and Utmost Life & Pensions.

The Trustee's objectives for the default strategies are as follows:

- Aim for significant long-term real growth while members are further away from retirement.
- Manage down volatility in fund values as members near retirement.
- Target an end point portfolio that is appropriate and consistent with how members may take their benefits when they retire.

The objectives of the fund managers in respect of the underlying funds used within the default strategies are set out in **Table 1**, which also details the kinds of investments held and the balance between them.

Other investment policies relating to the default strategies are set out in the sections below.

Following analysis of the membership, the objectives and policies the Trustee has adopted for the default strategies are expected to meet the needs of members by providing the following:

- The opportunity to increase the value of their benefits with investment growth.
- An investment which manages risk in an appropriate and considered way.
- A portfolio commensurate with how members may take their benefits when they retire.

## SPIRIT (LEGACY) PENSION SCHEME

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### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

**Other Investment Options** – It is the Trustee's policy to provide suitable information for members so that they can make the appropriate investment decisions. The range of funds was chosen by the Trustee after taking advice from its investment adviser. In choosing the Scheme's investment options, it is the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management.
- The suitability of each asset class.
- The need for appropriate diversification.

The overall balance of assets held within the Defined Contribution Section will depend on the choices made by members for the investment of their pension accounts.

The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long-term returns on the bond and cash options are expected to be lower than the options which are predominantly equities. However, bond funds are expected to broadly match the price of annuities. Cash funds are expected to be stable in terms of nominal capital values.

#### **Environmental, Social and Governance considerations**

In setting the Scheme's Defined Benefit and Defined Contribution investment strategies, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that incorporating appropriate consideration of environmental, social and governance factors including climate change can lead to better returns and lower risk, and therefore the Trustee believes these factors should be understood and evaluated. The Trustee considers these issues by taking advice from its investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

#### **Stewardship – Voting and Engagement**

The Trustee recognises the importance of its role as a steward of capital and the need to encourage high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee undertakes to engage with the manager, either verbally or in writing, to understand the rationale and seek a more sustainable position but may look to replace the manager. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact, corporate governance, the capital structure, and management of actual or potential conflicts of interest.

The Trustee reviews the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions.

# SPIRIT (LEGACY) PENSION SCHEME

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## STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

### Members' Views and Non-Financial Factors

In setting and implementing the Scheme's Defined Benefit and Defined Contribution investment strategies the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"<sup>1</sup>).

### RISK

#### Defined Benefit Section

The Trustee maintains a 'Statement of Funding Principles' which specifies that the funding objective is to have sufficient assets so as to make provision for 100% of the Scheme's liabilities as determined by an actuarial calculation.

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Scheme's cash flows, taking into account the timing of future payments, in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employer[s] ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk of a default by a bulk annuity provider (buy-in insurer) ("insurer default/credit risk"). The Trustee and its advisers considered the strength of the insurer before entering into the policy, whilst considering the wider regulatory framework within which they are required to operate.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk was modelled explicitly as part of the most recent investment strategy review.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks quarterly. The Trustee receives quarterly reports showing:

- Actual funding level versus the Scheme's specific funding objective.
- Performance versus the Scheme's investment objective.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

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<sup>1</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

## SPIRIT (LEGACY) PENSION SCHEME

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### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

#### **Defined Contribution Section**

The Trustee has taken into consideration on behalf of the members the following aspects of risk:

1. The risk that low investment returns over members' working lives secures an inadequate retirement outcome.
2. The risk that unfavourable market movements in the years just prior to retirement lead to a substantial reduction in a member's account and hence in retirement outcome.
3. The risk of the chosen investment manager underperforming.
4. The risk that investment specific risks such as credit risk and market risk have an adverse impact on returns.

The first two risks identified above are managed by providing members with a choice of funds they can use to meet their requirements.

In addition, the default strategies are designed to be appropriate for a typical member with a predictable retirement date. The default strategies manage risk automatically by moving from higher to lower risk funds as members approach their selected retirement age.

To manage the third risk identified above, the Trustee regularly reviews the performance of the funds offered, as well as offering a range of index tracking funds to minimise the risk of underperformance.

The Trustee measures and manages investment specific risks, including market and credit risk, on a regular basis. All investments are subject to specific price risks that arise from factors peculiar to that asset class or individual investment, in addition to credit risk, currency risk and interest rate risk.

Before making any change to the default strategies or other investment options, the Trustee takes advice from its investment consultant. The decision as to whether to invest in a particular security is delegated to the investment managers of the underlying funds used.

The purpose of accepting these risks is to ensure that the default investment strategies offer members access to a suitably diversified portfolio, in terms of the type of risk taken over a member's lifecycle and the sources of expected future returns. In addition, members are able to construct a portfolio to meet their specific risk and return requirements using funds from the available range.

Within the default investment strategies, these risks are managed by ensuring that there is an appropriate balance between different asset classes at each stage of a member's working lifetime and that it is suitably diversified within each asset class. In addition, the Trustee takes advice from its investment consultant as to the continuing suitability of the default investment strategy, the available fund range, and underlying managers used.

Due to the complex and interrelated nature of all these risks, the Trustee generally considers them in a qualitative rather than quantitative manner as part of an ongoing review process. However, some aspects of the risks may be modelled more explicitly. In particular, the Trustee periodically commissions analysis of various demographic variables of the Scheme's members to ensure the default strategies and other investment options are sufficient to meet members' needs.

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

#### FLIGHTPLAN PARAMETERS

The aim of a formal flightplan for the Scheme is to create a more structured method of implementing the long-term move from "growth" to "matching" assets, as and when the Scheme's funding level improves.

The Trustee has agreed to monitor the flightplan against the Scheme's funding level, measured on a self-sufficiency basis. This is a measure of the Scheme's funding level which would permit it to be run independent of the Sponsoring Employer.

The Trustee has also adopted a flightplan which is designed to reduce investment risk and protect the funding level as it improves. The flightplan does not serve to re-risk the Scheme if the funding level deteriorates, falling below a previous trigger level.

Triggers are monitored by the Trustee at a minimum on a quarterly basis (during regular Trustee meetings) and if a funding level trigger is breached a corresponding increase in the matching component allocation would be proposed at the meeting, or as soon as is reasonably practical thereafter.

The target allocations exclude the buy-in asset due to the illiquid nature of the asset, with the target allocations for the current flightplan as follows:

<b>Self-sufficiency funding level</b>	<b>90%</b>	<b>95%</b>	<b>100%</b>	<b>105%</b>
<b>Growth Assets</b>	<b>33.3</b>	<b>27.8</b>	<b>22.2</b>	<b>16.7</b>
Global equities	16.7	11.1	5.6	-
Property	7.8	3.9	-	-
Diversified Growth Fund	8.9	12.8	16.7	16.7
<b>Matching Assets</b>	<b>66.7</b>	<b>72.2</b>	<b>77.8</b>	<b>83.3</b>
Corporate bonds	33.3	33.3	33.3	33.3
LDI (assets)	33.3	38.9	44.4	50.0



## SPIRIT (LEGACY) PENSION SCHEME

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### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

#### **IMPLEMENTATION**

Aon has been selected as the investment adviser to the Trustee. Aon provides the Trustee with any training that it requests in order to ensure trustee directors have sufficient knowledge and experience to take decisions themselves and to monitor those it delegates. Aon is paid on either a fixed fee or time cost basis, dependent upon the nature of the work undertaken by Aon. This structure has been chosen to ensure that cost-effective, independent advice is received.

#### **Arrangements with asset managers**

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

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

The Trustee is supported in this monitoring activity by its investment consultant.

The Trustee shares the policies, as set out in this SIP, with the Scheme's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically, and at least every three years.

#### **Costs, transparency and the monitoring of performance and remuneration**

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

The Trustee collects annual cost transparency reports covering all of its investments and asks that the investment managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what it is paying its investment managers.

The Trustee will only appoint investment managers who offer full cost transparency. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics, manager's style, and historic trends. Where the Trustee's monitoring identifies a lack of consistency the mandate will be reviewed.

## SPIRIT (LEGACY) PENSION SCHEME

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### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme's investment consultant monitors this on behalf of the Trustee as part of the manager monitoring it provides to the Trustee, and flags to the Trustee where there are concerns.

The Trustee undertakes analysis of the Scheme's costs and performance, on at least a triennial basis, by receiving benchmarking analysis comparing the Scheme's specific costs and performance of the underlying managers relative to those of the wider market. This is in line with the Trustee's policies on reviewing the kinds and balance of investments to be held.

The benchmarking analysis can be used to assess the value for money received from the Scheme's assets on a regular basis and challenge the Scheme's investment managers where appropriate. The Trustee will review the investment managers relative to its objectives to ensure that the net of fees performance has met its requirements.

The Trustee is open to managers implementing performance related fees if these are suitable for the Scheme and are aligned with the objectives of the Scheme.

**For the Defined Benefits Section the following pooled funds are used:**

#### **Growth Assets**

##### ***Global Equity – BlackRock Aquila Life MSCI World Index Fund***

This is a passively-managed fund with the objective to achieve index returns in line with the MSCI World Index.

##### ***Global Equity – Russell World Equity Fund***

This is an unconstrained fund and the objective is to outperform the Russell Developed Large Capitalisation Index +2.0% p.a. (gross) over rolling three-year periods.

##### ***Property Fund – Aviva IGSL Pooled Pension Limited***

To outperform the IPD UK Pooled Property All Balanced Funds Index Median by 0.5% p.a. (net) over rolling three-year periods.

##### ***Diversified Growth Fund – Invesco Global Targeted Returns Fund***

This is a diversified growth fund and the objective is to produce stable absolute returns.

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

#### Matching Assets

##### ***Liability Driven Investment – BlackRock***

The Trustee is the sole investor in a bespoke pooled fund that has an objective to match the movement of a portion of the Scheme's liabilities for changes in interest rates and inflation, therefore providing interest rate and inflation protection.

##### ***BlackRock –ICS Institutional Sterling Liquidity Fund***

This is a cash fund that provides a low-risk investment and the objective is to perform in line with 7 Day Sterling LIBID.

##### ***Corporate Bonds – BlackRock***

The objective of these funds is to perform in line with their respective benchmarks, the Over 15 Years Corporate Bond Index Fund.

#### Bulk annuity policies

##### ***Scottish Widows***

This is a bulk annuity policy which insures approximately £50m of the Scheme's pensioner liabilities.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

#### **Defined Contribution Section**

The Trustee has made available various investment options for members. These fall into two categories:

- Lifestyle – with this option, the member's account is invested according to a fixed investment pattern, based on the number of years to the member's retirement date.
- Freestyle – with this option, the member has the freedom to choose how their account is invested from the funds provided; what funds to invest in; and how much to invest in each fund.

#### Lifestyle Strategies

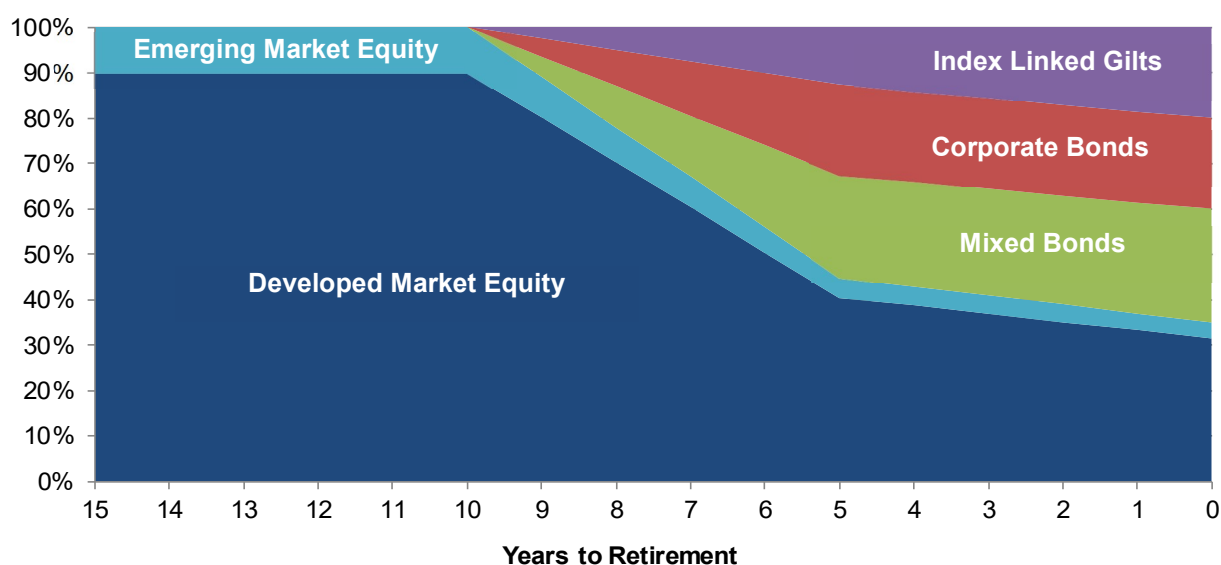
The Trustee offers three lifestyle strategies for members to choose from. These strategies are:

- Drawdown Targeting Lifestyle Strategy (Default for active members)
- Cash Targeting Lifestyle Strategy (Default for deferred members)
- Annuity Targeting Lifestyle Strategy

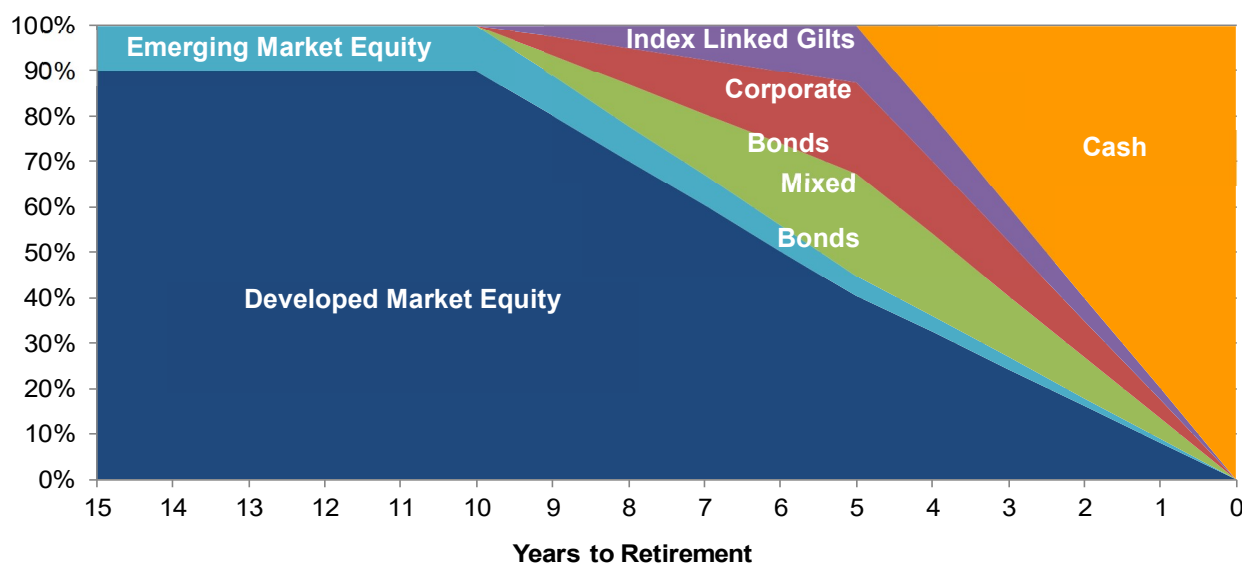
## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

The Drawdown Targeting Lifestyle Strategy is the default strategy for those who were contributing to the Scheme in November 2019 and for members currently invested through Prudential. It is designed to be suitable for members who are considering income drawdown at retirement (i.e. those members who plan to withdraw money as a regular or series of one-off amounts, leaving the rest invested), while also recognising it will need to provide appropriately for those who do not know in what form they will be drawing their benefits. A chart setting out the asset allocation of the Drawdown Targeting Lifestyle Strategy is shown below:



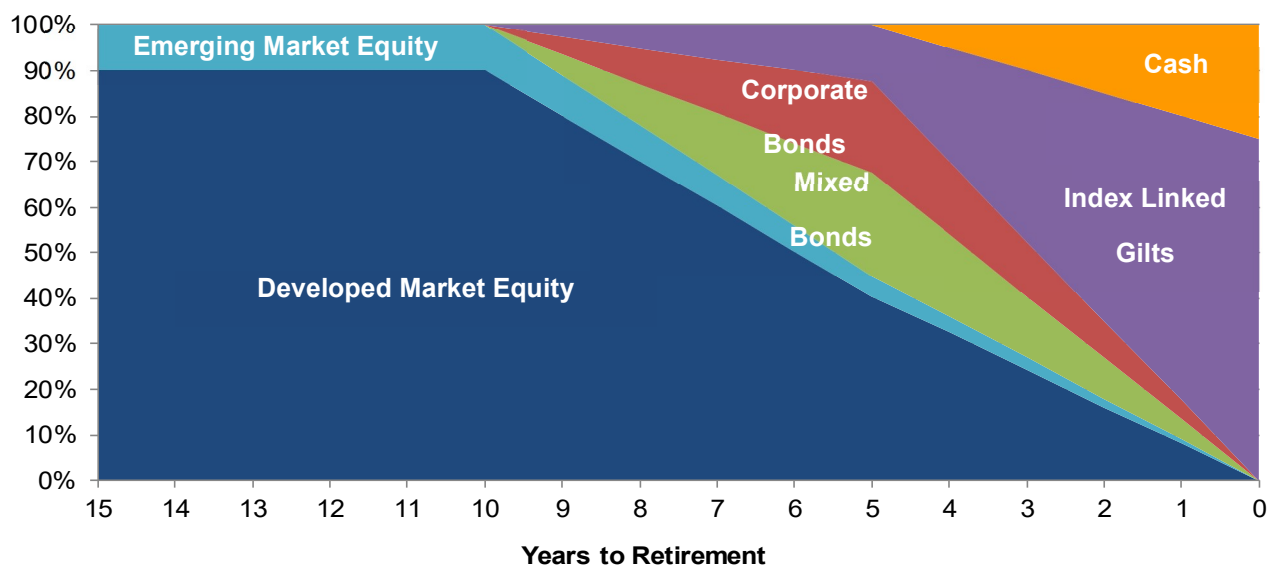
The Cash Targeting Lifestyle Strategy is the default strategy for members invested through Standard Life and who had ceased contributing to the Scheme by November 2019. It is designed to be suitable for members who are considering taking their DC benefits as a cash lump sum at retirement. A chart setting out the asset allocation of the Cash Targeting Lifestyle Strategy is shown below:



## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

Members can opt to invest in the Annuity Cash Targeting Lifestyle Strategy. It is designed to be suitable for members who are considering using their DC funds to purchase an annuity at retirement. A chart setting out the asset allocation of the Cash Targeting Lifestyle Strategy is shown below:



#### Freestyle Options

The table below provides details of the funds that are used in the lifestyle strategy (shown in bold) and are available on a standalone basis for members who wish to make their own investment choices.

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

**Table 1 - Fund Details**

<i>Asset Class</i>	<i>Passive/ Active</i>	<i>Fund</i>	<i>Benchmark</i>	<i>Objective</i>
UK Equity	Passive	SL Vanguard FTSE UK All Share Index Pension Fund	FTSE All-Share Total Return GBP index	To track the benchmark
Global Equity	Passive	SL Vanguard FTSE Developed World ex UK Pension Fund	FTSE Developed ex-U.K. Index	To track the benchmark
Emerging Markets Equity	Passive	SL Vanguard Emerging Markets Stock Index Pension Fund	MSCI Emerging Markets Total Return (net) GBP index	To track the benchmark
Corporate Bonds	Passive	SL Vanguard UK Investment Grade Bond Index Pension Fund	Bloomberg Barclays GBP Non-Government Float Adjusted Bond Total Return GBP index	To track the benchmark
Index Linked Gilts	Passive	SL Vanguard UK Inflation Linked Gilt Index Pension Fund	Bloomberg Barclays U.K. Government Inflation-Linked Bond Float Adjusted Total Return GBP index	To track the benchmark
Mixed Bonds	Active	SL SLI Absolute Return Global Bond Strategies Pension Fund	3 month LIBOR	To achieve 3 month LIBOR + 3% pa
Cash	Active	Standard Life Deposit and Treasury Pension Fund	SONIA	To outperform the benchmark
Fixed Interest Gilts	Passive	SL Vanguard UK Long Duration Gilt Index Pension Fund	Bloomberg Barclays U.K. Government 15+ Years Float Adjusted Total Return GBP index	To track the benchmark

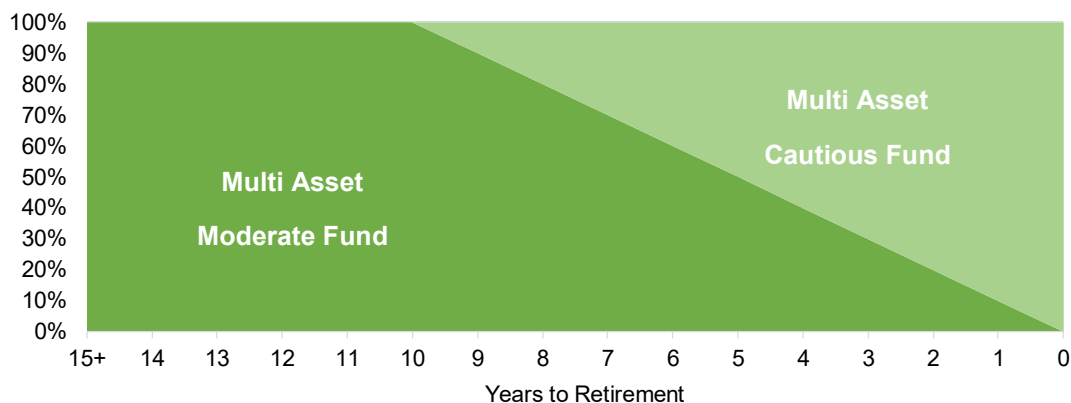
Members invested through Prudential are currently invested in the following funds:

- Prudential Long-Term Bond Fund with a benchmark of 50% FTSE Actuaries UK Conventional Gilts Over 15 Years Index and 50% iBoxx Sterling Over 15 Years Non-Gilts Index and objective to track its benchmark.
- Prudential With Profits Fund which has an objective to achieve competitive long-term returns.

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

Members invested through Utmost Life & Pensions are currently invested in the Investing By Age Strategy which is a lifestyle strategy invested as follows:



The investment objective of the Multi Asset Moderate Fund is to provide capital growth in the long term by investing in a combination of asset classes including equities, fixed income, property and cash, with the potential for moderate to high levels of price fluctuations.

The investment objective of the Multi Asset Cautious Fund is to provide capital growth in the long term by investing in a combination of asset classes including equities, fixed income and cash, with the potential for low to moderate levels of price fluctuations.

#### Further considerations

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

BlackRock, Russell, Aviva IGSL, Invesco, Vanguard and Standard Life are responsible for appointing a custodian for the pooled funds in which the Scheme's funds are invested. The custodian provides safekeeping for all the funds' assets and performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions. The Trustee has also appointed BNY Mellon in order to hold the pooled funds managed by BlackRock.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy or breach of funding level trigger. The Trustee will take investment advice and consult with the sponsoring employer over any changes to the SIP.

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

#### GOVERNANCE

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision-making structure:

<b><u>Trustee</u></b> <ul style="list-style-type: none"><li>• Sets structures and processes for carrying out its role</li><li>• Selects and monitors planned asset allocation strategy for Defined Benefits Section</li><li>• Selects and monitors type and range of units on offer in Defined Contribution Section</li><li>• Appoints Investment Committee</li><li>• Selects direct investments (see below)</li><li>• Considers recommendations from the Investment Committee</li></ul>	<b><u>Investment Committee</u></b> <ul style="list-style-type: none"><li>• Makes recommendations to the Trustee on:<ul style="list-style-type: none"><li>– selection of investment advisers and fund managers</li><li>– structure for implementing investment strategy</li></ul></li><li>• Monitors investment advisers and fund managers</li><li>• Monitors direct investments</li><li>• Makes ongoing decisions relevant to the operational principles of the Scheme's Defined Benefits Section's investment strategy</li></ul>
<b><u>Investment Adviser</u></b> <ul style="list-style-type: none"><li>• Advises on all aspects of the investment of the Scheme's assets, including implementation</li><li>• Advises on this statement</li><li>• Provides required training</li></ul>	<b><u>Fund Managers</u></b> <ul style="list-style-type: none"><li>• Operate within the terms of this statement and their written contracts</li><li>• Select individual investments with regard to their suitability and diversification</li><li>• Advise the Trustee on suitability of the indices in their benchmark</li><li>• Provide pooled funds for the Defined Contribution Section</li></ul>

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually). These include vehicles available for members' AVCs and the Defined Contribution Section pooled funds. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.



## SPIRIT (LEGACY) PENSION SCHEME

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### STATEMENT OF INVESTMENT PRINCIPLES YEAR ENDED 30 JUNE 2020

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

Signature



Name (print)

Iain Urquhart

Date

23-Sep-2020

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE FOR THE YEAR ENDED 30 JUNE 2020**

#### **Opinion**

We have audited the financial statements of Spirit (Legacy) Pension Scheme for the year ended 30 June 2020 which comprise the Fund Account, the Statement of Net Assets (Available for Benefits) and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## SPIRIT (LEGACY) PENSION SCHEME

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### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE FOR THE YEAR ENDED 30 JUNE 2020

#### Other information

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

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

We have nothing to report in this regard.

#### Responsibilities of Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 19, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

#### Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**Crowe U.K. LLP**  
Statutory Auditor  
Oldbury

Date:

## SPIRIT (LEGACY) PENSION SCHEME

### FUND ACCOUNT FOR THE YEAR ENDED 30 JUNE 2020

	Note	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Employer contributions	4	1,040	191	1,231	985	212	1,197
		1,040	191	1,231	985	212	1,197
Group transfer in	5	48	878	926	-	-	-
		1,088	1,069	2,157	985	212	1,197
Benefits paid or payable	6	(13,618)	(394)	(14,012)	(13,375)	(459)	(13,834)
Payments to and on account of leavers	7	(6,589)	(685)	(7,274)	(9,456)	(873)	(10,329)
Administrative expenses	8	(2,652)	(1)	(2,653)	(2,191)	-	(2,191)
		(22,859)	(1,080)	(23,939)	(25,022)	(1,332)	(26,354)
<b>Net withdrawals from dealing with members</b>		(21,771)	(11)	(21,782)	(24,037)	(1,120)	(25,157)
Investment income	9	51	-	51	62	1	63
Change in market value of investments	10	72,193	845	73,038	49,329	275	49,604
Investment management expenses	11	(641)	-	(641)	(620)	-	(620)
<b>Net returns on investments</b>		71,603	845	72,448	48,771	276	49,047
<b>Net increase/(decrease) in the fund during the year</b>		49,832	834	50,666	24,734	(844)	23,890
Transfers between sections		161	(161)	-	478	(478)	-
<b>Net assets of the scheme at 1 July 2019</b>		526,190	17,267	543,457	500,978	18,589	519,567
<b>at 30 June 2020</b>		576,183	17,940	594,123	526,190	17,267	543,457

The notes on pages 52 to 67 form part of these financial statements.

## SPIRIT (LEGACY) PENSION SCHEME

### STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 30 JUNE 2020

	Note	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
<b>Investment assets</b>							
Pooled investment vehicles	13	530,428	17,917	548,345	478,574	17,240	495,814
Insurance policies	14	44,900	-	44,900	44,700	-	44,700
AVC investments	15	652	-	652	695	-	695
Cash account	16	-	6	6	10	-	10
		575,980	17,923	593,903	523,979	17,240	541,219
Current assets	20	1,185	42	1,227	3,280	66	3,346
Current liabilities	21	(982)	(25)	(1,007)	(1,069)	(39)	(1,108)
<b>Net assets available for benefits at 30 June</b>		576,183	17,940	594,123	526,190	17,267	543,457

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included in the Trustee's Report. These financial statements and Actuarial Certificates should be read in conjunction with this report.

The notes on pages 52 to 67 form part of these financial statements.

These financial statements were approved by the Trustee and were signed on its behalf by:

Trustee Director:

Trustee Director:

Date:

# **SPIRIT (LEGACY) PENSION SCHEME**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020**

### **1. Basis of preparation**

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 ('FRS 102') – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice ('SORP') (2018) - Financial Reports of Pension Schemes, published by the Pensions Research Accountants Group ('PRAG').

### **2. General information**

The Spirit (Legacy) Pension Scheme is a hybrid occupational pension scheme established under trust under English Law.

The address of the Scheme's principal office is Spirit Pub Company (Services) Limited, Westgate Brewery, Bury St Edmunds, Suffolk, United Kingdom, IP33 1QT.

### **3. Accounting policies**

The principal accounting policies applied to the preparation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

#### **Functional and presentational currency**

The Scheme's functional and presentational currency is Pounds Sterling (GBP).

#### **Contributions**

Employer contributions are accounted for on an accruals basis in the period to which they relate.

Expense contributions made by the Employer to reimburse costs and levies are accounted for in accordance with the Schedules of Contributions.

Employee and AVC contributions made under a salary sacrifice arrangement are accounted for on an accruals basis and are categorised as Employer's contributions.

#### **Transfers in**

Group transfers in are accounted for in accordance with the terms of the transfer agreement.

#### **Benefits paid or payable**

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type and amount of the benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

#### **Payments to and on account of leavers**

Individual transfers to other schemes are accounted for when member liability is discharged which is normally when the transfer amount is paid.

Refunds and opt-outs are accounted for when the Trustee is notified of the member's decision to leave the Scheme.

## SPIRIT (LEGACY) PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 3. Accounting policies (continued)

##### Administrative expenses

Administrative expenses are accounted for on an accruals basis, net of recoverable VAT.

##### Investment income

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

Income arising from the underlying investments of the pooled investment vehicles, which is reinvested within the pooled investment vehicles, is reflected in the unit price. Such income is reported within the change in market value.

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

Income arising from annuity policies held by the Trustee to fund benefits payable to the Scheme members is included as sales proceeds within the investment reconciliation table.

##### Change in market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

##### Investment management expenses

Investment management fees and rebates are accounted for on an accruals basis, net of recoverable VAT.

Management fees for pooled investment vehicles are incorporated in the unit price and reflected in change in the market value of investments in the Fund Account.

##### Valuation of investment assets

##### Investments

Investment assets are included in the financial statements at fair value. The methods of determining fair value for the principal classes of investment are:

Pooled investment vehicles which are unquoted or not actively traded are stated at bid price or single price where there is no bid/offer spread as provided by the investment managers at the year end.

Insurance policies (annuities) are valued by the Actuary at the amount of the present value related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date. Insurance policies (annuities) bought to provide a member's benefits are included in the Statement of Net Assets (Available for Benefits) at their actuarial value as determined by the Actuary as at 30 June 2020.

With profits insurance policies held as AVC investments are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

AVC funds are included within the Statement of Net Assets on the basis of fair values provided by the AVC provider at the year end.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 4. Contributions

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
<b>Employer</b>						
Normal	-	191	191	-	212	212
PPF Levy	70	-	70	81	-	81
Expense	970	-	970	904	-	904
	1,040	191	1,231	985	212	1,197

Employer normal contributions include £63k (2019: £68k) contributions in respect of salary sacrifice arrangements made available to members by the Employer.

Employee contributions to the Scheme including AVCs are paid through salary sacrifice so are now included within Employer contributions. Contributions for 2019 have been re-analysed on the same basis.

#### 5. Transfers in

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Group transfer in	48	878	926	-	-	-

The group transfer in of £926k represents the net assets transferred to the Scheme in respect of members of the Spirit Retail Savings Plan who transferred on 30 September 2019. The group transfer comprised £136k cash, £2k of accrued benefits and £86k of accrued expenses into the DB Section and £878k of invested assets into the DC Section.

#### 6. Benefits paid or payable

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Pensions	11,604	-	11,604	11,331	-	11,331
Commutations of pensions and lump sum retirement benefits	1,715	366	2,081	1,960	371	2,331
Lump sum death benefits	299	28	327	84	88	172
	13,618	394	14,012	13,375	459	13,834



## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 7. Payments to and on account of leavers

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Individual transfers to other schemes	6,588	685	7,273	9,320	873	10,193
Payments to members joining state scheme	1	-	1	136	-	136
	6,589	685	7,274	9,456	873	10,329

#### 8. Administrative expenses

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Administration and processing	627	-	627	519	-	519
Actuarial fees	1,088	-	1,088	982	-	982
Audit fees	12	-	12	12	-	12
Legal fees	131	-	131	32	-	32
Other professional fees	661	-	661	501	-	501
Scheme levies	88	-	88	99	-	99
Trustee fees and expenses	40	-	40	42	-	42
Bank charges	5	1	6	4	-	4
	2,652	1	2,653	2,191	-	2,191

Administration costs for the DC Section are included in the DB Section administrative expenses, other than bank charges.

This year, legal fees have increased following the advice regarding the Spirit Group Retail Retirement Savings Plan merger, preparing the agreements and advise on the transfer of assets. The fees also include additional advice on pension Rules, reviewing comments on GDPR policies and advice on member queries.

In respect of the increase in other professional fees, this is a result of increased regulatory expectations, additional Trustee meetings, work relating to the Scheme merger and supporting the Trustee with business continuity plans during the Covid-19 pandemic.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 9. Investment income

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Income from pooled investment vehicles	45	-	45	50	-	50
Interest on cash deposits	6	-	6	12	1	13
	<u>51</u>	<u>-</u>	<u>51</u>	<u>62</u>	<u>1</u>	<u>63</u>

#### 10. Investments

	Opening value at 1 Jul 2019 £000	Purchases at cost £000	Sales Proceeds £000	Change in market value £000	Closing value at 30 Jun 2020 £000
<b>DB Section</b>					
Pooled investment vehicles	478,574	199,635	(216,891)	69,110	530,428
Insurance policies	44,700	-	(2,909)	3,109	44,900
AVC investments	695	-	(17)	(26)	652
	<u>523,969</u>	<u>199,635</u>	<u>(219,817)</u>	<u>72,193</u>	<u>575,980</u>
Cash	10				-
<b>Total DB net investments</b>	<u>523,979</u>				<u>575,980</u>
<b>DC Section</b>					
Pooled investment vehicles	17,240	24,042	(24,210)	845	17,917
	<u>17,240</u>	<u>24,042</u>	<u>(24,210)</u>	<u>845</u>	<u>17,917</u>
Cash	-	6	-	-	6
<b>Total DC net investments</b>	<u>17,240</u>				<u>17,923</u>
<b>Total net investments</b>	<u>541,219</u>				<u>593,903</u>

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 10. Investments (continued)

Included within purchases and sales figures above are £Nil (2019: £875k) in relation to members' switches between investment funds.

The increase in the pooled investment vehicles purchases and sales is in respect of the switch from a number of underlying LDI funds to a single, sole investor pooled fund.

An analysis of the DC Section investment assets is as follows:

	<b>2020</b> <b>£000</b>	<b>2019</b> <b>£000</b>
Allocated to members	17,923	17,240
Not allocated to members	-	-
	<u>17,923</u>	<u>17,240</u>

DC Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions were paid.

There are no direct transaction costs in the year nor in the previous year. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles. It is not possible for the Trustee to quantify these indirect costs.

#### 11. Investment management expenses

	<b>DB</b> <b>£000</b>	<b>DC</b> <b>£000</b>	<b>2020</b> <b>Total</b> <b>£000</b>	<b>DB</b> <b>£000</b>	<b>DC</b> <b>£000</b>	<b>2019</b> <b>Total</b> <b>£000</b>
Administration and management fees	719	-	719	687	-	687
Management fee rebates	(78)	-	(78)	(67)	-	(67)
	<u>641</u>	<u>-</u>	<u>641</u>	<u>620</u>	<u>-</u>	<u>620</u>

#### 12. Taxation

The Scheme is a registered pension scheme in accordance with the Finance Act 2004. This means that the contributions paid by both the Employer and the members qualify for full tax relief, and is exempt from income tax and capital gains tax except for withholding tax on overseas investment income.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 13. Pooled investment vehicles

	DB 2020 £000	DC 2020 £000	Total 2020 £000	DB 2019 £000	DC 2019 £000	Total 2019 £000
Bond funds	176,350	4,446	180,796	157,952	3,665	161,617
Cash & liquidity funds	7,502	2,123	9,625	2,743	782	3,525
Diversified growth funds	40,297	-	40,297	40,122	-	40,122
Equity funds	76,323	11,348	87,671	74,727	11,937	86,664
LDI funds	193,938	-	193,938	165,800	-	165,800
Multi-asset funds	-	-	-	-	856	856
Property funds	36,018	-	36,018	37,230	-	37,230
	530,428	17,917	548,345	478,574	17,240	495,814

The legal nature of the Scheme's pooled arrangements is:

	DB 2020 £000	DC 2020 £000	Total 2020 £000	DB 2019 £000	DC 2019 £000	Total 2019 £000
Open ended investment company	38,502	909	39,411	37,584	-	37,584
UCITS fund	415,611	-	415,611	363,639	-	363,639
Unit linked insurance policies	76,315	17,008	93,323	77,351	17,240	94,591
	530,428	17,917	548,345	478,574	17,240	495,814

The Scheme is the sole investor in the LDI funds in 2020 which are managed by BlackRock. A breakdown of the underlying assets at the year end is set out below:

	Expires within	Notional amounts £000	2020 £000 Assets	2020 £000 Liabilities	2019 £000
Bond funds			303,263	-	-
Cash funds			4,756	-	-
Derivatives – interest rate swaps	1-40 years	94,795	6,756	-	-
Derivatives – inflation swaps	1-25 years	(85,857)	97	(4,055)	-
Repurchase agreements			-	(116,879)	-
			314,872	(120,934)	-

At the year end the Scheme held collateral of £6,225k and had pledged collateral of £2,573k in respect of over-the-counter (OTC) swaps.

#### 14. Insurance policies

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Insurance policies	44,900	-	44,900	44,700	-	44,700

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 14. Insurance policies (continued)

The Trustee holds an insurance policy with Scottish Widows Limited which provide annuity income to cover pensions for some members. In October 2020, a payment of approximately £1.9M was received by the Scheme from Scottish Widows. This reflected a balancing premium of approximately £1.5M allowing for final member and benefits data as at the effective date of the insurance policy (5 March 2018), adjusted to allow for market conditions and the timing of the payment. The value of the policy in these accounts is based on membership data as at 30 June 2018, and so already reflects the changes that contribute to the balancing premium.

The valuation in respect of the annuity insurance policy has been estimated by rolling forward the respective solvency liabilities from the 30 June 2019 valuation, reflecting changes in actual cashflows, market conditions and estimated insurers' terms to 30 June 2020. In line with the approach adopted in previous years, there have been no adjustments for differences between actual and assumed deaths over the roll forward periods.

#### 15. AVC investments

	<b>DB £000</b>	<b>DC £000</b>	<b>2020 Total £000</b>	<b>DB £000</b>	<b>DC £000</b>	<b>2019 Total £000</b>
Aviva	226	-	226	232	-	232
Utmost	124	-	124	119	-	119
Prudential	294	-	294	337	-	337
Standard Life	8	-	8	7	-	7
	<b>652</b>	<b>-</b>	<b>652</b>	<b>695</b>	<b>-</b>	<b>695</b>

The Trustee holds assets which are separately invested from the main Scheme to secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 30 June each year confirming the amounts held to their account and movements during the year.

The total amount of AVC investments at the year end is shown above.

Valuations at the year end for Prudential and Utmost have not been received, as a result the valuation shown above is based on the previous valuation, adjusted for subsequent cash movements.

Aviva, Utmost, Prudential and Standard Life can be further analysed as:

	<b>2020 £000</b>	<b>2019 £000</b>
With profits	226	232
Unit profits/unit linked	294	456
Unit linked	132	7
	<b>652</b>	<b>695</b>

Following High Court approval with effect from 1 January 2020, Equitable Life policies were uplifted, investment guarantees and switching rights removed and converted to unit linked policies. Subsequent to this, policies were transferred to Utmost Life and Pensions Limited.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 16. Cash and other investment balances

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Cash	-	6	6	10	-	10

#### 17. Fair value of investments

FRS102 requires for each class of financial instrument an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Level 1: The unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the assessment dates;

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability either directly or indirectly;

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets fall within the above hierarchy as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	2020 Total £000
<b>DB Section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	494,410	36,018	530,428
Insurance policies	-	-	44,900	44,900
AVC investments	226	364	62	652
	226	494,774	80,980	575,980
<b>DC Section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	17,917	-	17,917
Cash	6	-	-	6
	6	17,917	-	17,923
	232	512,691	80,980	593,903

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 17. Fair value of investments (continued)

DB Section	Level 1 £000	Level 2 £000	Level 3 £000	2019 Total £000
<b>Investment assets</b>				
Pooled investment vehicles	-	441,344	37,230	478,574
Insurance policies	-	-	44,700	44,700
AVC investments	232	275	188	695
Cash	10	-	-	10
	242	441,619	82,118	523,979
<b>DC Section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	17,240	-	17,240
	-	17,240	-	17,240
	242	458,859	82,118	541,219

Valuation techniques as described in note 3 are applied.

#### 18. Investment risks

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

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

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

**Currency risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Interest rate risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Other price risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 18. Investment risks (continued)

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Category	Credit Risk	Market risk			2020 £000	2019 £000
		Currency	Interest rate	Other price		
DB Section						
Pooled investment vehicles						
Direct (net)	●	○	○	●	530,428	478,574
Indirect	●	●	●	●		
Insurance policies	●	○	●	●	44,900	44,700
Total DB Investments					575,328	523,274

Category	Credit Risk	Market risk			2020 £000	2019 £000
		Currency	Interest rate	Other price		
DC Section						
Pooled investment vehicles						
Direct (net)	●	○	○	●	17,917	17,240
Indirect	●	●	●	●		
Total DC Investments					17,917	17,240

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

Further information on the Trustee's approach to risk management, credit and market risk is set out below.

#### Investment strategy

The investment objective is set out in the Investment strategy and principles section, page 9.

The Trustee sets the investment strategy for the DB Section taking into account considerations such as the strength of the Employer covenant, the long term liabilities of the DB Section and the funding agreed with the Employer. The investment strategy is set out in its SIP.

The Trustee's current investment strategy is to hold approximately:

- 66.7% matching assets, consisting of fixed interest gilts, index-linked gilts, interest rate swaps, inflation swaps, corporate bonds; and
- 33.3% growth assets, consisting of equities, diversified growth funds and property.

#### Credit risk

The Scheme is subject to credit risk through its investments in pooled investment vehicles. It is directly exposed to credit risk in relation to the security of the pooled investment vehicles themselves, and the fund manager. The Scheme is also indirectly exposed to credit risks arising on underlying holdings within the funds, most notably through underlying corporate bond holdings, money market holdings and derivative contracts.



## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 18. Investment risks (continued)

##### Credit risk (continued)

A summary of exposures to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

##### DB Section

Category	2020 £000	2019 £000
<b>Pooled investment vehicles</b>	<b>530,428</b>	<b>478,574</b>
Bond funds (direct and indirect risk)	176,350	157,952
Liability Driven Investment funds (direct and indirect risk)	193,938	165,800
Other funds (direct and indirect risk)	160,140	154,822
<b>Insurance policies</b>	<b>44,900</b>	<b>44,700</b>
<b>Total</b>	<b>575,328</b>	<b>523,274</b>

##### DC Section

Category	2020 £000	2019 £000
<b>Pooled investment vehicles</b>	<b>17,917</b>	<b>17,240</b>
Bond funds (direct and indirect risk)	4,446	3,665
Other funds (direct and indirect risk)	13,471	13,575
<b>Total</b>	<b>17,917</b>	<b>17,240</b>

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers, receive ongoing monitoring of those pooled managers from the Scheme's investment consultant, and on an ongoing basis monitor changes to the operating environment of the pooled managers.

Indirect credit risk arises in relation to underlying investments held primarily in the bond pooled investment vehicle. This risk is mitigated by only investing in funds which hold at least investment grade credit rated investments. The Scheme is also indirectly exposed to credit risks arising on underlying holdings within the funds, most notably through underlying corporate bond holdings, money market holdings and derivative contracts.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year end.

The collateral management of the bespoke pooled fund has been delegated to BlackRock and is at its sole discretion to manage. BlackRock has collateral risk management controls in place which monitor whether it is sufficient to meet the collateral and margin payment requirements of the portfolio. In the event BlackRock determines that there is insufficient collateral to manage the portfolio in a risk controlled manner, it will contact the Trustees to request additional collateral.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 18. Investment risks (continued)

##### Interest rate risk

The Scheme is subject to interest rate risk because of the Scheme's investments in bonds, liability driven investment, diversified growth funds and cash through pooled vehicles. The Trustee has set a benchmark for total investment in bonds and liability driven investment of 66.7% of Scheme assets. Typically, should interest rates rise, while the value of the bond portfolio will fall, so will the value of the liabilities, and vice versa. This helps the Scheme to be better matched to the interest rate exposures of the payments that the Scheme needs to make to beneficiaries.

##### DB Section

Category	2020 £000	2019 £000
<b>Pooled investment vehicles</b>	<b>418,087</b>	<b>366,617</b>
Bond funds (indirect risk)	176,350	157,952
Liability Driven Investment funds (indirect risk)	193,938	165,800
Diversified growth funds (indirect risk)	40,297	40,122
Cash funds (direct and indirect risk)	7,502	2,743
<b>Insurance policies</b>	<b>44,900</b>	<b>44,700</b>
<b>Total</b>	<b>462,987</b>	<b>411,317</b>

##### DC Section

Category	2020 £000	2019 £000
<b>Pooled investment vehicles</b>	<b>6,569</b>	<b>4,447</b>
Bond funds (indirect risk)	4,446	3,665
Cash funds (indirect risk)	2,123	782
<b>Total</b>	<b>6,569</b>	<b>4,447</b>

##### Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets through pooled investment vehicles (indirect exposure). The Trustee has no set benchmark exposure.

DB Section	Indirect exposure	
	2020 £000	2019 £000
US Dollars (USD)	26,141	30,130
Euros (EUR)	9,177	6,489
Pound Sterling (GBP)	477,634	424,610
Japanese Yen	6,100	3,915
Other currencies	11,376	13,430
<b>Total</b>	<b>530,428</b>	<b>478,574</b>

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 18. Investment risks (continued)

##### Currency risk (continued)

DC Section	Indirect exposure	
	2020 £000	2019 £000
US Dollars (USD)	6,156	3,604
Euros (EUR)	847	1,139
Pound Sterling (GBP)	8,302	11,215
Japanese Yen	799	386
Other currencies	1,813	896
<b>Total</b>	<b>17,917</b>	<b>17,240</b>

##### Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes pooled holdings in property, equities and diversified growth funds. The Scheme has set a target asset allocation of 33.3% of investments being held in return seeking investments. The Scheme manages this exposure to overall price movements by appointing suitable funds as to create a diverse portfolio of investments across markets.

Additionally, before each appointment, the Scheme receives advice from the Scheme's investment consultant on the suitability and risks to the Scheme of both the asset class and fund manager being appointed. Ongoing, the Trustee takes advice from the investment consultant as to the continuing suitability of the asset classes and managers in which the Scheme invests.

##### Inflation risk

The Scheme's assets are subject to inflation risk because some of the Scheme's assets are held in inflation-linked bonds, via pooled funds. However, the inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the Scheme's funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.

#### 19. Concentration of investments

The following investments, excluding UK Government securities, account for more than 5% of the net assets of the Scheme:

	2020		2019	
	Value £000	%	Value £000	%
<b>DB Section</b>				
BLK LSFIII GBP Tailrd FD LXIV Inst	193,938	33	-	-
Aquila Life Corp BD IDX Over 15Y S1	176,350	30	157,952	29
Scottish Widows insurance policy	44,900	8	44,700	8
Invesco Perpetual Global Targeted Returns Pension	40,297	7	40,122	7
Russell World Equity	38,502	6	37,584	7
AQ LFE CCY HDG MSCI WRLD IDX S1	37,821	6	37,143	7
Aviva IGSL Property Fund – Class C	36,018	6	37,230	7
BlackRock LMF GBP 2040 Gilt Flex	-	-	34,568	6
BlackRock LMF GBP 2050 Gilt Flex	-	-	30,701	6

Funds in the BlackRock LMF GBP 2040 Gilt Flex and BlackRock LMF GBP 2050 Gilt Flex have been disinvested this year. BLK LSFIII GBP Tailrd FD LXIV Inst is new fund this year.

## SPIRIT (LEGACY) PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 20. Current assets

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Employer contributions due	-	10	10	-	12	12
Employee contributions due	-	3	3	-	6	6
Cash balances	1,165	29	1,194	3,263	48	3,311
Sundry debtors	20	-	20	17	-	17
	1,185	42	1,227	3,280	66	3,346

All contributions due to the Scheme were received in accordance with the Schedule of Contributions.

Included in the DC Section cash balances is £18,744 (2019: £18,744) which is not allocated to members. All other DC Section assets are allocated to members.

#### 21. Current liabilities

	DB £000	DC £000	2020 Total £000	DB £000	DC £000	2019 Total £000
Accrued expenses	860	-	860	771	-	771
Accrued benefits	62	25	87	235	39	274
HM Revenue & Customs	60	-	60	63	-	63
	982	25	1,007	1,069	39	1,108

#### 22. Employer related investments

There were no direct Employer related investments during the year or at the year end (2019: Nil). The Trustee recognises that indirect investment in the employer's parent company is possible through holdings in pooled investment vehicles. Based on information provided by the investment managers, there was £49,998 of indirect exposure to the parent company (2019 - £33,406).

CK Noble (UK) Limited, a wholly owned subsidiary of CK Asset Holdings Limited, acquired Greene King Limited with effect from 30 October 2019.

The Trustee believes that any indirect exposure to shares in the Employer sponsor group were less than 5% of the Scheme assets at any time during the year and at year end.

Indirect exposures are:

Invesco Global Targeted Returns Fund had an exposure of 0.11% to CK Asset Holdings as at 30 June 2020.

Standard Life Vanguard Developed World ex UK Equity Fund had an exposure of 0.04% to CK Asset Holdings as at 30 June 2020.

Invesco – Global Targeted Return Fund had an exposure of nil% to Greene King (2019: 0.06%) as at 30 June 2020;

Standard Life Managed Fund (FA) had exposure of 0.02% to Greene King (2019: 0.02%) as at 30 June 2020;

## SPIRIT (LEGACY) PENSION SCHEME

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 22. Employer related investments (continued)

Standard Life UK Mixed Bond Fund (G8) had an exposure of nil% to Greene King (2019: 0.25%) as at 30 June 2020;

Standard Life Vanguard UK Investment Grade Bond Index had an exposure of 0.14% to Greene King as at 30 June 2020 (2019: nil%).

#### 23. Related Party Transactions

The Principal Employer is considered a related party. Transactions involved with this entity relate to remittance of monthly contributions required under the Rules of the Scheme and reimbursed fees and expenses.

Contributions received into the Scheme and any benefits paid in respect of the Trustee Directors who are members of the Scheme have been made in accordance with the Trust Deed and Rules.

Expenses incurred by the Trustee Directors are reimbursed by the Scheme. The total Trustee expenses for the year to 30 June 2020 were £2k (2019: £1k). Fees were paid during the year to the Independent Trustee, BESTrustees Limited - the total fees due for the year to 30 June 2020 was £38k (2019: £41k), and at the year-end, a creditor balance of £10k (2019: £11k) is due to be paid.

#### 24. Contingent assets and liabilities

##### GMP equalisation

As explained on page 6 of the Trustee's Report, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the potential backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

There has been a recent further High Court judgement in relation to the equalisation of GMP benefits. This judgement focused on the GMP treatment of historic transfers out of members, an issue which had not been addressed in the 2018 GMP ruling. Under the recent ruling, the Trustee is required to review historic transfer values paid from May 1990 to assess if any top up payment is required to the receiving scheme, to reflect the member's right to equalised GMP benefits. The impact of this court case will be considered by the Trustee at future meetings and decisions will be made as to the next steps.

In the opinion of the Trustee, the Scheme had no other contingent assets and liabilities as at 30 June 2020 (2019: £Nil).

## **SPIRIT (LEGACY) PENSION SCHEME**

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### **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 30 JUNE 2020**

#### **Independent auditor's statement about contributions to the Trustee of the Spirit (Legacy) Pension Scheme**

##### **Statement about contributions payable under the Schedules of Contributions**

We have examined the Summary of Contributions payable to the Spirit (Legacy) Pension Scheme, for the Scheme year ended 30 June 2020 which is set out in the Trustee's Report on page 69.

In our opinion contributions for the Scheme year ended 30 June 2020 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme actuary on 9 May 2019 and 13 May 2019.

##### **Basis of opinion**

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

##### **Responsibilities of Trustee**

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedules of Contributions.

##### **Auditor's responsibilities for the statement about contributions**

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

##### **Use of our statement**

This statement is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

**Crowe U.K. LLP**  
Statutory Auditor  
Oldbury

Date:

## SPIRIT (LEGACY) PENSION SCHEME

### SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 30 JUNE 2020

During the year ended 30 June 2020 the contributions payable to the Scheme were as follows:

	DB Employer 2020 £000	DB Employees 2020 £000	DB Total 2020 £000	DC Employer 2020 £000	DC Employees 2020 £000	DC Total 2020 £000
<b>Contributions payable under the Schedules of Contributions and as reported by the Scheme auditor</b>						
Employer Contributions						
Normal	-	-	-	191	-	191
PPF levy	70	-	70	-	-	-
Expense	970	-	970	-	-	-
<b>Total contributions reported in the financial statements</b>	<b>1,040</b>	<b>-</b>	<b>1,040</b>	<b>191</b>	<b>-</b>	<b>191</b>

Approved by the Trustee and signed on its behalf:

Trustee Director:

Trustee Director:

Date:

## SPIRIT (LEGACY) PENSION SCHEME

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### ACTUARIAL CERTIFICATES

Spirit (Legacy) Pension Scheme

#### **Adequacy of rates of contributions**

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

#### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 9 May 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

**Signature**



**Date** 9 May 2019

**Name** Roger Moring FIA

**Qualification**

Fellow of the Institute and Faculty of Actuaries

**Address** Verulam Point  
Station Way  
St Albans  
Hertfordshire  
AL1 5HE

**Name of employer** Aon Hewitt Limited



## SPIRIT (LEGACY) PENSION SCHEME

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### ACTUARIAL CERTIFICATES

Spirit Group Retail Retirement Savings Plan

#### Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 13 May 2019.

#### Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 13 May 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature 

Date 13 May 2019

Name Roger Moring FIA

Qualification

Fellow of the Institute and Faculty of Actuaries

Address Verulam Point  
Station Way  
St Albans  
Hertfordshire  
AL1 5HE

Name of employer Aon Hewitt Limited