The Co-operative Pension Scheme (Pace)

Financial Statements For 18 Months Ended 5 October 2018

PENSION SCHEME REGISTRY NO. 10274818 (Consolidated Scheme);
19023301 (Co-op Section) and 19023302 (Bank Section).

Contents

Some Helpful Terms

In this document, when we say:	We mean:
Actuary	An individual who is appointed to advise the Trustee in relation to the funding and financing of the Scheme. The actuary values the Scheme's assets and liabilities. The Scheme's actuary is Neil Brougham.
Articles of Association	This covers the Trustee's formal governing documents, namely its memorandum and articles of association. These documents which, together with the Scheme's trust deed and rules, governs the Trustee.
Bank	The Co-operative Bank p.l.c. was a participating employer up to 6 August 2018 and from that date is the principal employer of the Bank Section.
Bank-Appointed Director	Trustee Director who is selected by the Bank.
Bank Section	The legally segregated section of Pace sponsored by the Bank.
Brixham Fund	Brixham Co-operative Society Limited Employees' Superannuation Fund.
Closure Members	Members who were still building up benefits on the date the Scheme closed to future accrual, 28 October 2015.
Co-op	Co-operative Group Limited. The Co-op was the Scheme's principal employer up to 6 August 2018 and from that date is the principal employer of the Co-op Section.
Co-op-Appointed Directors	Trustee Directors who are selected by the Co-op.
Co-op Section	The legally segregated section of the Scheme that is sponsored by the Co-op and other participating employers.
Deferred Members	Member of the Scheme who are not Closure Members and whose benefits have not yet come into payment.
Former Schemes	Either, the Co-operative Group (CWS) Limited Pension Fund (known as the Co-operative Group Pension Fund), the CIS Employees' Pension Scheme, or the Co-operative Bank Pension Scheme. Pace was formed when these 3 schemes merged, in April 2006.
GMP	Guaranteed Minimum Pension. GMPs arise in respect of periods of service when a contributing member was contracted-out of State Second Pension arrangements prior to 6 April 1997.

Pensioners	Members of the Scheme whose benefits have come into payment.
Independent Trustee Director	A professional independent trustee who is a director of the Trustee and appointed by the Co-op.
Leeds Fund	Leeds Co-operative Society Limited Employees' Pension Fund.
Lothian Fund	Lothian Borders & Angus Co-operative Society Limited Employees' Pension Fund.
MNDs	Member-Nominated Directors of the Trustee. These are directors of the Trustee who have been chosen by and from the Schemes' Closure Members and pensioners.
Pensioner MNDs	MNDs appointed from Pace's pensioners.
Secretary	The Secretary is responsible for helping the Trustee with its arrangements, and providing support for its meetings.
Scheme	The Co-operative Pension Scheme (Pace). This is the scheme as a whole, and contains both the Bank Section and the Co-op Section.
Sheffield Fund	Sheffield Co-operative Society Limited Employees' Superannuation Fund.
The Trustee	Pace Trustees Limited. A company which is appointed as the trustee of the Scheme and acts via its directors.

Trustee Directors & Advisers

Pace Trustees Limited is appointed by the Co-op as the Trustee to manage the Scheme. The Scheme is legally separated into two sections (with effect from 6 August 2018); the Co-op Section and the Bank Section. The Trustee manages both these sections.

The Scheme's trust deed and rules give the Co-op the power to appoint or remove the Scheme's Trustee.

Our registered office is 1 Angel Square, Manchester, United Kingdom, M60 0AG.

The board of directors of the Trustee

We, the Trustee Directors, ("We") are the board of a trustee company which is governed by its Articles of Association.

We have eleven directors:

- 3 Professional Independent Trustees who are pensions experts
- 3 Trustees chosen by the Co-op
- 1 Trustee chosen by the Bank
- 4 Trustees chosen by members of Pace

Who are the current directors of the Trustee?

• Stuart Benson	Independent Trustee Director
• Anne Kershaw	Independent Trustee Director
• Vacancy	Independent Trustee Director
• BESTrustees plc	Bank Appointed Director, represented by Christopher Wheeler (appointed 6 August 2018)
• Stuart Hookins	Co-op Appointed Director
• Andrew Lang	Co-op Appointed Director
• Paul Denton	Co-op Appointed Director (appointed 10 September 2018)
• John Buckingham	Pensioner MND
• Geoffrey Hayzelden	MND from the Co-op Section
• Heather Marsh	MND from the Co-op Section
• Vacancy	MND from the Bank Section

Which Trustee directors left during the period?

Sarah Clayton (Co-op Appointed Director) resigned on 30 August 2018 and was replaced, from 10 September 2018, by Paul Denton.

Nicole Rialland (MND from the Bank Section) was appointed on 6 August 2018 and resigned on 31 January 2019. The vacancy created by Nicole's resignation is not currently filled. The Trustee will look to fill this role during 2019.

Harry Baines (Independent Trustee Director and Chair) resigned on 16 April 2019 and a replacement will be appointed shortly.

Appointment, resignation and removal of Trustee directors

Pace's Articles of Association provide that the directors of the Company shall consist of up to eleven individual directors, consisting of:

- Up to three appointed by the Co-op (Co-op-Appointed Directors). They will remain directors until they resign, or are removed by the Co-op.
- Up to one appointed by the Bank (Bank-Appointed Directors). They will remain a director until they resign, or are removed by the Bank.
- Up to four appointed by and from the members of the Scheme, one of whom shall be a member of the Bank Section (Member-nominated Directors, or MNDs). Pensions law requires that at least a third of the Trustee directors are selected by the Scheme's members. They will remain directors until they resign, are removed by all of the other directors, or no longer qualify to be appointed. At present, each MND holds office for a period of four years but can be re-elected.
- Up to three independent directors, who are appointed by the Co-op having consulted with the Bank. They will remain directors until they resign, or are removed by the Co-op (having consulted with the Bank).

If any director is disqualified by law from acting as a trustee or a director, they will cease to be a director of the Trustee. Other standard removal criteria also apply (bankruptcy, debt-related reasons, physical or mental incapability or absence from meetings without permission or good reason).

Chair of the Trustee

We elect the Chair. Following the resignation of Harry Baines, we will shortly appoint a replacement chair.

Decision Making

Any decision we make must be:

(a) a decision by a majority of Trustee Directors present at and voting at a meeting,
(b) where decision-making has been delegated to a committee, a decision taken at a meeting of that committee by a majority of the members of that committee, or
(c) a unanimous decision of the Trustee Directors

and will be subject to the provisions of the Scheme's trust deed and rules and any other rules agreed by the Trustee Directors from time to time. Each Trustee Director has one vote.

Meetings

We meet at least four times a year, with special meetings convened as appropriate.

We undertake regular training in relation to issues that we will need to understand in detail in order to carry out our roles, for example in relation to investment strategy or valuing scheme benefits, as well as current pensions issues.

Our Committees

We have formed a number of committees to assist with running the Scheme:

- DC Committee;
- Investment Committee;
- Governance, Operations, Risk and Audit Committee; and
- Strategy Committee.

The Committees generally meet every quarter. The Strategy Committee will progress the actuarial valuations of both sections as at 6 April 2019 and will meet as required.

Secretary

The Co-op appoints the Secretary to the Trustee. Sarah Horan, Head of Trustee Services in the Co-op pensions department, is appointed as the Secretary.

Trustee Director Remuneration

The Trustee Remuneration Policy provides for payment of £2,000 p.a. to Employee MNDs and £5,000 p.a. to Pensioner MNDs (of which there is one at present). MNDs can choose not to receive any remuneration. Additional remuneration of £1,000 p.a. is payable to MNDs who are members of the Committees.

Independent Trustee Directors receive remuneration from the Scheme based on rates negotiated with the Co-op, as the principal employer of the Scheme. The Bank appointed Directors receive remuneration from the Bank based on rates negotiated with the Bank, as the participating employer of the Bank Section. The Co-op appointed Directors are not separately remunerated in respect of their roles as Trustee Directors.

The Trustee remuneration policy is reviewed by the Trustee annually.

The Scheme's Professional Advisers are:	
Actuary	Neil Brougham FIA, of Mercer Limited
Administrator (DB)	Co-operative Group Limited Co-op Pensions Department (10406), 1 Angel Square, Manchester, M60 0AG
Administrator (DC)	Legal & General Assurance Society Ltd Trustee Services, Governance Reporting Team, 4th Floor, Brunel House, 2 Fitzalan Road, Cardiff, CF24 0EB
Auditor	Deloitte, Statutory Auditor 2 Hardman Street, Manchester, M3 3HF, United Kingdom
AVC providers	Royal London (CIS) Limited Legal & General Assurance Society Ltd The Prudential Assurance Company Ltd Aviva Life Services UK Ltd The Equitable Life Assurance Society
Bankers	The Co-operative Bank PLC (ceased 28 June 2018) Barclays Bank PLC
Custodian	The Bank of New York Mellon International DLA Piper UK LLP Osborne Clark LLP
Employer Covenant Advisers	PricewaterhouseCoopers International Limited (terminated May 2017) KPMG LLP (appointed 2 June 2017)
Investment Adviser (DB)	Mercer Limited
Investment Adviser (DC)	Willis Towers Watson
Investment Managers (DB)	Blackrock Limited ICG (appointed 10 August 2017) Insight Investment Management (Global) Ltd LaSalle Investment Management Ltd Legal & General Investment Management Limited (equity mandate terminated 7 September 2017, buy and maintain credit mandate appointed 21 July 2017)

	Mercer Limited M&G (appointed 15 May 2018) Royal London Asset Management Limited PGIM Limited TwentyFour Asset Management LLP
Investment Manager (DC)	Legal & General Assurance Society Ltd
Legal adviser	Linklaters LLP Eversheds Sutherland LLP
Life Assurance provider	Zurich Assurance Limited
Principal employer	Co-operative Group Limited
Participating employers – Co-op Section	Co-operative Brands Limited Co-operative Legal Services Limited CFS Management Services Limited Unity Trust Bank PLC (DB Section transferred out 19 October 2018) Co-operatives UK Limited Co-operative Party Limited
Participating employers – Bank Section	The Co-operative Bank PLC
Secretary	Sarah Horan, Head of Trustee Services, Co-op

Trustee's Annual Report

Introduction

We are pleased to present our annual report together with the audited financial statements for the 18 month period ended 5 October 2018. The financial statements (set out on pages 45 to 80) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The report on actuarial liabilities set out on pages 18 to 19 and the investment report set out on pages 31 to 41 also form part of this annual report.

Constitution of the Scheme

The Scheme is an occupational pension scheme, which started on 6 April 2006 and was constituted by a trust deed dated 22 March 2006. On 6 August 2018, new rules came into force which separated the Scheme into two legally separate sections. The Bank is the only employer in the Bank Section; all other employers participating in Pace are in the Co-op Section.

Members were given details about the separation in April 2018 and told which section they would be a member of in May 2018.

Members were allocated to the Co-op Section as follows:

- Our records showed that they were employed by the Co-op (or another employer in the Co-op Section) when they stopped building up benefits in Pace Complete, or
- Our records showed that they were employed by the Co-op (or another employer in the Co-op Section) when they retired and became a Pace pensioner, or
- Our records showed that they were not directly employed by either the Co-op (or another employer in the Co-op Section) or the Bank. The Trustee allocated members to a section of Pace, helped by its specialist advisers, using a fair and impartial system. The Co-op and the Bank reviewed and agreed this process.

Members were allocated to the Bank Section as follows:

- Our records showed that they were employed by the Bank when they stopped building up benefits in Pace Complete, or
- Our records showed that they were employed by the Bank when they retired and became a Pace pensioner, or
- As above, our records showed that they were not directly employed by either the Co-op (or another employer in the Co-op Section) or the Bank. These members were split between the Co-op Section and the Bank Section as described above.

We look after the whole Scheme, and hold funds of both sections on trust, to apply them for the purpose of paying pensions and other benefits in accordance with the Scheme's rules.

Scheme Structure and rule changes

Both the Co-op Section and the Bank Section contain historic defined benefits (DB) and a defined contribution (DC) section for members who are currently contributing.

Before legal separation

The DB section of the Scheme closed to future accrual on 30 September 2015 for Bank employees and 29 October 2015 for the employees of the Co-op and other participating employers. DB benefits were built up based on a member's average career salary and length of membership.

The DC section of the Scheme was established on 7 October 2012, and from 29 October 2015 is the only section of Pace which has actively contributing members.

A rule amendment dated 29 September 2017 relating to defined contribution employee contribution rates which took effect from October 2017:

- The Bank deferred increases to minimum contributions payable to align with the new dates in the automatic enrolment implementation regulations; and

- The Co-op and other participating employers retained the earlier increase dates as set out in the Rules but retained the lower contribution tiers beyond October 2017.

After legal separation

Now that the Co-op Section and Bank Section are legally separate, they will be supported by their respective employers. The Trustee will continue to work closely with the employers to safeguard all members' interests in both sections of Pace. In the event that the Bank goes out of business, the Co-op would step in and take responsibility for supporting the Bank Section as well as the Co-op Section. This is reflected in the new rules adopted to bring about the legal separation of the Scheme.

A rule amendment dated 28 September 2018 in respect of DC contributions to the Co-op Section took effect from October 2018 and deferred the increases previously due to take place from October 2018, to April 2019.

Scheme Mergers and Exits

Before legal separation

When Pace was established in 2006, it replaced three of the Co-op's other pension arrangements (the 'Former Schemes') whose assets and liabilities were transferred to the Scheme. The Former Schemes are the Co-operative Group (CWS) Limited Pension Fund, The Co-operative Bank Pension Scheme and the CIS Employees' Pension Scheme.

On 30 April 2015 four of the Co-op's remaining pension arrangements were transferred to Pace:

- The Brixham Fund;
- The Leeds Fund;
- The Lothian Fund; and
- The Sheffield Fund.

After legal separation

Following the legal separation of the Scheme in August 2018, Unity Trust Bank transferred its Co-op Section liabilities (less a deduction for its share of the Co-op Section's membership not previously allocated to an employer), to the new pension scheme designed to accept the transfer, the Unity Trust Bank Pension Scheme. Unity Trust Bank's defined benefit liability to the Co-op Section ceased on 19 October 2018. Unity Trust Bank ceased to participate as an employer in Pace DC from 31 March 2019.

Financial statements

As the Bank and Co-op Sections are ring fenced for their individual members post sectionalisation, there is a requirement to obtain audited financial statements for each section.

Audited financial statements have been prepared for the period 7 August to 5 October 2018 for each section and these financial statements should be read in conjunction with them.

The Bank Section financial statements show that the net assets of the section decreased from £2.0bn at 6 August 2018 to £1.9bn at 5 October 2018.

The Co-op Section financial statements show that the net assets of the section decreased from £8.9bn at 6 August 2018 to £8.4bn at 5 October 2018.

Tax Status

The Scheme is a registered pension scheme under the provisions of Schedule 36 of the Finance Act 2004. Accordingly, under the provisions of sections 186 and 187 of that Act, the Scheme's income and investment gains are free of taxation.

Transfer values

Transfer value calculations use a method and basis determined by the Trustee, after taking advice from the Scheme Actuary, to be consistent with relevant legislation and the rules of the Scheme. No discretionary increases are included in the calculation of transfer values. No transfers were reduced to less than their cash equivalent value during the period.

We do not accept individual transfers in respect of defined benefit liabilities into the Scheme.

Membership statistics for the period 6 April 2017 to 6 August 2018

	6 April 2017	Adjustments*	Additions	Retirements, leavers and pensions ceasing	Deaths	6 August 2018
Closure Members DB	**8,140**	(493)	-	(1,428)	(19)	**6,200**
Deferred Pensioners DB	**40,505**	(27)	883	(2,996)	(37)	**38,328**
Pensioners DB	**38,848**	82	2,883	(155)	(2,122)	**39,536**
Total DB	**87,493**	**(438)**	**3,766**	**(4,579)**	**(2,178)**	**84,064**
Active Members DC	**47,337**	(303)	8,806	(9,509)	(45)	**46,286**
Deferred Pensioners DC	**13,708**	3,759	9,623	(14,415)	(7)	**12,668**
Total DC	**61,045**	**3,456**	**18,429**	**(23,924)**	**(52)**	**58,954**

*retrospective adjustments and adjustments for the reporting changes have been made during the scheme period.

Membership statistics for the period 7 August to 5 October 2018

	7 August 2018	Adjustments	Additions	Retirements, leavers and pensions ceasing	Deaths	5 October 2018
Co-op Section						
Closure Members DB	**5,196**	(2)	-	(159)	(1)	**5,034**
Deferred Pensioners DB	**31,727**	5	77	(432)	(6)	**31,371**
Pensioners DB	**35,332**	41	265	(112)	(208)	**35,318**
Bank Section						
Closure Members DB	**1,004**	(2)	-	(51)	-	**951**
Deferred Pensioners DB	**6,601**	1	33	(79)	(2)	**6,554**
Pensioners DB	**4,204**	(50)	32	(1)	(13)	**4,172**
Total DB	**84,064**	**(7)**	**407**	**(834)**	**(230)**	**83,400**
Co-op Section						
Active Members DC	**42,985**	(25)	536	(494)	(1)	**43,001**
Deferred Pensioners DC	**11,371**	3	489	(167)	-	**11,696**
Bank Section						
Active Members DC	**3,301**	21	13	(6)	-	**3,329**
Deferred Pensioners DC	**1,297**	-	6	(31)	-	**1,272**
Total DC	**58,954**	**(1)**	**1,044**	**(698)**	**(1)**	**59,298**

Co-op Section - Guarantees

The Co-op's main trading and/or asset-holding subsidiaries guarantee the Co-op's obligations to the Scheme. The identity of these guarantors may change from time to time depending on the internal financial metrics of the wider Co-op Group: the criteria for this are set based on the Co-op's banking arrangements and other entities are added from time to time. The guarantors under this guarantee are also guarantors for the Co-op's banking and bond debt. This guarantee covers the amounts due from the Co-op under either the schedule of contributions or under the employer debt provisions of section 75 of the Pensions Act 1995, and has a long-stop date of 31 December 2034.

Bank Section – Guarantees

As part of the agreement to split the Scheme, the Bank agreed to provide contingent support for the Bank Section by providing approximately £216m of collateral from the point of legal separation (allowing for a "haircut" to the estimated market value). We continue to monitor the value and security of these assets.

Pension increases

Pensions in payment

Pensions in payment for the Former Scheme benefits (accrued before 6 April 2006) that are in excess of the guaranteed minimum pension (GMP) are increased annually on 6 April in line with the Retail Prices Index (RPI) as at the preceding December up to a maximum of 5% (or

6% for former members of the CIS Employees' Pension Scheme who joined before 6 April 2000). There are some exceptions for certain Former Scheme members.

Pensions in payment for Pace DB benefits (accrued after 5 April 2006) are increased annually on 6 April in line with the RPI as at the preceding December to a maximum of 2.5%, and are paid in full regardless of length in payment (i.e. not pro rata).

April 2017

The increase applied to pensions in payment for Former Schemes in April 2017 was 2.5%, pro rata for any pensions in payment for less than a year.

The increase applied to pensions in payment for Pace DB benefits in April 2017 was 2.5%.

GMPs in payment are increased in accordance with legislation up to a maximum of 3.0%. The maximum GMP increase applied in April 2017 was 1.0%.

Pensions in payment for members whose benefits have been transferred from acquired schemes were increased in April 2017 in line with their respective scheme rules as follows:

- Ex-Alldays PLC Pension Scheme
  - Pre April 1997 pension in excess of GMP was increased by 3.0%
  - Post April 1997 pension was increased by 1.0%
- Ex-Kenneth Balfour Limited Pension, Life Assurance and Widows Pension Scheme (1976)
  - Pre April 1997 pension was increased by 3.0%
  - Post April 1997 pension was increased by 2.5%
- Ex-Trademarket Pension Scheme
  - Pension in excess of GMP was increased by 2.5%
- Ex-W&P Foodservice Pension Scheme
  - Pre April 1996 pension in excess of GMP was increased by 3.0%
  - Post April 1996 pension in excess of GMP was increased by 2.5%
- Ex-GT Smith & Sons Ltd Retirement and Death Benefit Scheme
  - Pension in excess of GMP was increased by 2.5%

April 2018

The increase applied to pensions in payment for Former Schemes in April 2018 was 4.1%, pro rata for any pensions in payment for less than a year.

The increase applied to pensions in payment for Pace DB benefits in April 2018 was 2.5%.

GMPs in payment are increased in accordance with legislation up to a maximum of 3.0%. The maximum GMP increase applied in April 2018 was 3.0%.

Pensions in payment for members whose benefits have been transferred from acquired schemes were increased in April 2018 in line with their respective scheme rules as follows:

- Ex-Alldays PLC Pension Scheme
  - Pre April 1997 pension in excess of GMP was increased by 3.0%
  - Post April 1997 pension was increased by 3.0%
- Ex-Kenneth Balfour Limited Pension, Life Assurance and Widows Pension Scheme (1976)
  - Pre April 1997 pension was increased by 3.0%
  - Post April 1997 pension was increased by 4.1%
- Ex-Trademarket Pension Scheme
  - Pension in excess of GMP was increased by 4.1%

- Ex-W&P Foodservice Pension Scheme
  - Pre April 1996 pension in excess of GMP was increased by 3.0%
  - Post April 1996 pension in excess of GMP was increased by 4.1%
- Ex-GT Smith & Sons Ltd Retirement and Death Benefit Scheme
  - Pension in excess of GMP was increased by 4.1%

Merged Schemes

Pensions in payment for members whose benefits transferred into Pace from the Brixham, Leeds, Lothian and Sheffield Funds were increased in line with their respective scheme rules as follows:

- Sheffield Fund pension in August 2017:
  - Pre May 2006 pension increased by 2.5%
  - Post May 2006 pension increased by 2.5%
- Brixham Fund pension increased in January 2018:
  - Pre 6 April 1997 increased by 3.0%
  - 6 April 1997 to 13 January 2006 increased by 3.9%
  - Post 14 January 2006 increased by 2.5%
- Leeds Fund pension increased in January 2018 by 3.9%
- Lothian Fund pension increased on 1 April 2018 by 3.9%
- Sheffield Fund pension in August 2018:
  - Pre May 2006 pension increased by 4.1%
  - Post May 2006 pension increased by 2.5%

Pensions in deferment

Pensions in excess of any GMP under the Former Schemes and the Brixham, Leeds, Lothian and Sheffield Funds will be revalued for each year of deferment, subject to a cap of 5% p.a. compounded over the whole period of deferment. The revaluation rate will reference either the increase in RPI (or RPI and Consumer Prices Index (CPI)), depending on the rules of the Former Scheme or Brixham, Leeds, Lothian and Sheffield Funds.

Pensions in deferment for Pace DB benefits (accrued after 5 April 2006) are increased annually on 6 April in line with the RPI as at the preceding December to a maximum of 5%. The increase applied in April 2017 was 2.5%. The increase applied in April 2018 was 4.1%.

GMPs are increased in deferment in accordance with statutory requirements.

There were no discretionary increases awarded to pensions in deferment and in payment.

Contributions

Members who participate in a salary sacrifice arrangement accept a reduction in pay in return for non-contributory membership of Pace with the balance of cost paid by the appropriate sponsoring employer. Contributions to Pace DC are set out below.

Bank Section DC contributions

Employee %	Employer %	Total %
1%*	2%**	3%
2%	3%	5%
3%	5%	8%
4%	8%	12%
5%	10%	15%
6%	10%	16%
7%	10%	17%
8%	10%	18%

*Increased to 2% from April 2018 and 3% from April 2019.
** Increased to 3% from April 2018 and 5% from April 2019.

Co-op Section DC contributions

Employee %	Employer %	Total %
1%*	2%**	3%
2%	3%	5%
3%	5%	8%
4%	8%	12%
5%	10%	15%
6%	10%	16%
7%	10%	17%
8%	10%	18%
9%	10%	19%
10%	10%	20%

*Minimum level of contribution for automatic enrolment increased to 2% from October 2017 and 3% from April 2019.
** Minimum level of contribution for automatic enrolment increased to 3% from October 2017 and 5% from April 2019.
The 1% and 2% contribution options will remain available for members to select should they wish to do so.

Before legal separation

On 28 September 2017, the Trustee and the Co-op agreed a variation to the schedule of contributions dated 4 July 2014 to reflect changes to the contribution structure in Pace DC for employees of the Co-op and the Bank:

- For the minimum contribution increases under automatic enrolment to be deferred to align with the statutory increase dates (April 2018 and April 2019 respectively), for Bank employees; and

- For the 1% and 2% contribution tier options to be retained beyond the October 2017 and October 2018 increase dates, for Co-op employees.

In accordance with the schedule of contributions, dated 4 July 2014, the Co-op (or other participating employers) paid an expense contribution of £150,000 each pay period to meet any expenses, life insurance premiums and scheme levies in respect of the DC Section.

The Trustee and the Co-op agreed a supplement to the schedule of contributions on 29 September 2017, due to a surplus of funds which had built up in the DC expense account after expenses; life insurance premiums and scheme levies had been paid. It was agreed that with effect from 1 October 2017, the £150,000 per pay period would be modified as follows:

- For contributions falling due by 19 October 2017, 19 November 2017 and 19 December 2017 inclusive, no expense contributions would be payable.
- For contributions falling due by 19 January 2018 onwards, expense contributions of £160,000 per pay period would be payable.

Following the completion of the actuarial valuation as at 5 April 2016, a new schedule of contributions was agreed and signed on 2 November 2017. It was agreed that, from 1 November 2017 to 31 October 2022, the Co-op would pay an expense contributions as follows:

- For contributions falling due by 19 November 2017 and 19 December 2017, no expense contributions would be payable.
- For pay dates falling on or after 1 December 2017, expense contributions of £135,000 per pay period would be payable.

The expense contribution amount would be reviewed periodically against the actual level of expenses and can vary if agreed appropriate and set out in writing by the Co-op and the Trustee.

The Bank directly met its share of expenses in respect of the DC section.

After legal separation

For the Co-op Section, it was agreed that from 6 August 2018 to 6 August 2023:

- In relation to defined contributions, a rule change in respect of DC contributions to the Co-op Section took effect from October 2018 and deferred the increases previously due to take place from October 2018, to 2019. The Co-op (or other employer participating in the Co-op Section) will pay expense contributions of £135,000 per pay period.
- The expense contribution amount would be reviewed periodically against the actual level of expenses and can be varied by agreement.

For the Bank Section, it was agreed that from 6 August 2018 to 31 December 2027:

- In relation to defined contributions, member and related employer contributions would remain as set out in the tables above. The Bank will continue to meet expenses in respect of the DC section.

A further variation to the Bank Section's Schedule of Contributions was agreed on 17 September 2018 to reflect the payment of DC expenses contributions by the Bank, as follows:

- For the period 6 August 2018 to 5 May 2019: a single contribution of £37,500 payable by 10 October 2018
- From 6 May 2019 to 1 December 2027: a fixed contribution of £50,000 p.a. paid annually in advance

A further variation to the Bank Section Schedule of Contributions was agreed on 5 April 2019 to reflect the payment of VAT on the Bank's DC expenses contributions, and the move from a 4 weekly to a monthly payroll cycle from April 2019.

Defined benefit schedules of contributions

Before legal separation

Following the actuarial valuation of the Scheme's defined benefits as at 5 April 2013 it was agreed that the Co-op (or other participating employers) would pay deficit correction contributions of £20m per annum in monthly instalments from 1 April 2011 to 30 June 2014, and £25m per annum in monthly instalments from 1 July 2014 to 30 June 2019 inclusive. In addition, following the transfers of assets liabilities of four of the Co-op's pension funds into Pace with effect from 30 April 2015, the Co-op agreed to make additional deficit contributions of £2.8m per annum from 1 May 2015 to 20 June 2019 inclusive.

A new schedule of contributions was agreed with the Co-op following the completion of the actuarial valuation as at 5 April 2016. It was agreed that due to the strong funding position, no further contributions would be required from the Co-op (for the time being), and the Bank would pay employer contributions of £5m per annum from 1 November 2017 to 31 October 2022. It was agreed that the Bank's contributions would be payable no less frequently than monthly. The Co-op ceased all deficit contributions to the Scheme in December 2017.

After legal separation

As part of the separation process, separate schedules of contributions were agreed for both the Co-op Section and the Bank Section.

For the Co-op Section, it was agreed that from 6 August 2018 to 6 August 2023:

- In relation to defined benefits, the Trustee will meet the usual operating and administrative expenses relating to defined benefits, including the Pension Protection Fund levy, and investment management costs.

For the Bank Section, it was agreed that from 6 August 2018 to 31 December 2027:

- In relation to defined benefits, the Trustee will meet the usual operating and administrative expenses relating to defined benefits, including the Pension Protection Fund levy, and investment management costs. The Bank will pay:
    - a contribution of £12.5m p.a. pro-rated from 1 January 2018 to 6 August 2018, less any pre-legal separation contributions paid to the Scheme;
    - £12.5m (pro-rated) p.a. from 6 August 2018 to 31 December 2018;
    - £12.5m p.a. from 1 January 2019 to 31 December 2022; and
    - £7.5m p.a. from 1 January 2023 to 31 December 2027.

Actuarial Valuation

Before legal separation

The Actuary completed the actuarial valuation as at 5 April 2016 after the statutory deadline on 30 November 2017, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The statutory deadline for the Scheme's actuarial valuation as at 5 April 2016 was 5 July 2017. The Trustee and the Co-op notified the Pensions Regulator before the deadline that this would be the case, pending completion of the discussions being held between the sponsors and Trustee to agree to separate Pace into two ring-fenced sections following the successful recapitalisation of the Bank.

The results of the valuation showed that at 5 April 2016, Pace had a surplus of £251m relative to its technical provisions, which equated to a funding level of 103%.

The Trustee discussed the results of the valuation with the Co-op and agreed that, given the strong funding position and low risk investment strategy, no further deficit contributions are currently required from the Co-op. Both the Trustee and the Co-op are comfortable that the strong funding position provides sufficient security to Pace members. To further support the Scheme financially over the longer-term, the Co-op and Trustee have agreed a long-term plan to further reduce risk over time, which includes a commitment from the Co-op to pay contributions to Pace in future as required.

After legal separation

The first actuarial valuations of the Co-op Section and Bank Section will be carried out as at 5 April 2019. The statutory deadline for agreeing the results with the sponsoring employers of those sections is 5 July 2020. Once the valuation results have been agreed, they will be submitted to the Pensions Regulator and members will be provided with a funding update.

Report on Actuarial Liabilities

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 Co-op 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 5 April 2016.

This showed that on that date:

The value of the technical provisions was:	£9,447 million
The value of the assets at that date was:	£9,698 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles).

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

- **Discount interest rate (pre and post retirement):** The discount rate used is a term structure derived from the yields on UK Government conventional gilt stocks appropriate to the date of each future cashflow (extrapolated for cash flows beyond the longest available yields) plus an additional 0.5% per annum to reflect the allowance the Trustee has agreed for additional investment returns based on the investment strategy.

- **Future Retail Price inflation (RPI):** The assumption for the rate of increase in the Retail Price Index (RPI) will be a term structure derived from the difference between the yield on conventional and index-linked UK Government bonds at the date of each future cash flow (extrapolated for cashflows beyond the longest available bonds).

- **Future Consumer Price inflation (CPI):** Derived from the RPI assumption, with a deduction of 1.0% per annum to recognise the long term difference between expectations of future RPI increases and future CPI increases.

- **Pension increases:** In line with the provisions in the Scheme's rules, the assumption for the rate of pension increases applying to each benefit tranche is a full curve of annual gilt-implied inflation forward rates, adjusted for the probability that future inflation is above or below any applicable maximum and minimum annual increase entitlements. A stochastic model is used to derive the adjustment at each point on the curve. The model allows for the volatility of inflation to vary with time.

- **Pay increases:** Pace Complete was closed to future accrual in October 2015. In some circumstances members retain a final salary link for benefits accrued before 6 April 2006 in the former Bank, Group and CIS Schemes. An assumption for salary increases in excess of increases in RPI of 0.5% per annum has been determined after consultation with the Co-operative Group. No additional allowance has been made for promotional increases.

- **Mortality:** The mortality assumptions are based on up to date information published by the Continuous Mortality Investigation (“CMI”) and National Statistics, making allowance for future improvements in longevity and the experience of the Scheme. The mortality tables are the S2PA Year of Birth tables with weightings of 95% for males and 97% for females and future improvements based on the CMI 2016 model with a long term improvement rate of 1.75% p.a.

Additional Voluntary Contributions (AVCs)

From 7 October 2012, Legal & General became the AVC provider for the Scheme. Legal & General holds AVC investments separately from the main fund. Members have the option of selecting from the following funds:

- Pace Growth (Shares) Fund
- Pace Growth (Ethical Shares) Fund
- Pace Growth (Mixed) Fund
- Pace Pre-Retirement (Inflation-linked) Fund
- Pace Pre-retirement Fund
- Pace Cash Fund

Prior to October 2012, active members of Pace DB were also able to make AVC contributions to Royal London, and the available funds are listed below:

- FTSE All-Share Pension Tracker Fund (unitised)
- With-Profits Pension Fund
- Lifestyle Fund
- Deposit Fund

Members have not been able to make any further AVC contributions to Royal London since October 2015, when Pace DB closed.

The Co-operative Pension Scheme ("Pace")

The Chair of the Trustee's Annual Governance Statement

As Chair of the Pace Trustee I am very pleased to share with you the third annual governance statement for the Defined Contribution (DC) Section.

This Statement has been prepared to demonstrate how Pace has complied with important governance standards that were introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015. A normal scheme year for Pace is 12 months ending on each 5 April. However, the last scheme year was extended as a result of the creation of separate segregated sections for the Co-operative Bank and Group. Therefore, this Annual Governance Statement covers the 18 month period from 6 April 2017 to 5 October 2018 and considers four key areas:

1. The investment strategy relating to DC default investment.
2. The financial transactions made within the DC Section.
3. The charges and transactions costs within the DC Section.
4. The Trustee Directors' compliance with their knowledge and understanding (TKU) requirements.

Where applicable, this statement also covers Pace's Additional Voluntary Contribution (AVC) arrangements.

1 Pace's DC default investment

Once employees meet the Government's eligibility criteria they are automatically enrolled into the DC Section.

When employees are automatically enrolled, the Trustee invests contributions in a default investment, although members can change how their DC account is invested at any time. A lot of time is spent making sure that the Pace DC investments and the default investment are appropriate. Below is an explanation of our investment objectives and how the Pace Trustee reviews and monitors the performance of the DC investments.

Statement of investment principles

The Trustee maintains a statement of investment principles which outlines the principles and policies that govern its decisions about investments. A copy of the current statement of investment principles is attached to Appendix 1 (Co-op Section) and Appendix 2 (Bank Section) in the accounts and includes information on:

i. The aims and objectives for the Pace DC default investment, the 'Target: Lump Sum' Lifestyle strategy.

ii. The Trustee's policies on such matters as:

   a. The kinds of investments to be held
   b. The balance between the different kinds of investment
   c. Risks, including how these are measured and managed
   d. Expected return on investments

e. The realisation of investments, and

f. The extent (if any) to which social, environment or ethical considerations are taken into account in the acquisition, retention and disposal of investments.

iii. How the default strategy (The Target: Lump Sum Option) and the other 'Target' lifestyle arrangements are intended to ensure that assets are invested in the best interests of members and beneficiaries.

Investment review

The Trustee reviews the suitability of the DC investments annually and conducts a strategic investment review of all investment options available to members (including the default strategy and the performance of the default arrangement) approximately every three years. The last strategic review was completed in 2015 and led to the introduction of three new outcome focused 'Target' lifestyle strategies from October 2015. The target strategies are designed to help members who have decided how they will take their DC benefits on retirement and wish to align their investment approach.

The Trustee also implemented a new default lifestyle strategy ('Target: Lump Sum') which is designed to be closely aligned with how the majority of members are anticipated to draw their retirement benefits. The default investment strategy was designed and constructed having taken account of modelling to help anticipate future member behaviour following the introduction of additional flexibilities for DC pension arrangements from April 2015. It also considered the impact of performance on different groups of members to help ensure that it remains on target.

The next strategic review of Pace DC's investments has started and we expect to be in a position to report on the outcome later in 2019.

Investment monitoring

Each quarter, the Trustee reviews how the funds within the default strategy, and the other available investment options have performed. More detailed monitoring is undertaken annually, which takes into account members' prospective outcomes at retirement. The Trustee remains satisfied that the returns achieved by the default investment are consistent with its aims and objectives.

Annual monitoring of Pace's legacy AVC arrangements is undertaken. The suitability of Pace's legacy AVC arrangements was last reviewed in August 2018.

2 Financial transactions

The Trustee has a service level agreement (SLA) in place with the DC Section administrator, Legal & General, which includes performance standards relating to the accuracy and timeliness of all core transactions.

Legal & General's processes include daily monitoring of bank accounts, a dedicated contributions processing team and peer review of investment and banking transactions.

The Trustee regularly monitors the core financial transactions of the DC Section to ensure that they have been processed promptly and accurately during the scheme year. These include the investment of contributions, transfers into and out of the DC Section, fund switches and payments out, both to and in respect of members.

Monitoring is achieved through the review of quarterly reporting from the DC Section's administrator and the monthly monitoring of contribution payments by the employers. Pace's financial accounts are also audited annually by the appointed auditors Deloitte LLP.

The Trustee, in conjunction with Willis Towers Watson, also undertakes an annual assessment of the DC Section's governance processes and internal controls and has confirmed that they are compliant with the Pensions Regulator's DC Code of Practice no. 13 on governance and administration (paragraphs 70 to 84 relating to core financial transactions).

Contributions to Pace's legacy AVC arrangements with Royal London are also monitored.

Based on the above, the Trustee is satisfied that the core financial transactions relating to the DC Section and AVCs have been processed promptly and accurately during the scheme year.

3 Charges and transaction costs

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 charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs and to help members understand the relative merits of different investment options in a DC scheme like Pace DC. Illustrative examples of the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits in respect of the default fund are appended to the accounts (Appendix 3 for the Co-op Section and Appendix 4 for the Bank Section).

Charges

The annual charges applied to the DC default investment, the 'Target: Lump Sum' lifestyle strategy, during the scheme year ranged from 0.23% to 0.26%.

The charges applied to all other funds (excluding the default arrangement) used by members of the DC Section and Legal & General AVCs during the period to which this Statement relates ranged from 0.23% to 0.43% per annum. The following table shows how the charges are broken down by individual funds.

Fund	AMC (% p.a.)	FMC (% p.a.)	Fund expenses (% p.a.)	Total expense ratio (% p.a.)	Transaction costs* (% p.a)
Pace Growth (Mixed) Fund	0.13	0.13	N/A	0.26	-0.02
Pace Growth (Shares) Fund	0.13	0.14	N/A	0.27	0.05
Pace Growth (Ethical Shares) Fund	0.13	0.30	N/A	0.43	0.00
Pace Pre-Retirement (Inflation-linked) Fund	0.13	0.13	N/A	0.26	0.00
Pace Pre-Retirement Fund	0.13	0.12	N/A	0.25	-0.03
Pace Cash Fund	0.13	0.09	0.01	0.23	-0.06

AMC = annual management charge. The AMC is a charge paid to Legal & General to cover its administration costs. The AMC for the Bank and Co-op Sections of Pace was subsidised by the Bank and Co-op as they also paid an administration fee to Legal & General, which reduced the AMC to 0.13% over the period to which this Statement relates. The Co-op Section ceased payment of this subsidy from 6 April 2019 and as a result the AMC for Co-op Section members increased to 0.16%, from this date. The AMC for Bank Section members remains at 0.13%.

FMC = fund management charge. The FMC is the charge paid to Legal & General to cover fund management expenses for each of Pace DC's funds, and is paid in addition to the AMC.

Transaction costs

Transaction costs are those incurred as a result of routine fund management activities such as buying, selling, lending or borrowing investments. New Financial Conduct Authority (FCA) guidance and rules for investment managers on how to calculate and disclose transaction costs were introduced from 3 January 2018.

*The transaction costs shown above are the average annual costs based on the 18 months data for the period 1 April 2017 to 30 September 2018.

Further details of transaction costs and charges for funds invested with Royal London can be found by visiting:

https://coop.pacepensions.co.uk/useful-information/pace-dc/

Value for members

The Trustee is committed to ensuring that members receive value for money from Pace and that any costs and charges that are deducted from members' DC accounts provide good value in relation to the benefits and services that are provided by or on behalf of Pace.

The Trustee undertakes annual 'value for member' assessments, with support from their advisers, and give specific focus on costs for members. These assessments form part of the Trustee's annual plan and are included as an item on Pace's risk register.

The Trustee has just completed a value for members' assessment for the 18 month period ending 5 October 2018. This assessment was undertaken in accordance with the Pensions Regulator's DC Code of Practice no. 13 (paragraphs 18-41) and with the relevant legislation. It considered the scope, quality, efficiency and general value of a range of services and features, including:

- Governance and scheme management.
- Members' investment options and fund performance.
- Administration services and member support; and
- How members are helped to understand their choices and plan for retirement.

The conclusion of the latest assessment is that Pace continues to provide excellent value for money for members because:

- Pace offers members a wide range of quality services.
- The fund-based charges that members pay from their DC accounts remain highly competitive and generally well below the average for similar DC schemes, including the Government's National Employment Savings Trust (NEST).

4 Additional Voluntary Contributions (AVCs)

Members who are already paying the maximum 'employer matched' contributions can make further pension savings by paying AVCs. Pace's main AVC plan is managed by Legal & General and shares the same administration features and member services as for the DC Section. The statements relating to the DC Section therefore apply to the main Legal & General AVC plan.

Legacy AVCs

Pace also has a number of older 'legacy' AVCs arrangements which are now closed to new contributions. The largest is with Royal London and is referred to as 'Extra Plan' but there are also a small number of AVC policies with Aviva, Legal & General and Prudential.

Collectively, the legacy AVCs are invested in a range of with-profits, unit-linked and deferred annuity contracts, some of which have implicit charging structures. Where explicit annual charges apply, these typically range from 0.50% to 0.875%.

The Trustee, in conjunction with its advisers, completed a review of the legacy AVCs in May 2017. It found that the legacy AVC arrangements have been established many years and have charges that are higher than the main Legal & General AVC plan, although they are typically average for similar with-profits type contracts in the market.

The Trustee considered transferring the legacy AVCs to the Legal & General AVC plan but on balance has decided that members should be given the choice to decide whether to leave their AVCs where they are or move them to Legal & General. The primary reasons for this approach are that there are no directly 'like-for-like' investments into which the AVCs can be transferred into with Legal & General. In addition, some of the legacy AVC contracts contain policy guarantees (e.g. minimum bonus rates or interest) which would be lost on transfer.

A number of guides and factsheets have been produced to help members make informed decisions on how to manage their AVCs. The Trustee will continue to communicate with members annually regarding their AVCs and provide information on their broader options.
The Trustee will continue to monitor the legacy AVCs arrangements and review their suitability.

5 Trustee knowledge and understanding (TKU)

The Trustee has a strong TKU process in place which, together with advice available, enables it to exercise its functions as the Trustee of Pace. The Trustee's approach to meeting the TKU requirements includes:

- Maintaining a rolling programme of bespoke trustee training.

- Individual Trustee directors completing the Pensions Regulator's trustee training toolkit on appointment and maintaining a rolling programme to revisit the toolkit, as required.

- The Trustee directors are conversant with scheme's governing documents (including their powers under the scheme rules) and have knowledge and understanding of applicable pensions/trust law and investment principles. Trustees have received training and receive ongoing advice in this area.

- The Trustee directors have a working knowledge of Pace's statement of investment principles through regular review each year or as often as changes to investment strategy or policy necessitate. The DC Committee also reviews the DC related sections of the statement and seeks professional advice as appropriate on any changes.

- Recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chair's statement.

- Circulating to each Trustee director information on hot topics and general updates from its advisers that are relevant to the Pace, including those relating to pensions law and trusts.

The Trustee, in conjunction with its advisers, has also undertaken independent assessments of its TKU process and the effectiveness of the Trustee Board to verify that it meets the regulatory standards and is therefore compliant with the Pensions Regulator's DC Code of Practice no 13 (paragraphs 41-50) and the Code of Practice no 7 on TKU. The Trustee is satisfied that it has met the relevant legislative requirements.

The combined knowledge and understanding of the Trustee directors, together with advice from the Trustee's advisers, enables them to properly exercise their trustee duties. This is verified through a periodic assessment of the Trustee's effectiveness against agreed objectives, as well as through trustee meeting minutes, meeting packs and action logs.

Signed by the Chair on behalf of the Pace Trustee:

Signed **Dated**

Subsequent events

Brexit

Following the EU Referendum in 2016, the UK had been expected to leave the European Union on 29 March 2019 (and at the time of writing, uncertainty around the eventual timing and terms of any exit continues). The Trustee identified the possibility of a "no deal" Brexit and the related uncertainty as a particular risk with regards to Pace's investments, and took action to identify any mitigating action required. In light of Pace's low exposure to growth assets, the very limited exposure to overseas currencies and the high degree of interest rate and inflation protection in place, the Trustee was comfortable that no changes to strategy were required. The Trustee also reviewed the risk management plans in place for the Scheme's investment managers, in particular where Pace holds assets domiciled within the EU. Finally, the Trustee also considered updates from the Scheme's sponsors, the Co-operative Group and the Co-operative Bank, on the Brexit related risks they have identified and their associated actions.

Financial Development of the Scheme

During the 18 month period ended 5 October 2018 the net assets of the Scheme decreased from £11.5bn to £10.3bn, of which £8.4bn relates to net assets of the Co-op Section and £1.9bn to the Bank Section.

Investments

The investment reports are set out on pages 31 to 41.

Enquiries

For enquiries about the Scheme please contact:

Co-operative Group Limited
Pensions Department
Department 10406
1 Angel Square
Manchester
M60 0AG

Email address: staffpensions@coop.co.uk

Statement of Trustee Directors' Responsibilities for the Financial Statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (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 period and of the amount and disposition at the end of that period of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme period; and

- contain the information specified in the 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 preparing 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 have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of PACE Trustees Limited

Anne Kershaw Trustee Director	Sarah Horan Secretary

Date:

More Helpful Terms

In this document, when we say:	We mean:
Additional Voluntary Contribution ("AVC")	Contributions over and above a member's normal contributions which the member chose to pay to the Scheme in order to secure additional benefits.
Alternative Inflation-linked Property	Investment in property which has inflation-linked income streams as part of the investment terms. This type of investment aims to generate income which keeps up or exceeds inflation in addition to capital appreciation. These types of properties can include student accommodation and long lease ground rents on commercial properties such as hotels, for example.
Alternatives	A term used to categorise investment which is not in traditional asset classes such as Stocks, Bonds and Cash. Alternative asset classes include; Hedge Funds and Private Equity, for example.
Asset backed securities	An asset backed security is the term given to a bond, whose value is derived from a pool of underlying assets which together generate income and collateralise the specific pool. Examples include a pool of mortgages or credit card debt.
Benchmark	A "yardstick" against which the investment performance of a fund manager can be compared.
Bond	An investment in the form of a loan to a company or government which pays a specified rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.
Corporate Bond	A bond issued by a company.
Custodian	A custodian provides safe-keeping of a pension scheme's assets by holding and recording the investments, and processing tax reclaims etc.
Default	When talking about bonds or investments, a "default" is a failure on the part of the borrower to pay interest on a loan, or to be able to repay a loan at full value.

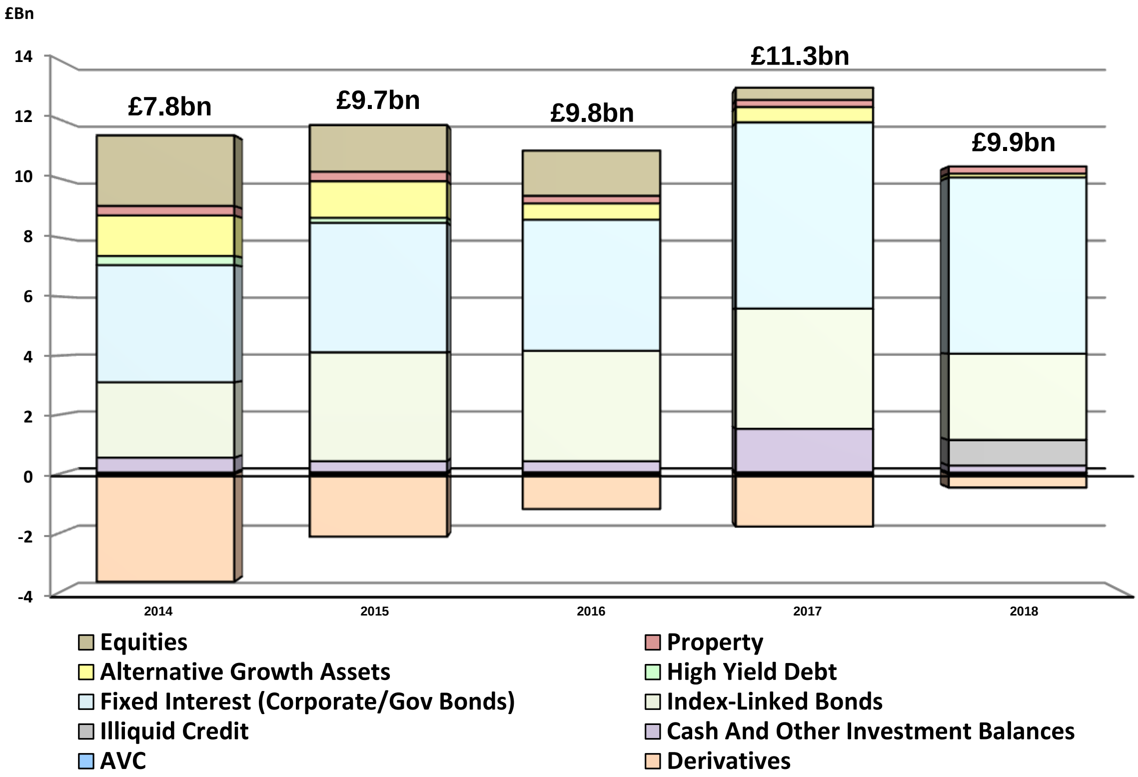
Derivatives	Financial instruments whose price is dependent on one or more underlying assets or market indicators (e.g. interest rates or inflation). Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying investments.
Equity	An investment in the form of shares in companies (also known as stocks). Owning shares makes shareholders part owners of the company in question and usually entitles them to a share of the profits (if any), which are paid as dividends.
Fixed Interest	See “bond”.
Gilt	A bond issued by the UK Government.
Illiquid Credit	Illiquid Credit investments take the principles of bond investing, lending of money in return for regular interest payments, into less standardised areas which are not actively traded. This results in favourable terms for investors and greater potential gain, which the scheme is able to access as a long-term investor.
Index-linked Gilt	A bond issued by the UK Government which increases each year in line with inflation, which has the effect of increasing the amount of interest paid (or decreasing it if inflation is negative – “deflation”). Also known as inflation-linked gilts.
Investment Grade	A category of ratings provided by a ratings agency based on its assessment of the credit worthiness of that company or asset. The assessments within investment grade range from 'extremely strong capacity to meet financial commitments’ (defined as AAA or Aaa) to 'adequate capacity to meet financial commitments but more subject to adverse economic conditions’ (BBB or Baa).
Investment Manager	A company to whom the Trustee delegates the day to day management of part of the Scheme’s assets. Also known as an “asset manager” or “fund manager”.
Liability Driven Investment	An investment approach which focuses on matching the sensitivities of a pension scheme’s assets to those of its underlying liabilities in response to changes in certain factors, normally interest rates and inflation expectations.
London Interbank Offered Rate (“LIBOR)	A benchmark for short term interest rates between banks world-wide, which is published daily.

Market Value	The price at which an investment can be bought or sold on a given date.
Pooled Investment Vehicle / Pooled Fund	An investment fund in which a number of different investors hold “units”, and where the underlying assets are not directly held by each investor but as part of a “pool”. The investors have the right to the cash value of these units rather than to the underlying assets of the investment fund.
Property	Typically investments in commercial property such as offices, shops and factories. These investments earn money from rent, and any increase in the value of the properties.
Repurchase Agreement	A transaction used to finance ownership of a bond. In a ‘repo’ agreement, an asset, government bond, is sold with a combined agreement for it to be repurchased in the future at an agreed price. This process is used to raise ready money and is backed by the sold asset. This allows the scheme to access bond investments in an efficient way, allowing us to increase interest rate and inflation protection.
Strategic Asset Allocation	The target split of the Scheme’s assets between different types of investments (e.g. Bonds and Equities).

Our Investment Report

Pace consolidated Investment Report

The chart below provides a snapshot of the different types of investment categories held by the Scheme at each year end (for 2018, this shows the consolidated position across both Sections).



	5 April 2014		5 April 2015		5 April 2016		5 April 2017		5 October 2018 (Consolidated)	
	£000	%	£000	%	£000	%	£000	%	£000	%
AVC	45,145	0.6	49,230	0.5	46,688	0.5	49,410	0.4	42,025	0.4
Derivatives*	(3,628,980)	(46.4)	(2,113,263)	(21.8)	(1,179,521)	(12.1)	(1,770,381)	(15.7)	(457,998)	(4.6)
Illiquid Credit	-	-	-	-	-	-	-	-	864,065	8.7
Fixed Interest Bonds (Corporate Bonds and Government Bonds)	3,963,842	50.7	4,383,913	45.4	4,436,216	45.5	6,299,828	55.8	5,961,663	59.9
Property	324,088	4.1	321,797	3.33	258,441	2.6	240,975	2.1	240,522	2.4
Cash And Other Investment Balances	497,600	6.3	372,994	3.9	378,188	3.9	1,473,763	13.0	253,223	2.6
Index-Linked Bonds	2,556,655	32.7	3,685,995	38.0	3,735,341	38.3	4,067,484	36.0	2,921,525	29.3
Alternative Growth Assets	1,368,001	17.5	1,242,662	12.8	551,447	5.7	522,038	4.6	131,524	1.3
Equities	2,387,201	30.5	1,577,208	16.2	1,533,157	15.7	410,659	3.6	-	-
High Yield Debt	309,935	4	167,647	1.7	-	-	-	-	-	-
TOTAL	**7,823,487**	**100**	**9,688,183**	**100**	**9,759,946**	**100**	**11,293,776**	**100**	**9,956,549**	**100**

*Repurchase agreements included within derivatives

The Scheme's investment policy

For each Section, the Trustee's investment objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework we have agreed a number of objectives to help guide it in the strategic management of the assets and control of the various risks to which the Scheme is exposed.

- For the Co-op Section of the Scheme, we have agreed to implement an investment strategy that targets an expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk.

- For the Bank Section we have agreed to implement an investment strategy that targets an expected return of around 0.5% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. Again, this investment return target was chosen taking into account the associated level of risk.

For both Sections, our primary goal, is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis. If funding improves as a result of better than expected investment returns, we expect to use the opportunity to reduce investment risk or to continue to maintain the level of risk with a view to improving the funding level position further.

The Scheme's Statement of Investment Principles

We have produced a Statement of Investment Principles for each Section of the Scheme in accordance with Section 35 of the Pensions Act 1995 and copies are included in Appendices 1 and 2. A copy of each statement is available on request to the Secretary to the Trustee at the address shown on page 26, or via https://www.pacepensions.co.uk/. We have appointed Mercer Limited as the Scheme's DB Section investment consultant.

Management of assets

We have delegated management of investments to professional investment managers which are listed on pages 7 and 8. These managers manage the investments within the restrictions set out in investment management agreements and policy documents which are designed to ensure that the objectives and policies set out in the Statement of Investment Principles are met.

What is the Scheme's investment strategy?

In 2016, we reviewed the investment strategy of the Scheme and agreed to make a number of changes to the Scheme's investments. The revised strategy began to be implemented in 2017, and this continued throughout this period.

Over the period, we increased the Scheme's holdings in corporate bonds and alternative 'bond-like' assets, and reduced our holdings in equities to zero. We also continued to redeem our funds held in the Mercer (Alternative Investments) portfolio, and started to redeem our existing UK property investments and increase our investments in our inflation-linked property mandate.

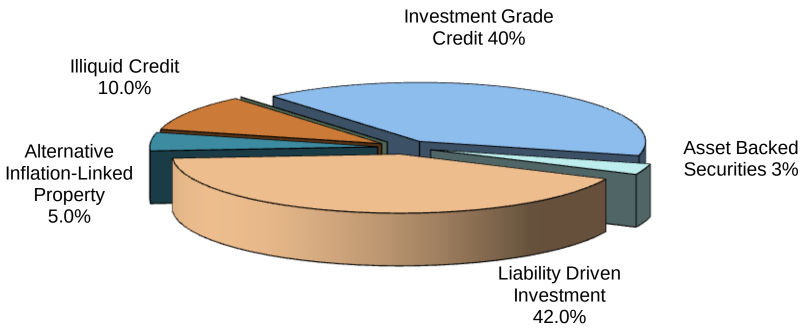
The Investment Committee believes that these changes are in keeping with our desire to increase the predictability of investment returns where possible.

Following the decision in July 2017 to split the Scheme into the Co-op Section and the Bank Section, each Section now has its own investment strategy to meet the investment objectives outlined in the previous section, reflecting the modestly differing objectives for the two sections. The following section sets out the current target investment strategy for each Section, together with the position as at 5 October 2018 (noting that the implementation of the target strategy will take some time).

Co-op Section

The target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below.

Target benchmark asset allocation as at 30 September 2018



The Section will continue to have small legacy holdings not listed in the above chart over the short to medium term (for example property and alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases (for example illiquid private equity/debt holdings) and so the above should be seen as an indicative longer term target that the Trustee is working towards.

As part of the implementation of the investment strategy outlined above, we refreshed the target for our "liability matching assets" portfolio, which invests in assets that protect the Scheme from changes in interest rates and inflation. The agreed target exposure for these assets is 95% of the Section's liabilities; at 30 September 2018 these assets covered 89.7% of the Section's interest rate exposure and 87.4% of its inflation exposure.

The table below shows the Co-op Section's asset allocation as at 30 September 2018.

Asset allocation as at 30 September 2018

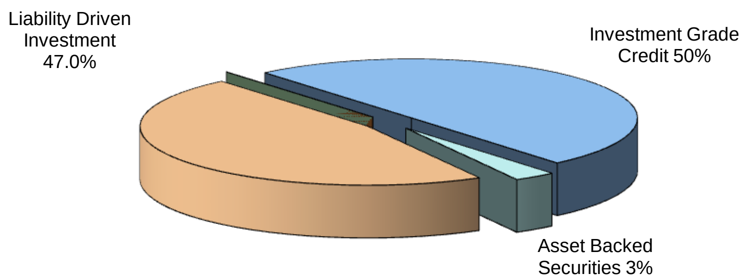
Property	Alternatives	Asset backed securities	Illiquid Credit	Alternative inflation-linked property	Liability driven investment (LDI) and cash	Investment grade credit
LaSalle 0.8%	Mercer Alternatives 1.4%	24AM 3.4%	Insight 3.9%	PGIM 2.2%	BlackRock 46.2%	LGIM 11.9%
			ICG 3.6%			Insight 11.8%
			M&G 3.0%			RLAM 11.8%
0.8%	**1.4%**	**3.4%**	**10.5%**	**2.20%**	**46.2%**	**35.5%**

Source: Mercer Limited

Bank Section

The target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below.

Target benchmark asset allocation as at 30 September 2018



The Section will continue to have small legacy alternative holdings not listed in the above chart over the short to medium term which are in the process of being redeemed. The redemption process may take several years and so the above should be seen as an indicative longer term target that the Trustee is working towards.

The agreed target exposure for interest rate and inflation hedging for the "liability driven assets" is 95% of the Section's liabilities; at 30 September 2018 these assets covered 88.6% of the Section's interest rate exposure and 87.4% of its inflation exposure.

The table below shows the Bank Section's asset allocation as at 30 September 2018.

Asset allocation as at 30 September 2018

Alternatives	Asset backed securities	Liability driven investment (LDI) and cash	Investment grade credit
Mercer Alternatives 1.4%	24AM 3.5%	BlackRock 59.2%	LGIM 12.1%
			Insight 11.8%
			RLAM 12.0%
1.4%	**3.5%**	**59.2%**	**35.9%**

Source: Mercer Limited

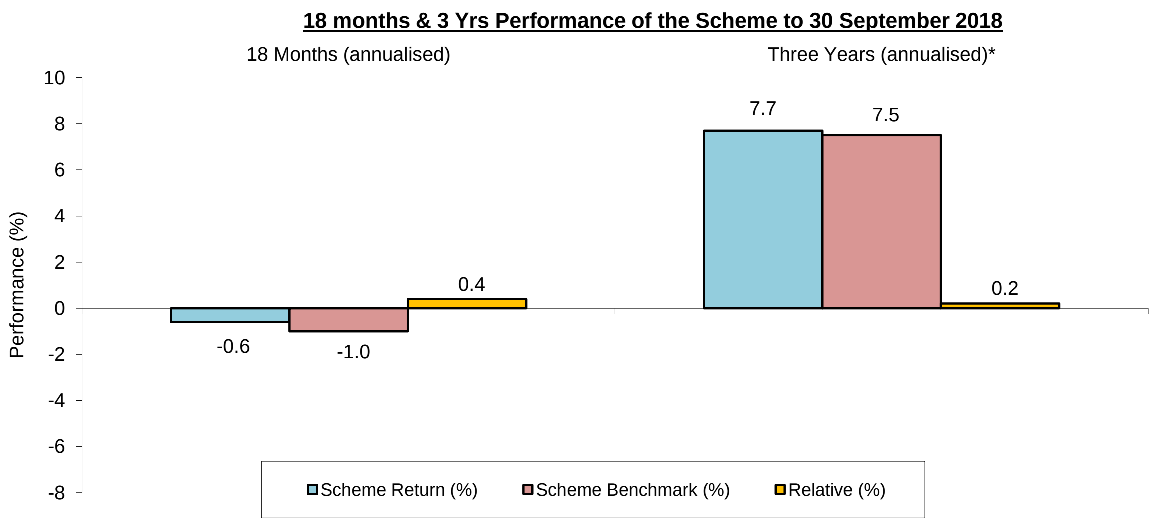
Investment performance

Investment performance is measured on a quarterly basis; all performance data is shown to 30 September 2018. While the Scheme was formally sectionalised with effect from 6 August 2018, the investment strategies for the two sections ran independently from 30 June 2018, and so the charts below show investment performance for the whole Scheme for the period for the 18 months to 30 September 2018, and also for the separate Co-op and Bank sections for the 3 month period from 30 June 2018 to 30 September 2018.

Performance for the Combined Scheme

On an absolute basis, the fund value of Pace's Defined Benefit assets fell from £11.3bn at 5 April 2017 to £9.9bn at 5 October 2018. The total return on the Scheme's assets for the 18 months to 30 September 2018 was -0.6% p.a. compared with the overall total fund monitoring benchmark of -1.0% p.a, and the fall in assets also reflects the payment of benefits and a significant volume of individual transfers.

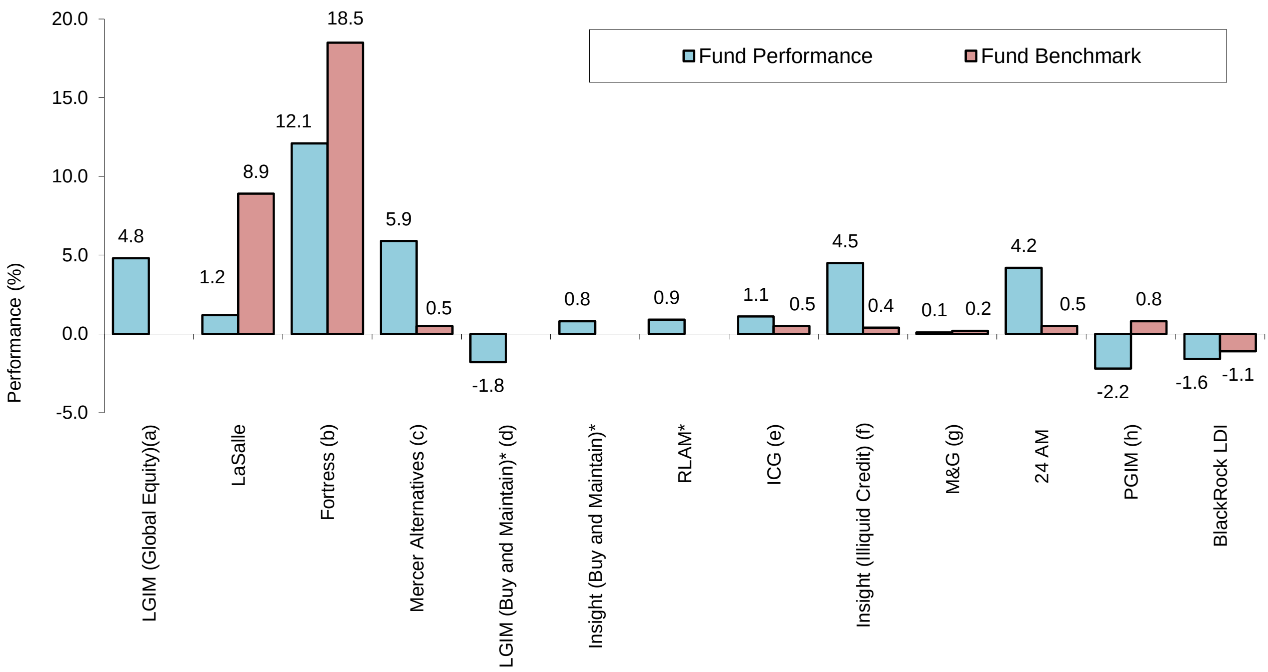
The overall gross of fees performance of Scheme assets, over the 18 months and three years to 30 September 2018, is shown below:



Source: Mercer Limited

We measure performance against an overall benchmark which is recommended by the DB investment adviser, and consists of two main elements: firstly, the performance of the 'return-seeking' assets (equity, property, and alternative growth assets) is measured against a composite of separate investment indices that apply to individual asset classes; and secondly, a comparison of changes in the 'liability-matching' assets (fixed interest and index linked securities) to changes in the Scheme's liabilities.

Performance of the Scheme's Investment Mandates for the 18 Months Ended 30 September 2018

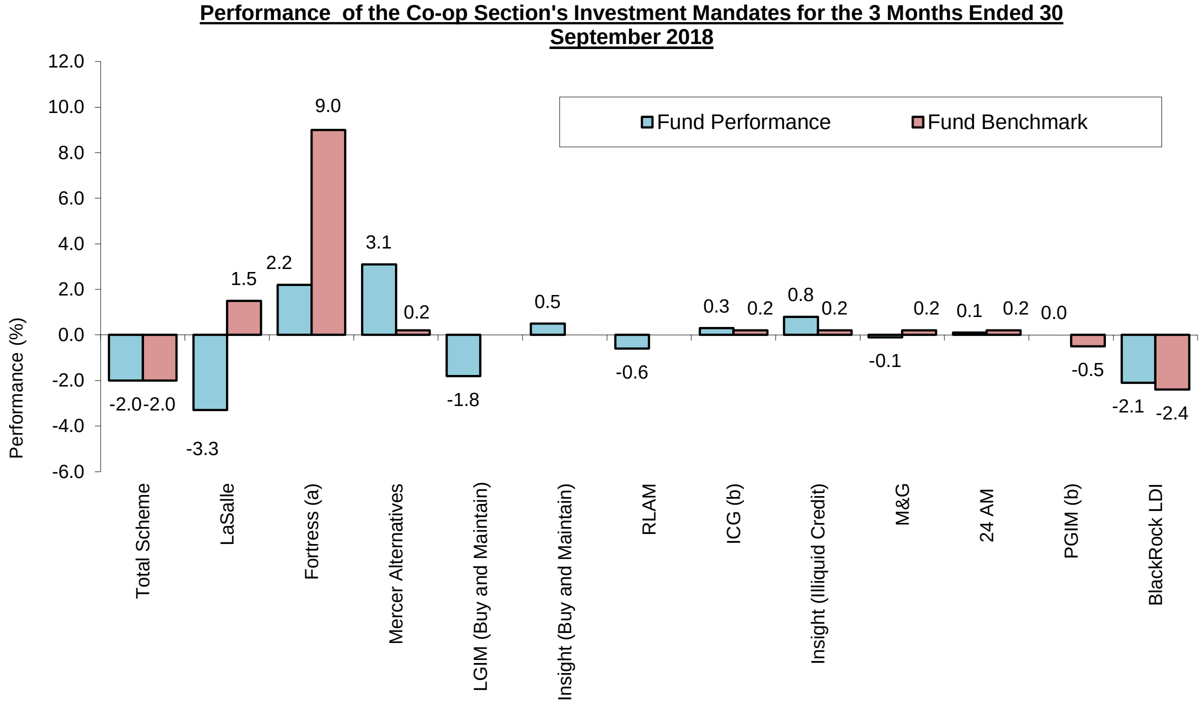


Source: Mercer Limited

*The Buy and Maintain credit mandates are not monitored against a performance benchmark.
(a) LGIM's portfolio did not have a formal benchmark, and the allocation was used to manage the Scheme's overall expected return around a target. As a result, a benchmark return cannot be calculated for the period in question. The passive Global Equity mandate was terminated on 7 September 2017.
(b) The mandate of Fortress was terminated in January 2015. Some of the assets held in the mandate take time to disinvest and as a result a small holding of less than 0.1% of Pace assets remains invested in the Fortress fund. Full redemption is expected to take a number of years.
(c) Redemption of the funds held in the Mercer (Alternative investments) portfolio commenced in January 2016. Some of the assets held in the mandate take time to disinvest and full redemption is expected to take a number of years.
(d) The performance inception for the LGIM Buy and Maintain fund is 31 December 2017.
(e) The performance inception of the ICG mandate is 11 August 2017.
(f) The performance inception of the Insight Illiquid Credit mandate is 24 April 2017.
(g) The performance inception of the M&G illiquid credit mandate is 15 May 2018.
(h) The performance inception of the PGIM mandate is 30 June 2017

Performance for the Co-op Section of the Scheme

The overall performance of the Co-op Section of the Scheme assets and the performance of the underlying mandates over the three months to 30 September 2018, is shown below on a gross of fees basis:

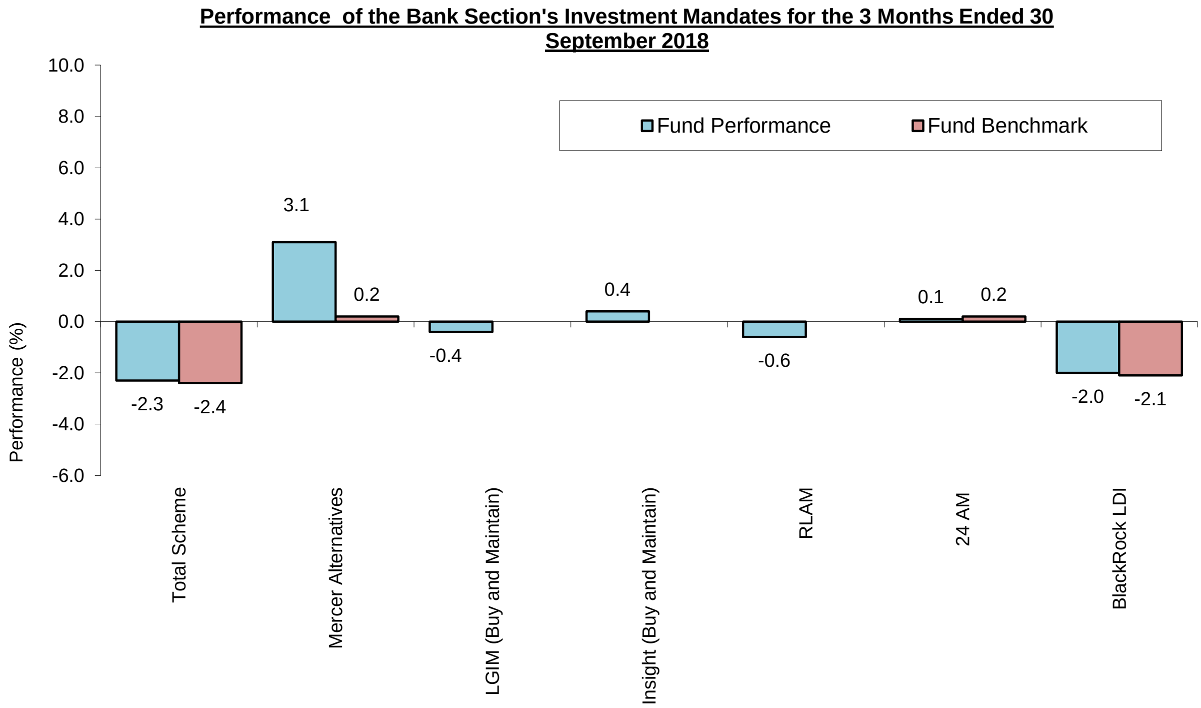


Source: Investment Managers and Mercer Limited

(a) Performance shown is that of USD in sterling terms
(b) Figures shown are calculated by Mercer over each period, and are based on manager data
Benchmark allocation taken as actual allocation for performance measurement purposes.

Performance for the Bank Section of the Scheme

The overall performance of the Bank Section of the Scheme assets and the performance of the underlying mandates over the three months to 30 September 2018, is shown below on a gross of fees basis:



Source: Investment Managers and Mercer Limited
Benchmark allocation taken as actual allocation for performance measurement purposes.

Custodial arrangements

Segregated Assets

Bank of New York Mellon is the appointed custodian for the Defined Benefit assets for both the Co-op and Bank Sections' segregated assets.

Bank of New York Mellon's services provided during the period included custody of assets, performance measurement, investment accounting, stock lending, money market service, compliance monitoring and class action services.

Pooled Assets

The Scheme's investments in pooled vehicles give the Trustee the right to the cash value of units rather than to the underlying assets of the funds. The respective managers of the pooled arrangements are responsible for appointing and monitoring custodians for the underlying assets.

Property

DLA Piper UK LLP and Osborne Clark LLP hold the title deeds in respect of the Scheme's property assets managed by LaSalle and PGIM.

Pace DC Investment Report

Contributions made for members of the DC section of the Scheme are invested with Legal & General Assurance Society Ltd, '(Legal & General)'.

Total contributions of £136,006,400 were paid to the Scheme during the 18 month period. An analysis of this amount is shown in note 3 to the financial statements.

The default lifestyle strategy invests in the Pace Growth (Mixed) Fund, switching into Cash Funds, starting 10 years from the member's selected retirement age. This strategy has been designed to suit members who wish to take their pension benefit as a cash lump sum.

Two other lifestyle funds have been made available to members who wish to take their benefits as either a pension or to draw down pension savings over time.

For members who prefer to make their own choice of investment fund, we have selected a range of funds members can choose from, based on advice from our DC investment advisor. The funds and their aims are:

Pace Growth (Shares) Fund

The fund aims to capture the total returns of the UK and overseas equity markets while maintaining a fixed 30:70 weighting between the UK and the overseas assets.

Pace Growth (Ethical Shares) Fund

The fund aims to track the total returns of the FTSE4Good Global Equity Index.

Pace Growth (Mixed) Fund

The fund aims to provide long-term investment growth through exposure to a diversified range of asset classes. The diversified nature of the fund means that it is expected to have less exposure than an equity-only fund to adverse equity market conditions. However, the fund may perform less strongly than an equity-only fund in benign or positive equity market conditions.

Pace Pre-retirement (Inflation-linked) Fund

The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical inflation-linked annuity. The fund, however, does not provide full protection against changes in inflation-linked annuity rates for individual members due to a number of factors (for example, its assets are not sensitive to changes to mortality assumptions). The asset allocation is reviewed periodically by Legal & General.

Pace Pre-retirement Fund

The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical traditional level annuity product. The fund invests in Legal & General index-tracking bond funds. The fund, however, does not provide full protection against changes in annuity rates for individual members, since these also depend upon a number of other factors (e.g. changes to mortality assumptions). The asset allocation is reviewed quarterly by Legal & General.

Pace Cash Fund

The fund aims to provide capital protection, with growth at short term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills. The fund does not invest in any assets where the nominal capital value can fall, such as fixed interest securities. The value of the fund's assets would only fall if a deposit holder or the UK Government were unable to meet their obligations or if the interest earned by the fund's assets is insufficient to cover the fund management charge and any additional fund expenses.

The first contributions were invested with Legal & General in November 2012. As at 5 October 2018, the value of the funds totaled £318,386,355 as set out below.

The Legal & General pooled funds are provided through a unit policy and the value of the units fluctuate directly in relation to the value of the underlying assets. All the units are redeemable on any working day at prices that reflect market valuations and net cash flow on that day.

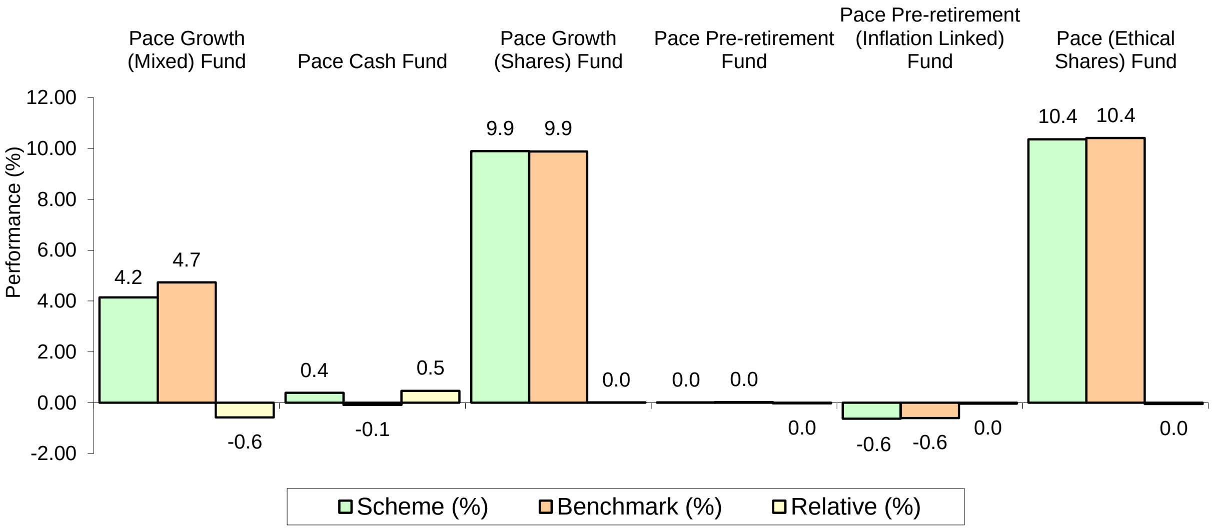
The total value of the units held in the DC section at the end of the reporting period were:

	5 October 2018			5 April 2017
Investment Funds	**Coop Section £000**	**Bank Section £000**	**Total £000**	**Total £000**
Pace Growth (Mixed) Fund	244,832	51,122	295,954	223,217
Pace Cash Fund	16,744	2,026	18,770	10,565
Pace Growth (Shares) Fund	1,364	823	2,187	1,051
Pace Growth (Ethical Shares) Fund	913	174	1,087	392
Pace Pre-retirement Fund	318	8	325	739
Pace Pre-retirement (Inflation-Linked) Fund	62	1	63	36
Total	**264,233**	**54,153**	**318,386**	**236,000**

Performance

The investment performance of the DC section funds is shown below.

Performance of the DC Section Funds after fees for the 18 months period to 30 September 2018 (annualied)



Source: Legal & General
Totals may be impacted by rounding

Responsible Investment and Corporate Governance

Pace has a Responsible Investment Policy, and the Responsible Investment Policy and Practice Statement can be found at https://www.pacepensions.co.uk /. This document details the policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, assessing Pace's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

In accordance with its fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Pace members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response. In addition, the Trustee reserves the right to use more direct engagement with investee companies, including those issuing debt. In such situations this may include working with investment managers and other institutions to engage with companies, or contacting companies directly.

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so, and to report to the Investment Committee.

We also comply with the Financial Reporting Council UK Stewardship Code, as we believe its principles to be in the interest of society at large, as well as in the Scheme's long term financial interest. Our statement on compliance with the UK Stewardship Code can be found at https://www.pacepensions.co.uk/.

Independent Auditor's Report to the Trustee of The Co-operative Pension Scheme (Pace)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Co-operative Pension Scheme (Pace) (the "Scheme"):

- show a true and fair view of the financial transactions of the scheme during the period ended 5 October 2018 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 20.

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).

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 Financial Reporting Council's (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.

Independent Auditor's Report to the Trustee of The Co-operative Pension Scheme (Pace) (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Trustee's use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

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 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 respect of these matters.

Responsibilities of Trustee

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

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

Independent Auditor's Report to the Trustee of The Co-operative Pension Scheme (Pace) (continued)

Auditor's responsibilities for the audit of the financial statements

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

Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

Date:

Fund Account

for the 18 month period ended 5 October 2018

In plain English – what does this show?

Our Fund Account shows all contributions, investment income and asset return received by the Scheme, minus the benefits and expenses paid out during the period. The result is the Scheme's net asset position at the end of the reporting period.

Contributions and Benefits	Note	**DBS 18 month period ending 5 Oct 18** £'000	**DCS 18 month period ending 5 Oct 18** £'000	**Total 18-month period ending 5 Oct 18** £'000	**Total Year ending 5 Apr 17** £'000
Employer Contributions		31,450	127,637	159,087	102,418
Employee Contributions		-	8,369	8,369	5,326
Total Contributions	**3**	**31,450**	**136,006**	**167,456**	**107,744**
Transfers in	4	-	1,820	1,820	281
Other income	5	-	3,564	3,564	1,849
		31,450	**141,390**	**172,840**	**109,874**
Benefits paid or payable	6	(355,338)	(8,613)	(363,951)	(241,522)
Payment to and on account of leavers	7	(599,795)	(65,678)	(665,473)	(211,382)
Administrative expenses	8	(8,778)	(3,179)	(11,957)	(7,671)
Pension Protection Fund levy	9	(617)	(103)	(720)	(358)
		(964,528)	**(77,573)**	**(1,042,101)**	**(460,933)**
Net (withdrawals)/additions from dealing with members		**(933,078)**	**63,817**	**(869,261)**	**(351,059)**
Returns on investment					
Investment income	10	448,603	-	448,603	277,391
Change in market value of investments	11	(816,343)	24,906	(791,437)	1,747,811
Investment management expenses	12	(20,237)	-	(20,237)	(14,632)
Net returns on investments		**(387,977)**	**84,906**	**(363,071)**	**2,010,570**
Net (decrease)/increase in the Scheme during the period		(1,321,055)	88,723	(1,232,332)	1,659,511
Net assets of the Scheme as at 6 April		**11,305,797**	**237,191**	**11,542,988**	**9,883,477**
Transfers between sections		70	(70)	-	-
Net assets of the Scheme as at 5 October 2018/5 April 2017		**9,984,812**	**325,844**	**10,310,656**	**11,542,988**

The notes on pages 48 to 80 form part of these financial statements.

Statement of Net Assets

(available for benefits) as at 5 October 2018

In plain English – what does this show?	The Statement of Net Assets below provides a snapshot of the financial position of the Scheme as at 5 October. It sums up the Scheme's assets and liabilities at this date. It does not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme period; this is dealt with in the Report on Actuarial Liabilities.

	Note	**DBS 5 Oct 18** £'000	**DCS 5 Oct 18** £'000	**Total 5 Oct 18** £'000	**Total 5 Apr 17** £'000
Investment assets	11-15				
Bonds		8,883,188	-	8,883,188	9,908,640
Equities		-	-	-	6
Pooled investment vehicles		1,181,372	318,386	1,499,758	3,042,218
Derivatives		1,749,800	-	1,749,800	1,815,119
Properties		59,400	-	59,400	214,700
Alternative inflation linked		180,400	-	180,400	1,850
AVC investments		42,025	-	42,025	49,410
Insurance policies		115	-	115	116
Cash deposits		3,089	-	3,089	67,797
Sales awaiting settlement		4,197	-	4,197	7
Dividend entitlement		62,901	-	62,901	46,450
Recoverable withholding tax		862	-	862	1,428
Investment liabilities					
Derivatives		(1,458,408)	-	(1,458,408)	(1,439,584)
Repurchase agreements		(749,392)	-	(749,392)	(2,145,916)
Purchases awaiting settlement		(3,000)	-	(3,000)	(37,316)
Total net investments		9,956,549	318,386	10,274,935	11,524,925
Current assets	16	47,108	9,030	56,138	39,478
Current liabilities	17	(18,845)	(1,572)	(20,417)	(21,415)
Net assets of the Scheme		**9,984,812**	**325,844**	**10,310,656**	**11,542,988**

The notes on pages 48 to 80 form part of these financial statements.

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 period. The Actuary deals with the actuarial position of the Scheme, which does take account of such obligations, which is dealt with in the Report on Scheme Liabilities on pages 18 to 19 of the annual report and these financial statements should be read in conjunction with them.

The Trustee Directors approved these financial statements on

Signed for and on behalf of the Trustee Directors:

Anne Kershaw	Sarah Horan
Trustee Director	Secretary

Notes to the Financial Statements

In plain English – what does this show?	This section outlines the general accounting policies of the Scheme that relate to the financial statements as a whole.

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 – 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 (Revised November 2014).

2 Accounting policies

The principal accounting policies of the Scheme are as follows:

Contributions and benefits

Employee normal and additional contributions are accounted for when deducted from pay and in the period to which the corresponding pay relates. Employer normal contributions are accounted for on the same basis as employee contributions. Deficit funding and employer expense allowance contributions are accounted for in the period they are due.

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

Transfers

Transfers in or out (including the bulk transfer of sums from other Co-op schemes) represent the capital sums either received in respect of members from other pension schemes or paid to other pension schemes for members who have left the Scheme. Transfer values are accounted for when the liability is accepted, or discharged.

Expenses

Expenses are accounted for on an accruals basis.

Investment income

Dividends from quoted securities are accounted for when due, with the addition of dividends outstanding as at 5 October 2018 on listed stocks which were then ex-dividend. Interest on deposits is accounted for on an accruals basis and accrued daily. Rents are earned in accordance with the terms of the lease and accounted for on an accruals basis.

Investment income is reported net of attributable tax credits but gross of withholding taxes, which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

Investment income arising from the underlying assets within pooled investment vehicles is reinvested in those vehicles and is reflected in the unit price. This income is reported within 'change in market value'.

Foreign currencies

Translation of foreign income into sterling is at the exchange rate on the date of receipt. For the investments held in foreign currency, the translation into sterling is at the exchange rate as at period-end.

Where forward sales of foreign currency have been made as a hedge against exposure on foreign currency investments, any unrealised profit or loss at the period-end, measured by the difference between the spot and the contract rate, is included in the changes in market value of investments, together with realised gains and losses on forward contracts maturing during the period.

Basis of accounting for property investments

PGIM Limited and LaSalle Investment Management manage the Scheme's property portfolio.

Indirect

The Scheme holds investments in geared property vehicles with LaSalle Investment Management through joint arrangements which are accounted for by including the Scheme's share of the assets, liabilities and revenue, based on the latest information made up to dates not earlier than 30 September 2018.

Direct

The financial statements show all of the Scheme's assets and liabilities in respect of the property portfolio (bank account, debtors and creditors in connection with rental of the properties, and rental income) on an accruals basis.

This basis is in line with the other investments, providing clarity on all transactions relating to the Scheme's investment in property and reflects the substance of the arrangement.

Valuation of investments

Investments are included in the statement of net assets at market value. UK and foreign listed securities are valued at the bid-market value or latest traded price at the period-end. Pooled investment vehicles and unit trusts are stated at the bid price for funds with bid/offer spreads, single price, or dealing price where there are no bid/offer spreads, as provided by the investment manager at the period-end.

Bonds are stated at their clean (i.e. excluding accrued income) prices. Accrued income is accounted for within investment income.

Property held with LaSalle is valued at open market value by Chartered Surveyors, Savills in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. Alternative inflation linked property held with PGIM is valued at open market value by CBRE Ltd in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.

Derivatives are stated at market value.

Exchange traded derivatives are stated at market values determined using market quoted prices.

For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Swaps are revalued on a daily basis. The fair value is calculated using pricing models, where inputs are based on market data as of close of business the previous day. Interest is accrued on a basis consistent with the terms of each contract. The amounts included in 'change in market value' are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts. Net receipts or payments on swap contracts are reported within change in market value.

Realised and unrealised gains and losses arising on derivative contracts are disclosed within change in market value and are taken directly to the fund account.

Repurchase agreements are valued on an amortised cost basis and are accounted for as follows:

> Repurchase agreements (repo) - the Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount. These agreements are valued on an amortised cost basis.

The fair value of annuities purchased by the Trustee, which fully provide the benefits for certain members, are estimated to be immaterial by the Trustee. The asset has therefore been excluded from these financial statements. The cost of purchasing these annuities is reported within the Fund Account under 'Benefits paid or payable'.

AVC investments are included at market value, as provided by the AVC provider.

Insurance policies are non-profit deferred annuity contracts valued by the provider (Aviva PLC) using the gross premium method.

3 Contributions

In plain English – what does this show?	This note shows what contributions have been received by the Scheme from the Co-op and participating employers during the period.

	DBS 18 month period ending 5 Oct 18 £000	DCS 18 month period ending 5 Oct 18 £000	Total 18 month period ending 5 Oct 18 £000
Employer			
normal	-	125,252	125,252
deficit funding	31,450	-	31,450
expense allowance	-	2,385	2,385
	31,450	**127,637**	**159,087**
Employee			
normal	-	5,355	5,355
additional voluntary contributions	-	3,014	3,014
	-	**8,369**	**8,369**
	31,450	**136,006**	**167,456**

	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000
Employer			
normal	-	72,688	72,688
deficit funding	27,780	-	27,780
expense allowance	-	1,950	1,950
	27,780	**74,638**	**102,418**
Employee			
normal	-	2,506	2,506
additional voluntary contributions	-	2,820	2,820
	-	**5,326**	**5,326**
	27,780	**79,964**	**107,744**

Further details on the Schedule of contributions agreed for the 18 month period before and after legal separation can be found on pages 14 to 17.

4 Transfers in

In plain English – what does this show?	This note shows the value of transfers in which have been transferred into the Scheme during the period. This includes bulk transfers from other Schemes.

	DBS 18 month period ending 5 Oct 18 £000	DCS 18 month period ending 5 Oct 18 £000	Total 18 month period ending 5 Oct 18 £000
Individual transfers in	-	1,820	1,820

	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000
Bulk transfers in	136	-	136
Individual transfers in	-	145	145
	136	**145**	**281**

In the prior year the remaining £0.1m of assets and liabilities of the Leeds Fund was transferred into the Pace DB section.

5 Other income

In plain English – what does this show?	This note shows income received from Zurich Assurance Limited, the life insurance provider for the Scheme.

	DBS 18 month period ending 5 Oct 18 £000	DCS 18 month period ending 5 Oct 18 £000	Total 18 month period ending 5 Oct 18 £000
Life assurance claims	-	3,564	3,564

	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000
Life assurance claims	985	864	1,849

6 Benefits paid or payable

In plain English – what does this show?	This note shows the types and values of benefits been paid out to members of the Scheme during the period.

	DBS 18 month period ending 5 Oct 18 £000	**DCS 18 month period ending 5 Oct 18** £000	**Total 18 month period ending 5 Oct 18** £000
Pensions	304,610	-	304,610
Commutations and lump sum retirement benefits	48,697	4,180	52,877
Purchases of annuities	-	380	380
Lump sum death benefits	1,991	3,999	5,990
Tax charges	40	-	40
Flexible Access Drawdown	-	54	54
	355,338	**8,613**	**363,951**

	Year ending 5 Apr 17 £000	**Year ending 5 Apr 17** £000	**Year ending 5 Apr 17** £000
Pensions	203,209	-	203,209
Commutations and lump sum retirement benefits	33,719	1,341	35,060
Purchases of annuities	49	97	146
Lump sum death benefits	2,315	792	3,107
	239,292	**2,230**	**241,522**

7 Payment to and on account of leavers

In plain English – what does this show?	This note shows how much has been paid out to members and other pension schemes for members who have left the Scheme during the period.

	DBS 18 month period ending 5 Oct 18 £000	**DCS 18 month period ending 5 Oct 18** £000	**Total 18 month period ending 5 Oct 18** £000
Refunds to members leaving service	15	894	909
Individual transfers to other schemes	599,780	64,784	664,564
	599,795	**65,678**	**665,473**

7 Payment to and on account of leavers (continued)

	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000
Refunds to members leaving service	7	2,064	2,071
Individual transfers to other schemes	205,777	3,534	209,311
	205,784	**5,598**	**211,382**

8 Administrative expenses

In plain English – what does this show?

This note shows the different types of expenses the Scheme has incurred during the period. It splits expenses into key categories, such as actuarial and administration fees.

	DBS 18 month period ending 5 Oct 18 £000	DCS 18 month period ending 5 Oct 18 £000	Total 18 month period ending 5 Oct 18 £000
Administration	6,102	653	6,755
Actuarial	1,326	-	1,326
Audit	124	-	124
Legal and other	1,226	285	1,511
Life assurance premiums	-	2,241	2,241
	8,778	**3,179**	**11,957**

	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000
Administration	3,222	535	3,757
Actuarial	923	-	923
Audit	82	-	82
Legal and other	932	258	1,190
Life assurance premiums	-	2,274	2,274
Life assurance premiums refund*	(555)	-	(555)
	4,604	**3,067**	**7,671**

*During the prior year a refund of £555k was received from Zurich Assurance Limited for premiums paid in advance following the closure of the DB section.

9 Pensions Protection Fund levy

In plain English – what does this show?	This note shows the total amount of levies paid to the Pensions Regulator during the period.

	DBS 18 month period ending 5 Oct 18 £000	DCS 18 month period ending 5 Oct 18 £000	Total 18 month period ending 5 Oct 18 £000
Pension Protection Fund levy	617	103	720

	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000	Year ending 5 Apr 17 £000
Pension Protection Fund levy	358	-	358

The Pensions Act 2004 introduced the Pension Protection Fund levy and the Scheme, in common with other pension schemes, is required to contribute.

10 Investment Income

In plain English – what does this show?	The Scheme receives income and interest from its assets; this note shows the different types of income and interest received during the period.

DBS	Total 18 month period ending 5 Oct 18 £000	Total Year ending 5 Apr 17 £000
Income from bonds	413,639	215,300
Dividends from equities	169	17,613
Income from pooled investment vehicles	3,605	(2,338)
Rents from properties	19,675	12,376
Interest on cash deposits	2,923	751
Foreign exchange gain	3,123	29,733
Income from securities lending	-	136
Irrecoverable withholding tax	(227)	(876)
Annuity income	4,845	3,596
Other	1,020	1,100
	448,603	**277,391**

Investment income shown above reflects income earned by investments within the DBS. All income received on pooled investment vehicles (excluding property) is re-invested and is included in the change in market value. All income earned on pooled investment units held by DCS is accounted for within the value of those funds.

In 2015 we received distributions to the sum of £4.2m in relation to the LaSalle Garden Centre Fund. In the prior year we were informed this was capital distributions and therefore an adjustment was made in 2017 to remove this from income from pooled investment vehicles.

11 Reconciliation of investments

In plain English – what does this show?	This note provides a reconciliation of the sales, purchases and change in market value during the period between the opening and closing value of investments and analysed by asset class as disclosed on the face of the Statement of Net Assets.

		6 April 2017	Transfer of assets**	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	5 October 2018
DB Assets	Note	£000	£000	£000	£000	£000	£000
Bonds		9,908,640	428,598	9,278,260	(9,876,533)	(855,777)	8,883,188
Equities		6	-	4	(10)	-	-
Pooled investment vehicles*	11.1	2,806,218	(434,991)	8,100,720	(9,356,112)	65,537	1,181,372
Net derivative contracts	11.2						
-Swaps		381,263	-	87,793	(157,185)	(32,377)	279,494
-Futures		8,145	6,393	21,608	(81,902)	45,824	68
-Foreign exchange		(13,873)	-	204,765	(161,317)	(17,745)	11,830
Properties		214,700	-	1,453	(151,472)	(5,281)	59,400
Alternative inflation linked		1,850	-	251,387	(64,232)	(8,605)	180,400
AVC investments	11.3	49,410	-	2,897	(15,298)	5,016	42,025
Insurance policies	11.4	116	-	-	-	(1)	115
		13,356,475	**-**	**17,948,887**	**(19,864,061)**	**(803,409)**	**10,637,892**
Repurchase agreements		(2,145,916)				(12,934)	(749,392)
Cash deposits*		67,797					3,089
Dividend entitlement		46,450					62,901
Sales awaiting settlement		7					4,197
Recoverable withholding tax		1,428					862
Purchases awaiting settlement		(32,465)					(3,000)
TOTAL DB ASSETS		**11,293,776**				**(816,343)**	**9,956,549**

DC Assets	Note	£000	£000	£000	£000	£000	£000
Pooled investment vehicles	11.1	236,000	-	125,535	(68,055)	24,906	318,386
Purchases awaiting settlement		(4,851)					-
TOTAL DC ASSETS		**231,149**	**-**	**125,535**	**(68,055)**	**24,906**	**318,386**

*Cash funds have been reclassified as pooled investment vehicles, in the prior year they were disclosed as cash deposits.

**Over the period, the Scheme continued to increase its holdings in corporate bonds and alternative 'bond-like' assets as part of the implementation of the investment strategy.

The assets held by the Sections as at 5 October 2018 is set out below.

	DBS Total £000	**DCS Total** £000
Co-op Section	8,141,841	264,233
Co-operative Bank Section	1,814,708	54,153
	9,956,549	**318,386**

The change in market value of investments during the period comprises all increases and decreases in the market value of investments held at any time during the period, including profits and losses realised on sales of investments.

Transaction costs

Included within the DBS purchases and sales figures are direct transaction costs of £15.2m (5 Apr 2017: £2.1m) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	Fees £000	**Commission** £000	**Stamp Duty** £000	**Total 2018** £000	**Total 2017** £000
Property	6,514	-	8,589	15,103	560
Derivatives	-	154	-	154	166
Cash instruments	-	(6)	-	(6)	-
Equities	-	-	-	-	1,336
Pooled investment vehicles	-	-	-	-	6
5 October 2018	6,514	148	8,589	15,251	2,068
5 April 2017	579	997	492	-	2,068

Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

For the Defined Contribution section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. Legal and General holds the investment units on a pooled basis for the Trustee. Legal and General allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

Defined contribution assets are allocated to members and the Trustee as follows:

	Total 5 Oct 18 £000	Total 5 Apr 17 £000
Members	325,587	236,011
Trustee	257	1,180
	325,844	**237,191**

11.1 Pooled investment vehicles

DBS	**Total 5 Oct 18** £000	**Total 5 Apr 17** £000
Illiquid credit funds	864,065	-
Alternative funds	131,455	514,410
Cash funds*	185,060	1,390,430
Property	722	24,424
Hedge funds	70	7,629
Bonds	-	458,672
Equity	-	410,653
	1,181,372	**2,806,218**

*Cash funds have been reclassified as pooled investment vehicles, in the prior year they were disclosed as cash deposits.

DCS	**Total 5 Oct 18** £000	**Total 5 Apr 17** £000
Diversified Growth	295,954	223,217
Cash	18,770	10,565
Equity	3,274	1,443
Bonds	387	775
	318,386	**236,000**

Sole investor pooled arrangements

The Co-op Section is the sole investor in the Insight Illiquid Credit Fund. A summary of the pooled arrangement's assets and liabilities at the 5 October 2018 are set out below:

DBS	**Total 5 Oct 18** £000	**Total 5 Apr 17** £000
Fixed income	300,320	-
Liquidity	18,235	-
	318,555	**-**

Derivative contracts - Objectives and policies

We have authorised the use of derivatives by investment managers to manage risk within the investment strategy.

The main objectives for the use of key classes of derivatives and the policies followed during the period are summarised as follows:

Swaps – Our aim is to match, as far as possible, the liability matching portfolio and the Scheme's long-term liabilities, in particular in relation to sensitivity to interest rate and inflation movements. For capital efficiency, we have entered into derivative agreements (interest rate and inflation-linked swap contracts and gilt total return swaps) that enable the liability matching portfolio to better match the long-term liabilities of the Scheme. Total return swaps allow exposure to index-linked and conventional gilts to match the long-term liabilities of the Scheme in a capital efficient manner.

Futures – Futures are used to manage interest rate risk and gain synthetic bond exposure. Bond future contracts are efficient instruments to allow the manager to position the portfolio for overall movements in yields and changes in shape to the yield curve.

Forward foreign exchange – In order to maintain appropriate diversification of investments within the portfolio, and take advantage of overseas investment returns, a proportion of the investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, we operate a policy of hedging a portion of non-sterling currency exposure in the fixed income portfolio to reduce the currency exposure of the overseas investments to the targeted level.

At the period-end the scheme had the following derivatives:

11.2 Derivatives

DBS		Assets 5 Oct 18 £000	Liabilities 5 Oct 18 £000	Assets 5 Apr 17 £000	Liabilities 5 Apr 17 £000
OTC swaps	(i)	1,737,636	(1,458,142)	1,799,715	(1,418,452)
Futures	(ii)	68	-	13,540	(5,395)
Forward FX contracts	(iii)	12,096	(266)	1,864	(15,737)
		1,749,800	**1,458,408**	**1,815,119**	**(1,439,584)**

i. Swaps

Nature Duration	**Nominal Amount £000**	**Asset value at period-end £000**	**Liability value at period-end £000**
Inflation rate			
2018-2020	506,044	155	(4,830)
2021-2030	1,413,803	8,077	(54,294)
2031-2040	318,058	14,502	(51,263)
2041-2050	83,201	53,458	(48,612)
2051-2063	70,370	52,333	(51,993)
		128,525	**(210,992)**
Interest rate			
2018-2020	338,563	31,084	(51,355)
2021-2030	1,311,314	145,406	(137,460)
2031-2040	552,729	583,197	(230,902)
2041-2050	692,307	531,431	(617,011)
2051-2063	43,990	317,993	(142,151)
		1,609,111	**(1,178,879)**
Total return			
2018-2020	1,853,709	-	(64,328)
2021-2030	117,175	-	(278)
2051-2063	36,272	-	(3,665)
		-	**(68,271)**
Total 2018		**1,737,636**	**(1,458,142)**
Total 2017		1,799,715	(1,418,452)

In relation to the swap contracts above, the fund and counterparties have deposited a total of £189m and £525m (5 Apr 2017: £231m and £758m) of bonds and cash as collateral at the period-end respectively. This collateral is not reported within the Scheme's net assets.

ii. Futures

Nature	Notional Amount long/(short) position	Expiration	Asset value at period-end £000	Liability value at period-end £000
US Ultra Bond (CBT)	(10)	< 1 year	68	-
Total 5 October 2018			**68**	**-**
Total 5 April 2017			13,540	(5,395)

Included within cash balances is £35k (5 Apr 2017: £55,559k) in respect of initial and variation margins arising on open futures contracts at the period-end.

iii. Forward Foreign Exchange (FX)

The Scheme had open FX contracts at the period-end as follows:

Nature	Settlement date	Currency bought	Currency	Currency sold	Currency	Asset value at period-end £000	Liability value at period-end £000
Forward FX	<2months	757,086	GBP	(750,763)	USD	6,326	(3)
Forward FX	<2months	216,185	GBP	(210,888)	EUR	5,297	-
Forward FX	<2months	15,796	USD	(15,906)	GBP	43	(154)
Forward FX	<2months	10,607	EUR	(10,713)	GBP	-	(106)
Forward FX	>2months	3,241	USD	(3,225)	GBP	16	(1)
Forward FX	>2months	163,115	GBP	(162,703)	USD	414	(2)
Total 5 October 2018		**1,166,030**		**(1,154,198)**		**12,096**	**(266)**
Total 5 April 2017		1,115,716		(1,129,589)		1,864	(15,737)

11.3 AVC investments

DBS	**Total 5 Oct 2018** £000	**Total 5 Apr 17** £000
Royal London (CIS) Ltd	29,896	34,992
Legal & General	12,104	14,354
Prudential	20	54
Aviva	2	7
Equitable Life	3	3
	42,025	**49,410**

Contributions to Additional Voluntary Contribution investments made by both DBS and DCS members are invested separately from the main scheme on a money purchase basis with Legal & General. As Legal & General does not distinguish between investments held for DBS and DCS members all Legal & General AVCs are reported as DBS assets.

Royal London (CIS) Ltd provided AVCs for DBS members up to October 2015, when Pace DB closed. It is no longer possible for any further contributions to be made to Royal London since Pace DB closed.

Prudential, Legal & General, Aviva and Equitable Life also provide AVCs for members who have transferred into the Scheme from other Co-op pension schemes.

11.4 Insurance policies

DBS	Total 5 Oct 2018 £000	Total 5 Apr 17 £000
Aviva	115	116

These policies relate to deferred annuity contracts for former GT Smith Ltd employees.

Concentration of investments

At the 5 October 2018, no investments represented greater than 5% of the net assets of the DB Section.

12 Investment management expenses

In plain English – what does this show?	This note shows the investment management expenses incurred by the Scheme during the period.

DBS	18 month period ending 5 Oct 18 £000	Year ending 5 Apr 17 £000
Investment management fees	16,490	11,277
Custody fees	607	408
Performance measurement services	58	66
Property expenses	2,174	1,652
Other investment expenses	21	2
Other advisory fees	887	1,227
	20,237	**14,632**

Included within investment manager fees there is nil (5 April 2017: £2.1m) relating to performance fees.

13 Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge in the Revenue Account represents irrecoverable withholding taxes arising on investment income.

14 Fair value determination

In plain English – what does this show?	This note categorises the investment assets and liabilities held by the Scheme into specific levels which correspond to how its market value has been determined. Market values can be determined from a number of sources including taking pricing information from market data i.e. a stock exchange, or using a valuation model not widely available.

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

- **Level 1:** The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- **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 and liabilities have been fair valued using the above hierarchy categories as follows:

At 5 October 2018	Held at cost not FV £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section					
Bonds	-	-	8,396,932	486,256	8,883,188
Pooled investment vehicles	-	-	430,690	750,682	1,181,372
Swaps	-	-	279,494	-	279,494
Futures	-	68	-	-	68
Foreign exchange	-	-	11,830	-	11,830
Properties	-	-	-	59,400	59,400
Alternative inflation linked	-	-	-	180,400	180,400
AVC investments	-	-	42,005	20	42,025
Insurance policies	-	-	-	115	115
Repurchase agreements	(749,392)	-	-	-	(749,392)
Cash deposits	-	3,089	-	-	3,089
Dividend entitlement	-	62,901	-	-	62,901
Sales awaiting settlement	-	4,197	-	-	4,197
Recoverable tax	-	862	-	-	862
Purchases awaiting settlement	-	(3,000)	-	-	(3,000)
	(749,392)	**68,117**	**9,149,121**	**1,488,703**	**9,956,549**
DC Section					
Pooled investment vehicles	-	-	318,386	-	318,386
TOTAL	**(749,392)**	**68,116**	**9,467,507**	**1,488,703**	**10,274,935**

At 5 April 2017	Held at cost not FV £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section					
Bonds	-	-	9,383,079	525,561	9,908,640
Equities	-	6	-	-	6
Pooled investment vehicles*	-	-	2,259,755	546,463	2,806,218
Swaps	-	-	381,263	-	381,263
Futures	-	8,145	-	-	8,145
Foreign exchange	-	-	(13,873)	-	(13,873)
Properties	-	-	-	216,550	216,550
AVC investments	-	-	49,374	36	49,410
Insurance policies	-	-	-	116	116
Repurchase agreements	(2,145,916)	-	-	-	(2,145,916)
Cash deposits*	-	67,803	(6)	-	67,797
Dividend entitlement	-	46,450	-	-	46,450
Sales awaiting settlement	-	7	-	-	7
Recoverable tax	-	1,428	-	-	1,428
Purchases awaiting settlement	-	(32,465)	-	-	(32,465)
	(2,145,916)	**91,374**	**12,059,592**	**1,288,726**	**11,293,776**
DC Section					
Pooled investment vehicles	-	-	236,000	-	236,000
Purchases awaiting settlement	-	(4,851)	-	-	(4,851)
TOTAL	**(2,145,916)**	**86,523**	**12,295,592**	**1,288,726**	**11,524,925**

*Cash funds have been reclassified as pooled investment vehicles, in the prior year they were disclosed as cash deposits.

15 Investment risk disclosures

In plain English – what does this note show?	This note provides additional information to enable readers to evaluate the nature and extent of credit, market and other risks arising from certain investment assets which the Scheme is exposed to. Information about how the Scheme manages these risks is also provided.

FRS 102 requires that we, the Trustee, provide information in relation to certain investment risks. The risks are set out by FRS 102 are:

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, e.g. the risk that a borrower may not repay a loan or a debt to the Scheme.

Market Risk: this includes “currency risk”, “interest rate risk”, “inflation risk” and “other price risk”.

- **Currency risk**: this is the risk that the value of an investment changes because of changes in foreign exchange rates.

- **Interest rate risk**: this is the risk that the value of an investment increases or decreases because of changes in interest rates.

- **Inflation risk**: this is the risk that the value of an investment increases or decreases because of changes in inflation expectations.

- **Other price risk**: this is the risk that the value of an investment decreases or increases because of changes in market prices (apart from changes in value as a result of movements in interest rates, inflation or currencies).

15.1 Defined Benefit Section

Other Defined Benefit Risks:

Apart from the risks listed above, we make sure the following investment related risks are managed:

- **"Solvency risk and mismatching risk"**: The risk that the Scheme does not generate strong enough investment returns, and cannot meet benefits

- "**Manager risk**": The risk that individual investment managers underperform their objectives

- "**Liquidity risk**": The risk that the Scheme does not hold enough cash to meet short term requirements to pay benefits

- "**Corporate governance risk"**: The risk that the Scheme invests in poorly managed companies, and that the value of those investments falls as a result

- "**Custody risk":** The risk that the Scheme's assets are not held safely

- "**Sponsor risk**": The risk that the Scheme's sponsors cannot afford to pay money into the Scheme if needed

- "**Leverage risk**": The risk that the Scheme's liability matching investments fall in value, and additional cash is required

- **"Hedging related risks"**: The risk that investments made by the Scheme to "match" its liabilities are not a good fit and do not behave in the same way as those liabilities.

15.1.1 Defined Benefit Investment Strategy

We make investment decisions after taking advice from a professional investment adviser. The Scheme is subject to the risks above because of the investments it makes to implement its strategy, as described on page 32 of this report. We manage investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Scheme's investment objectives. These investment objectives and risk limits are applied through the legal agreements the Scheme has with its investment managers, and we regularly monitor that the managers are complying with these agreements.

A more detailed description of our approach to risk management and the Scheme's exposures to credit and market risks is set out below. This does not include annuity insurance policies or AVC investments, because these are relatively small compared to the overall investments of the Scheme.

15.1.2 Defined Benefit Investment Risk Management

The Trustee invests in four pooled investment vehicles where the Trustee has control over the investment mandates. The risks related with these pooled investment vehicles are considered as if the investments are held directly.

(i) Credit risk

The Scheme is subject to credit risk because:

- it invests in bonds issued by UK and overseas governments and companies (which could default on their debt to the Scheme);
- it enters into repurchase agreements and invests in derivatives; and
- it holds cash in bank accounts and with investment managers.

The Scheme also invests in pooled investment vehicles, such as open ended investment companies and unit linked insurance contracts, and is therefore directly exposed to credit risk in relation to these pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles and from the tenants of directly held properties.

Credit risk – UK government and investment grade bonds:

We look to limit the credit risk the Scheme is exposed to through its bond holdings by diversifying holdings across a number of investment managers. ensuring that the majority of the bonds held by BlackRock, Insight, Legal and General (LGIM), Royal London Asset Management (RLAM) and 24AM are either government bonds (where the risk of default is minimal), or corporate bonds which are rated at least investment grade (i.e. where they are higher quality). The risk is also reduced by requiring the appointed investment managers to invest in a range of bonds issued by different entities, which reduces the impact on the total portfolio if a bond issuer is unable to meet the payments due (see note 11).

The Scheme's investment managers are also allowed to invest in corporate bonds and similar investments which are not rated as investment grade. These investments are held at the investment managers' discretion and are subject to limits. BlackRock, Insight and 24AM are not permitted to purchase bonds which are sub-investment grade, however if a bond becomes becomes rated sub-investment grade, Insight are allowed to hold up to 10% of Net Asset Value (NAV) exposure in sub investment grade bonds and BlackRock can hold up to 2%. RLAM are allowed to invest in corporate bonds which are not rated as investment grade, at RLAM's discretion and subject to limits; if a bond is downgraded RLAM can continue to hold it, but at most 20% of the Scheme's investment with RLAM can be sub-investment grade.

At the period end a total of 0.4% of the Scheme's invested assets were rated sub-investment grade (0.4% and 0.4% of the Co-op and Bank Sections respectively). Note that this excludes the illiquid credit holdings which are set out separately below.

Credit risk – less liquid credit

As with the corporate bond allocations, the illiquid credit holdings, are held at the respective investment managers' discretion and are subject to the guidelines and restrictions set by each manager.

We hold some illiquid credit investments with Insight (3.2% of the total Scheme assets; 4.0% of total assets for the Co-op Section), where we are the sole investor and therefore have control over the investment mandate (see note 11). As part of the mandate, Insight are not permitted to hold more than 15% of sub-investment grade assets rated BB+ or below (and not more than 5% of B+ rated holdings or below). They also have restrictions on holding that no more than 20% of bonds in emerging market bonds.

Credit risk - derivatives:

Credit risk arising on derivative contracts, which are not guaranteed by any regulated exchange, are subject to risk of failure of the counterparty. The level of credit risk for derivative contracts is reduced by using collateral arrangements (see note 11.2 (i)). Credit risk can also arise on forward foreign currency contracts (see note 11.2 (iii)). There are no collateral arrangements for these contracts but, when used, all counterparties are required to be at least investment grade.

The Scheme's overseas bond holdings with LGIM, Insight and 24AM are exposed to credit risk on the currency hedging derivatives held by the manager (and, in the case of LGIM and Insight, interest rate derivatives), while the less liquid credit holdings with ICG, M&G and Insight are also exposed to credit risk on the currency hedging derivatives held by the managers. These risks are mitigated by the managers using a range of counterparties, undertaking on-going monitoring of counterparty creditworthiness and requiring all counterparties to maintain minimum credit ratings.

The Mercer alternatives fund is also exposed to credit risk in relation to currency hedging contracts that are used to hedge the bulk of its overseas currency exposure. This credit risk is mitigated by renewing and settling the cumulative profit or loss on these contracts at least once every two months and by Mercer undertaking on-going monitoring of counterparty creditworthiness and requiring the sole counterparty to maintain an investment grade credit rating.

Credit risk – cash:

Cash is currently held within financial institutions which are at least investment grade credit rated. We have appointed a banking services provider with an investment grade credit rating at period end, the total cash held is 0.3% and 0.4% of the Co-op and Bank sections' total net assets respectively (2017: 0.3% of total Scheme assets).

The breakdown of the cash for the two sections are shown below:

	5 October 2018			5 April 2017
Cash Balances	Coop Section £000	Bank Section £000	Consolidated £000	Total Scheme £000
Held with Trustee bank account	21,419	7,492	28,911	28,115
Held with AVC bank account	828	213	1,041	776
Total	**22,247**	**7,705**	**29,952**	**28,891**

Credit risk – stock lending:

The Scheme can lend certain equity securities under a Trustee-approved stock lending programme. We managed the credit risk arising from stock lending activities by restricting the amount of overall stock that could be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the period end, the Scheme had lent £nil (2017: £nil) of UK quoted securities and £nil (2017: £nil) of non-UK quoted securities.

Credit risk – repurchase agreements and swaps:

Credit risk on repurchase agreements and swaps are mitigated through collateral arrangements. At the period end, the Scheme held £525 million in collateral posted by its counterparties, of which £417 million was held by the Co-op Section and £108 million by the Bank Section (2017: £149 million for total Scheme).

Credit risk – pooled investments:

The Scheme also invests in pooled investment vehicles (‘PIVs’), pooled funds which invest in underlying assets like shares and bonds on behalf of a number of investors, and is therefore directly exposed to credit risk for these investments (as the PIVs could default on their obligations to the Scheme). A summary of pooled investment vehicles by type of arrangement can be found in note 11.1.

The Scheme’s investments in PIVs and bonds are rated investment grade or are unrated. Direct credit risk arising from bonds and PIV are reduced because:

- the underlying investments held by the pooled funds are legally ring-fenced from the investment manager(s);
- the investment managers that operate the PIVs need to meet the requirements of various financial regulations; and,
- We invest in a number of different PIVs, spreading risk.

At the period end a total of 14.1% and 2.5% of the Co-op and Bank Sections’ invested assets were held in pooled investment vehicles respectively (including those investments in which the Trustee has control over the investment mandates, and where the risks set out in this note have been assessed as if the investments were held directly) (2017: 25.0% for the total Scheme).

Credit risk – custody:

We have appointed a global custodian for the safe-keeping of assets. The risk that the custody of the Scheme's assets is not secure is addressed by monitoring the custodian's activities and creditworthiness. In addition, cash balances held by the custodian are transferred to a ring-fenced fund each night to reduce the risk of losses occurring should the custodian become un-creditworthy overnight.

In addition, the investment managers for the PIVs appoint their own custodians to ensure the safe-keeping of the assets within their mandates.

Indirect credit risk:

Indirect credit risk arises in relation to underlying investments held in the bond and alternatives pooled investment vehicles as well as property pooled investment vehicles that the Scheme invests in (totalling 8.1% of assets for the Co-op Section and 1.4% of assets for the Bank Section at year end, excluding the Insight illiquid credit holdings where this is set out above; 2017: 8.9% for total Scheme). For example, if the Scheme invested in a pooled investment, which itself invests in bonds issued by a company, there is a risk that that company does not repay the bond to the pooled fund. We manage this risk by making sure that our investment managers diversify their investments over a number of companies and investments, to minimise the impact of a default on any individual investment.

Indirect credit risk arises from the tenants of directly held properties (see note 11). We do not consider that this risk is material due to the underlying value of the direct properties and letting terms in place with tenants, however, this credit risk is mitigated by the relevant investment managers monitoring tenant credit worthiness and by diversification of type of tenant by location and industry.

(ii) Currency risk

The Scheme is subject to currency risk because the Scheme invests in overseas investments either as segregated investments or through pooled funds.

To reduce the risk that the value of these overseas investments fall in sterling terms, we operate a policy of hedging a portion of non-Sterling currency exposure as appropriate, and where we judge this risk to be material. The management of currency risk is delegated to the appointed managers and is managed within each manager's overall risk framework.

The Scheme's total net unhedged exposure by major currency at the period-end was as follows:

	5 October 2018			5 April 2017
Currency	Coop Section £000	Bank Section £000	Consolidated £000	Total £000
US Dollar	5,340	1,002	6,342	117,402
Euro	(153)	(1)	(154)	105,684
Japanese Yen	-	-	0	32,357
Other	682	97	779	130,110
Net oversea exposure	**5,869**	**1,098**	**6,967**	**385,553**

Total unhedged overseas currency exposure has fallen over the period, primarily as a result of the termination of the Scheme's equity mandates.

(iii) Interest rate and inflation risk

The Scheme is subject to interest rate and inflation risk on its investments in bonds and financial derivatives, and also through its liabilities. The liability driven investments it makes are intended to protect the Scheme against the impact of changes in interest rates and inflation on the Scheme's liabilities.

The Scheme currently manages these risks through investments in a segregated LDI portfolio managed by BlackRock and long-dated corporate bond portfolios managed by Insight, LGIM and RLAM. These portfolios hold gilts, corporate bonds, derivatives and cash collateral. We monitor the level of assets available within the BlackRock LDI portfolio for use as collateral and operate a framework to ensure that if gilt yields rise then additional cash can be provided in a timely manner, should it be required.

We have set a benchmark for total investment in LDI and corporate bonds of 82% of the total investment portfolio for the Coop Section, and 97% for the Bank Section. Under this strategy, if interest rates fall, the value of LDI and bond investments will rise to help match the increase in actuarial liabilities arising from a fall in discount rate. Similarly, if interest rates rise, the LDI and bond investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. These long-term liabilities in respect of benefits due to members are not included in the Report and Accounts but are assessed at least every three years by the Scheme Actuary.

The impact of a change in interest rates of +0.01% has on the Scheme's assets and liabilities are shown below:

Change in expected interest rate of +0.01%	As at 30 September 2018 Co-op Section £m	As at 30 September 2018 Bank Section £m	As at 30 September 2018 Consolidated £m	As at 31 March 2017 Total Scheme £m
Assets	-17.9	-4.8	-22.7	-21.9
Liabilities	-19.9	-5.4	-25.3	-31.5

The LDI portfolio is also exposed to inflation risk. If inflation expectations increase, the value of these assets will rise to help match the increase in actuarial liabilities arising from the rise. Similarly, if inflation expectations fall, the LDI portfolio will fall in value, as will the actuarial liabilities.

The impact of a change in inflation of +0.01% has on the Scheme's assets and liabilities are shown below:

Change in expected inflation of +0.01%	As at 30 September 2018 Co-op Section £m	As at 30 September 2018 Bank Section £m	As at 30 September 2018 Consolidated £m	As at 31 March 2017 Total Scheme £m
Assets	+10.6	+3.0	+13.6	+13.7
Liabilities	+12.1	+3.4	+15.5	+18.7

At the period end the LDI portfolio and bonds represented 80.9% of the total investment portfolio for the Co-op Section and 94.6% for the Bank Section (2017: 80.1% - total Scheme).

(iv) Other price risk

The Co-op Section of the Scheme is also exposed to "other price risk", largely because of its investments in return seeking assets (which included over the period investments equities held in pooled vehicles, investment properties and alternative investments held in a pooled vehicle). Alternative investments include such asset classes as hedge funds, private equity and insurance linked assets. Over the period, we also invested holdings in Illiquid Credit which covers less standard and liquid areas of the credit market. To spread this risk, the Scheme invests across multiple illiquid credit managers, each of which have diversified holdings by issuer and asset class.

The Co-op Section manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets and targets a 10% allocation in illiquid credit and 5% allocation in alternative inflation Linked assets. The Co-op Section is also in the process of winding down its property holdings with LaSalle as well as its alternative assets with Mercer.

At the period end, the Co-op section of the Section's exposures to investments subject to other price risk was 1.3%, 10.7% and 3.0% of the section's total investment portfolio, covering alternative assets, Illiquid Credit Fund and property respectively (2017: 19% in aggregate).

The Bank Section is also exposed to "other price risk", largely because of its investments in return seeking assets (which included over the period investments in alternative investments held in a pooled vehicle), although this is lower given the differing strategy. At the period end, the Bank Section of the Scheme's exposures to investments subject to other price risk was 1.5%, covering alternative assets only.

(vi) Other Defined Benefit risks

Other Defined Benefit investment risks are managed as outlined below:

- **Solvency risk and mismatching risk** – this is managed by us setting appropriate investment objectives as part of our actuarial valuation every three years. Mismatching risk is also partly addressed through investing in liability matching assets.

- **Manager risk** – this is managed by spreading the Scheme's assets over a range of managers, and through us regularly monitoring these managers.

- **Liquidity risk** - the Co-op Pensions Department estimates the cash needed each month to meet benefit payments, and ensures that sufficient cash is available, seeking advice where necessary.

- **Corporate governance risk -** this is managed through setting controls to limit concentration of investments in individual companies, and through regular discussions with and reporting on investment managers' approach to sustainability risks.

- **Custody risk** – this is managed by the safe custody of the assets is delegated to professional custodians either directly or via the use of pooled funds, with each manager appointing a custodian and being responsible for monitoring the custodian's activities.

- **Sponsor risk –** this is managed by regular assessments of the ability and willingness of the Co-op and the Bank to support the Scheme.

- **Leverage risk –** this is managed by regular reviews of the amount and nature of any leveraged investments made by the Scheme's investment managers.

- **Hedging related risk** - the management of these risks is delegated to the Scheme's liability driven investment manager; we also review liability hedging risks each quarter as part of monitoring the manager.

15.2 Defined Contribution Section

Other Defined Contribution Risks:

As well as considering the risks that apply to the underlying funds, summarised in Section 14 above, we consider the following investment related risks:

- Purchasing power risk
- Conversion risk
- Manager risk
- Lack of diversification risk

15.2.1 Defined Contribution investment strategy

Our objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth, which together with contributions from members and their employer, will provide a retirement amount which the member can use for the provision of retirement income; either by taking their defined contribution account as cash, using it to purchase a pension annuity (or other type of retirement product) or transferring it out of the Scheme to provide alternative retirement benefits.

We have an insurance policy with Legal & General. The value of the policy is linked to the value of the underlying assets or pooled funds in which we choose to invest. The day to day management of the underlying investments of the funds is the responsibility of Legal & General, including the direct management of credit and market risks.

We have determined the defined contribution investment strategy, after taking professional investment advice and following consultation with the Sponsor. We provided three Target investment options for members which are designed to be an appropriate match for the different retirement options a member can take.

The default option is Target: Lump Sum, which has been selected as appropriate for members who want to take their account as a one-off cash sum on retirement. As a member approaches retirement, the funds are steadily moved into lower risk funds. These funds may not grow so quickly but are less likely to have large falls in value in the short term.

The other options available to members are Target: Secure Income and Target: Flexible Income.

Target: Secure Income is designed to be an appropriate match for members who want to use their account to buy a pension (annuity) at retirement.

Target: Flexible Income is designed to be an appropriate match for members who want to leave their account invested after retirement, taking sums of money from it (drawdown) over time. Drawdown is not currently offered through the Scheme so members will need to transfer their account to another arrangement at retirement to take advantage of it.

Although the Target funds have been designed to be a good match for the different retirement options a member can take, they do not guarantee a particular outcome at retirement. Members are advised to consider taking independent financial advice if they are unsure as to what investment fund is right for them.

Members who would rather make their own investment decisions can select the following range of funds:

- Pace Growth (Shares) Fund
- Pace Growth (Ethical Shares) Fund
- Pace Growth (Mixed) Fund
- Pace Pre-retirement (Inflation-linked) Fund
- Pace Pre-retirement Fund
- Pace Cash Fund

The three Target options invest in the following Funds over a members working life:

- Target: Lump Sum - Pace Growth (Shares) Fund and Pace Cash Fund
- Target: Secure Income - Pace Growth (Shares) Fund, Pace Pre-retirement Fund and Pace Cash Fund
- Target: Flexible Income: Pace Growth (Shares) Fund and Pace Cash Fund

15.2.2 Defined Contribution Investment Risk Management

Member level exposure to the risks outlined in Section 14 will be dependent on the funds invested in by members. The funds which have significant exposure to these risks are set out below:

	Credit risk	Interest rate risk	Inflation risk	Currency risk	Other price risk	Asset Value 5 October 2018 £000
Pace Growth (Shares) Fund	YES	-	-	YES	YES	2,187
Pace Growth (Ethical shares) Fund	YES	-	-	YES	YES	1,087
Pace Growth (Mixed) Fund	YES	YES	YES	YES	YES	295,954
Pace Pre-retirement (inflation-linked) Fund	YES	YES	YES	-	YES	63
Pace Pre-retirement Fund	YES	YES	-	-	YES	324
Pace Cash Fund	YES	YES	-	-	-	18,770

(i) Credit risk

Credit risk – Insurer:

The Defined Contribution Section (DC Section) is subject to direct credit risk in relation to the Scheme's holding in unit-linked funds provided by Legal & General. Legal & General is regulated by the Financial Conduct Authority and they maintain separate funds for policyholders. We monitor the creditworthiness of Legal & General by reviewing published credit ratings. Legal & General invests all the Scheme's funds in its own investment funds, reinsured to Legal & General

Assurance (Pension Management) Ltd funds, and it does not use other externally managed investment funds or reinsurance arrangements.

Credit risk – cash:

Cash is currently held within financial institutions which are at least investment grade credit rated. Over the reporting period, cash balances were held in a bank with an investment grade credit rating. The cash balance at period end was £1.8 million (£1.4 million for the Co-op Section and £0.4m for the Bank section) (2017: £1.9 million in total).

Indirect credit risk:

The DC Section is also subject to indirect credit arising from the underlying investments held in the funds. Indirect credit risk is mitigated by the spread of assets held in the funds, which provides diversification. Within the Pre-retirement Funds, indirect credit risk is also mitigated by the funds only holding government bonds or investment grade corporate bonds. The Cash Fund invests in short-term money markets such as bank deposits or Treasury Bills. All investments are held with institutions with investment grade credit ratings.

In addition, the DC Section is subject to indirect credit risk arising from the custodians appointed by the fund provider for the safe-keeping of assets. The selection and assessment of the on-going appropriateness of the custodians is delegated to the fund provider and the indirect credit risk is addressed through the fund provider's monitoring of the custodian's activities and creditworthiness.

(ii) Indirect Currency risk

The DC Section is subject to currency risk because some of the funds invest in investments denominated in overseas currencies. The Growth (Shares) Fund mitigates this risk by currency hedging 75% of the overseas assets (excluding emerging markets) to Sterling. The Growth (Mixed) Fund mitigates currency risk through the overall risk framework of the Fund. The Growth (Ethical Shares) Fund does not hedge overseas currency risk.

(iii) Indirect Interest rate risk

The Pre-retirement Fund and Pre-retirement (inflation-linked) Funds are subject to indirect interest rate risk. This risk is mitigated through the construction of the Funds, which are designed to change in value when interest rates change in a similar way to how the price of buying a retirement income changes.

The Cash Fund is also subject to indirect interest rate risk. The Fund aims to provide capital protection with growth at short term interest rates. The value of the assets would only fall should the interest earned by the Fund's assets be insufficient to cover the Fund management charge and any additional Fund expenses.

(iv) Indirect Inflation risk

The Pre-retirement (inflation-linked) and Growth (Mixed) Funds are subject to indirect inflation risk as they invest in assets that are affected by changes in inflation expectations.

This inflation risk associated with the Pre-retirement (inflation-linked) Fund is mitigated through the construction of the Fund, which is designed to change in value when inflation expectations change in a similar way to how the price of buying an inflation-linked retirement income changes. For example, if inflation expectations increase, the value of the Fund will rise in a similar, but not exact, amount to the cost of buying an inflation-linked retirement income. Similarly, if inflation expectations fall, the value of the Fund will fall in value in a similar, but not exact, amount as the cost of buying an inflation-linked retirement income.

The inflation risk of the Growth (Mixed) Fund is considered by the Fund provider as part of the overall risk and return framework in place.

(v) Other price risk

Other price risk arises principally in relation to the Growth Funds and the Pre-retirement Funds. Other price risk in these Funds is mitigated through the diversification of assets within the Funds

(vi) Other Defined Contribution investment risks

- **Purchasing power risk** - The purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a members working life. In addition, we have made available three Growth Funds, should members wish to select their own investment options.

- **Conversion risk** - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, we have made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.

- **Manager risk** - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by us.

- **Lack of diversification risk –** we recognise the risks that may arise from a lack of diversification within the investments. We therefore invest in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option

16 Current assets

In plain English – what does this show?	This note shows the value of current assets held by the Scheme at the period end.

	DBS 5 Oct 18 £000	DCS 5 Oct 18 £000	Total 5 Oct 18 £000
Contributions due:*			
Employer's normal contributions	-	6,746	6,746
Employer's expense allowance contributions	-	135	135
Members' normal contributions	-	128	128
Members' AVCs	-	135	135
Cash balances	29,952	1,859	31,811
Tax debtor	2,189	17	2,206
Payroll paid in advance	12,322	-	12,322
Other debtors	2,645	10	2,655
	47,108	**9,030**	**56,138**

	5 Apr 17 £000	5 Apr 17 £000	5 Apr 17 £000
Contributions due:*			
Employer's normal contributions	-	4,608	4,608
Employer's deficit contributions	2,314	-	2,314
Employer's expense allowance contributions	-	150	150
Members' normal contributions	-	192	192
Members' AVCs	-	51	51
Cash balances	28,891	1,926	30,817
Other debtors	1,127	219	1,346
	32,332	**7,146**	**39,478**

*Contributions due at period-end were all received subsequent to the period-end on a timely basis, in accordance with the schedule of contributions.

17 Current liabilities

In plain English – what does this show?	This note shows the value of current liabilities owed by the Scheme at the period end.

	DBS **5 Oct 18** £000	**DCS** **5 Oct 18** £000	**Total** **5 Oct 18** £000
Unpaid benefits	(6,545)	(1,041)	(7,586)
Tax due	-	(30)	(30)
Accrued expenses	(7,237)	(489)	(7,726)
Other creditors	(5,063)	(12)	(5,075)
	(18,845)	**(1,572)**	**(20,417)**

	5 Apr 17 £000	**5 Apr 17** £000	**5 Apr 17** £000
Unpaid benefits	(8,370)	(310)	(8,680)
Tax due	(2,034)	-	(2,034)
Investment management expenses due	(2,956)	-	(2,956)
Other creditors	(6,830)	(794)	(7,624)
VAT creditor	(121)	-	(121)
	(20,311)	**(1,104)**	**(21,415)**

18 Related party transactions

In plain English – what does this show?	Related parties include people (such as directors and key personnel) as well as entities. This note outlines the nature of the relationship of any related parties.

Apart from the payment of contributions to the Scheme by businesses within the Co-op, The Co-operative Bank PLC, CIS Ltd and other participating employers, other related party transactions are:

- The DB Administrator is the Co-op.
- Pensioner Member Elected Trustee Directors receive pensions from the Scheme under normal terms and conditions and are paid £5,000 per annum from the Scheme.
- Member Nominated Trustee Directors are paid £2,000 per annum in respect of attendance at the quarterly Trustee meetings. Attendance at additional sub-committee meetings is remunerated based on the work load of each committee. MNDs may opt out of receiving this remuneration.

- Independent Trustee Directors receive remuneration from the Scheme based on rates negotiated with the Co-op, as the principal employer of the Scheme.

- The total of all Trustee Director remuneration paid from the Scheme during the period was £339,690 (5 April 2017: £160,021).

19 Employer related investments

In plain English – what does this show?	Employer related investments include securities issued by the employer, loans to the employer and any investment property occupied by the employer. They also include investments made indirectly through pooled investment vehicles.

During the period, there were no direct or indirect employer related investments.

20 Capital Commitment

In plain English – what does this show?	This note shows the material capital commitment the Scheme holds at the end of the period, for example a contractual commitment to purchase a property or to pay calls on shares.

As at 5 October 2018, the PGIM mandate had an agreed commitment size of £420m. The unfunded commitment was £206.2m at that date.

Independent Auditor's Statement about Contributions to the Trustee of the Co-operative Pension Scheme (Pace)

We have examined the summary of contributions to the Co-operative Pension Scheme (Pace) for the Scheme period 6 April 2017 to 5 October 2018 to which this statement is attached.

In our opinion contributions for the Scheme period 6 April 2017 to 5 October 2018 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid from 6 April 2017 to 29 November 2017 in accordance with the Schedule of Contributions certified by the Scheme actuary on 4 July 2014, and the DC supplement to this Schedule of Contributions signed on 28 September 2017; and subsequently for the period 30 November 2017 to 5 August 2018 in accordance with the Schedule of Contributions certified by the Scheme actuary on 30 November 2017.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient 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 schedule 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 schedule of contributions.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Trustee's responsibilities statement, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 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 work has been undertaken so that we might state to the 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 Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

Date:

Statement of Trustee Directors' Responsibilities in respect of Contributions

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 of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible 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 of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Trustee's Summary of Contributions payable and reported on in the Auditor's statement in respect of the Scheme period 6 April 2017 to 5 October 2018.

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the schedules of contributions, as per below:

- for the period 6 April 2017 to 29 November 2017 under the Schedule of Contributions certified by the Scheme Actuary on 4 July 2014; and the variation to this Schedule of Contributions signed on 28 September 2017;
- for the period 30 November 2017 to 5 August 2018 under the Schedule of Contributions certified by the Scheme Actuary on 30 November 2017; and

The Scheme Auditor reports on these contributions payable in the Auditor's Statement about Contributions.

This summary also sets out the employer and employee contributions payable under the Schedules of Contributions agreed between the Trustee and the Employers on 6 August 2018 for the Co-op Section and on 17 September 2018 for the Bank Section following legal sectionalisation.

Contributions payable under the schedules of contributions and payment schedule in respect of the scheme period 6 April 2017 to 5 October 2018

Contributions payable under the schedules in respect of the Scheme period			
	DBS	DCS	TOTAL
	£'000	£'000	£'000
Employer:			
Normal contributions	-	125,252	125,252
Deficit contributions	19,583	-	19,583
Expense allowance contributions	-	2,385	2,385
Employee:			
Normal contributions	-	5,355	5,355
Contributions payable under the schedule (as reported on by the Scheme Auditor)	**19,583**	**132,992**	**152,575**
Reconciliation of contributions payable under schedule of contributions to total contributions reported in the financial statements			
Contributions payable under the schedule (as above)	**19,583**	**132,992**	**152,575**
Contributions payable in addition to those due under the schedule (and not reported on by the Scheme Auditor):			
Additional contributions	10,000	-	10,000
Deficit contributions	1,867	-	1,867
Additional voluntary contributions	-	3,014	3,014
Total contributions reported in the financial statements	**31,450**	**136,006**	**167,456**

Signed for and on behalf of the Scheme's Trustee on

Anne Kershaw
Trustee Director

Sarah Horan
Secretary

Actuary's Certification of Schedule of Contributions

MERCER
MAKE TOMORROW, TODAY

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme	The Co-operative Pension Scheme (Pace)

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 30 November 2017.

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	
Scheme Actuary	Neil Brougham
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	30 November 2017
Name of employer	Mercer Limited
Address	Belvedere 12 Booth St Manchester M2 4AW

Appendix 1: Co-op Section - Statement of Investment Principles – August 2018

The Co-operative Pension Scheme (Pace) – Co-op Section (“the Section”)

Statement of Investment Principles – August 2018

1. Introduction

Pace Trustees Limited (“the Trustee”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group (“IGG”) principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)‘s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited (“the Group”) and the Co-operative Bank (“the Bank”) respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers primarily to the section of Pace of which the sponsoring employer is the Group, namely the Co-op Section (“the Section”). The Group has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section’s investments.

The Section provides two types of benefit; a defined benefit section (the “Defined Benefit” section) and a defined contribution arrangement (the “Defined Contribution” Section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.

The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

The Trustee recognises the specialist technical nature of investment management and has established an Investment Committee. The Investment Committee is provided with formal terms of reference approved by the Trustee, to provide a greater focus and appropriate level of expertise to assist and advise on investment matters to the Section. The Investment Committee comprises at least six Trustee Directors (including the three Independent Trustee Directors) along with other suitably experienced individuals. The Defined Benefit section’s Investment Adviser attends each Investment Committee meeting.

2. Defined Benefit section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return

- Construct a portfolio of investments that is expected to meet the investment objectives

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 Investment Objectives

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

With regards to the Section, the Trustee has agreed to implement an investment strategy that targets an expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk. The Trustee is aware (and comfortable) that the expected return of the investment strategy for the Section may vary from gilts + 0.8% (net of fees) from time to time as strategic changes are implemented and/or with changing market conditions.

The primary goal of the Trustee is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis.

If funding improves as a result of better than expected investment returns, the Trustee, in consultation with the Group, expects to consider whether to use the opportunity to reduce risk, or to continue to maintain the level of risk with a view to improving the funding level position further.

2.3 Risk Management and Measurement

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. The Trustee will continue to monitor and aim to manage the key risks, principally:-

- **Solvency risk and mismatching risk** - addressed through the asset allocation strategy, through triennial actuarial valuations and the funding objectives.

- **Manager risk** - addressed through the diversification of the Section's assets across a range of managers with different styles and through the ongoing monitoring of the managers.

- **Liquidity risk** - the monthly benefit and expenses outgo is monitored to ensure that sufficient cash balances are available. Investment in illiquid assets is kept to an appropriate level, and a prudent approach is taken to maintaining suitable levels of collateral to support derivative programmes.

- **Counterparty risk** – where the Section enters into derivative transactions, either directly or via pooled funds, these will be collateralised as appropriate. Where possible, the Section will engage a range of counterparties (with counterparty selection for specific trades delegated to investment managers), with limits placed on exposure to any individual counterparty, to reduce the impact of a potential counterparty default.

- **Custody risk** – addressed by monitoring the custodian's activities and the creditworthiness of the custodian bank, and discussing the performance of the custodian with the investment managers when appropriate.

- **Corporate governance risk** – managed through regular reviews of stock concentration and regular discussions with the investment managers about sustainability risks.

- **Sponsor risk –** addressed by regular assessments of the ability and willingness of the sponsor to support the Section and to make good any deficit.

- **Leverage risk** – addressed by regular review of the size, amount and nature of any leveraged investments made by the Section's investment managers and monitoring of potential collateral requirements.

- **Currency risk** – addressed through hedging a portion of non-Sterling currency exposure as appropriate and where this risk is judged to be material.

- **Credit risk –** addressed through holding a diverse range of credit investments across a variety of issuers and sectors, with exposure limits in place, through having in place investment managers who assess the creditworthiness of the debt instruments in which the Section invests and through appropriate limits on credit quality.

- **Hedging Related Risks** – management of the majority of these risks is delegated to the Section's liability hedging manager. However, the Trustee also regularly reviews a range of liability hedging risks within quarterly reporting and other analysis.

- **Environmental, social and governance risk** – addressed through engagement with managers, including an annual report, and by periodic review of Pace's Responsible Investment Policy.

Other risks are addressed through the Investment Restrictions or within the individual investment manager and custodian agreements.

2.4. Portfolio Construction

It is the Trustee's policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques, including but not limited to:

- Illiquid Credit
- Alternative Inflation-linked Assets
- Asset-backed Securities
- Investment-grade Credit
- Liability Driven Investment ("LDI")

The Trustee has adopted the following control framework in structuring the Section's investments:

- There is a role for active management in some asset classes where it can add value or reduce risk, while in other asset classes other approaches are appropriate, including "buy and maintain" (for investment grade credit specifically); this includes:
  - To diversify risk
  - To invest in markets deemed efficient where the scope for active management to add value is limited
  - As a temporary home pending investment with an active manager
- To help diversify manager specific risk, multiple manager appointments are preferred where practical (e.g. investment grade credit and illiquid credit).
- At total Section level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- The Trustee has a policy to consider the place for passive currency hedging for the Section's overseas assets. It has agreed, in conjunction with its Investment Adviser, to target a 100% hedge of non-Sterling currency exposure within the credit portfolio.
- Investment in illiquid investments, such as private equity, property or illiquid credit assets, may be held in limited quantities. The proportion of such investments will be monitored at the individual manager and at the total Section level.
- Investment in derivatives is permitted as agreed on a manager by manager basis as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the

Trustee will look to ensure that the assets of the Section are predominantly invested on regulated markets.

- No investment in securities issued by the Group, Participating Employers or affiliated companies will be made directly (i.e. this excludes any such securities held within a pooled fund in which the Section invests and any securities provided by the Participating Employers which may be held in escrow as contingent assets).

- No investment by an appointed investment manager in the securities issued by the relevant manager's company, or any affiliated companies, will be made (other than any such securities held within a pooled fund in which the Section invests).

2.5 Investment Strategy

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities. Given the on-going commitment of the Group to the Section, a degree of mismatching risk can be accepted on the basis that it is acceptable to the Group and the Trustee is satisfied that the Group's covenant strength is adequate to support the mismatching risk.

The Investment Committee has decided to set an investment strategy which is expected, over the medium term, to produce investment returns to meet the investment objectives as set out in Section 2.2, while limiting the risk inherent in the mismatch between assets and liabilities to a level acceptable to the Trustee and to the Group.

The Investment Adviser provides advice on an appropriate investment strategy with input from the Scheme Actuary and the Group on the acceptable degree of mismatch.

The Trustee has considered the effect of the volatility of assets in relation to the liabilities. In setting the investment policy, the Trustee has considered the influence that this will have on the Section's Funding Objective. It will, however, continue to monitor the position in the light of future developments.

At the time of writing, the Trustee is in the process of implementing a series of changes to the Section's investment arrangements. The changes will allow the Section to better meet the investment objectives as set out in Section 2.2, with a lower level of risk and a higher focus on assets with known income and maturity proceeds than the previous arrangements.

The target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below. (This target is subject to change over time and the Section's actual asset allocation is likely to be different to the target allocation set out for the next 12 months or more as the investment strategy is implemented.)

Asset Class	Target Allocation (%)
Illiquid credit	10.0
Alternative inflation-linked assets	5.0
Asset-backed securities	3.0

Investment grade credit	40.0
Liability Driven Investment	42.0
Total	**100**

The Section may continue to have legacy holdings not listed in the above table over the short to medium term (for example in property or alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases (for example illiquid private equity/debt holdings) and so the above should be seen as an indicative longer term target that the Trustee is working towards.

The Trustee delegates the definition and implementation of investment strategy, based on the Trustee's stated investment objectives, to the Investment Committee.

The Trustee has agreed to target a hedge of 95% of the interest rate and inflation exposure of the Section's liabilities as measured on a "gilts plus 0.25% p.a." basis.

2.6 Expected Return

Over the long term, the Trustee's expectation is for the assets to achieve a rate of return which is at least 0.8% (net of fees) in excess of gilts to support the approach used to value the Section's liabilities.

Returns over shorter periods are assessed against benchmarks set by the Investment Committee.

3 Defined Contribution Section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the risks faced by members of the Defined Contribution Section
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life

In considering the appropriate investments for the Defined Contribution Section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

3.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members, the Group and Participating Employers, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the Pace Growth (Mixed) Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings into the Pace Cash Fund to provide capital protection.

3.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- Shortfall or 'opportunity cost' risk - the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- Capital risk - the risk of a fall in the value of the members' funds.
- Custody risk - the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- Purchasing power risk - the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- Conversion risk - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.
- Manager risk - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- Lack of diversification risk – the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the defined contribution section of Pace have been chosen, in part, to help members mitigate these risks.

3.4 Investment Strategy

The Defined Contribution Section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the Pace objective set out in 3.2 and controlling the risks identified in 3.3 for the membership as a whole.

3.5 Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

4. Day–to-Day Management of the Assets

In compliance with the Financial Services and Markets Act 2000, day to day management of the assets is delegated to professional Investment Managers who are all regulated by the Financial Conduct Authority ("FCA") or the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints and applicable legislation.

For the Defined Benefit section, the Investment Managers have been selected for their expertise in different specialisations and each manages investments for the Defined Benefit section to a specific mandate which includes performance objectives, risk parameters and timescales over which their performance will be measured.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

For the Defined Benefit section, the Investment Committee monitors the allocation between the appointed managers and between asset classes, and rebalances the portfolio as appropriate. This includes consideration of the split within the broad asset classes shown above and the selection, monitoring and termination of the underlying investment managers.

6. Additional Assets

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

7. Socially Responsible Investment

The Trustee has a Responsible Investment Policy which it reviews periodically. This document details the policy for considering Environmental, Social and Governance ("ESG") factors in the strategic investment process and investment decision-making process, assessing the investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

In accordance with its fiduciary responsibilities, the Trustee recognises that the investment managers must base their investment decisions primarily on financial considerations. In addition, the Trustee has asked the investment managers to take account of any social, environmental and ethical factors that may be considered appropriate by the investment managers in carrying out their mandates and to adopt a practice of engaging in discussions on such matters with those companies in which they invest. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response, or in some instances (subject to appropriate legal and investment advice) instruct managers in relation to specific ESG factors.

The Trustee will use engagement, where it is considered necessary, to influence investee company management to act in the best interests of Pace members.

The managers are asked to report to the Investment Committee on the issue of responsible investment. In addition, the Investment Committee monitors how each manager is incorporating ESG issues in investment decisions.

8. Corporate Governance

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, wherever it is practicable to do so and to report to the Investment Committee.

The Trustee recognises that where investments are held in pooled funds, it may not be possible to notify the manager to follow a separate voting policy or to exercise votes.

9. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the defined benefit section of the Section. The Trustee has appointed Willis Towers Watson to provide advice in relation to the principles and fund choice set out in this document relating to the defined contribution section.

10. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Signed: Date:

Name:

Signed: Date:

Name:

For and on behalf of Pace Trustees Limited

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
▪ Overall responsibility for the Section's investments. ▪ Define the terms of appointment of the Investment Committee. ▪ Appoint the members of Investment Committee.	The Trustee
▪ Recommend the Investment Adviser to the Trustee. ▪ Recommend investment objectives to the Trustee. ▪ Recommend strategic framework to the Trustee. ▪ Monitor the Investment Adviser ▪ Make day-to-day decisions relevant to the operation of the Section's investment strategy.	The Investment Committee / Defined Contribution Committee as applicable
▪ Monitor appointed Investment Managers and other service providers	The Manager Review Committee / Defined Contribution Committee as applicable
▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Investment Committee and Manager Review Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles.	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
▪ Operate within the conditions set down by the Investment Management Agreement. ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity.	The Investment Managers

Appendix 2: Bank Section - Statement of Investment Principles – August 2018

The Co-operative Pension Scheme (Pace) - Co-operative Bank Section ("the Section")

Statement of Investment Principles – August 2018

1. Introduction

Pace Trustees Limited ("the Trustee") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group ("IGG") principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)'s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited ("the Group")and the Co-operative Bank ("the Bank") respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers primarily to the section of Pace of which the sponsoring employer is the Bank, namely the Co-operative Bank Section ("the Section"). The Bank and the Co-op Group have been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section's investments.

The Section provides two types of benefit; a defined benefit section (the "Defined Benefit" section) and a defined contribution arrangement (the "Defined Contribution" section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.
The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

The Trustee recognises the specialist technical nature of investment management and has established an Investment Committee. The Investment Committee is provided with formal terms of reference approved by the Trustee, to provide a greater focus and appropriate level of expertise to assist and advise on investment matters to the Section. The Investment Committee comprises at least six Trustee Directors (including the three Independent Trustee Directors) along with other suitably experienced individuals. The Defined Benefit section's Investment Adviser attends each Investment Committee meeting.

2. Defined Benefit section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return
- Construct a portfolio of investments that is expected to meet the investment objectives

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 Investment Objectives

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

With Regards to the Section, the Trustee has agreed to implement an investment strategy that targets an expected return of around 0.5 % p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk. The Trustee is aware (and comfortable) that the expected return of the investment strategy for the Section may vary from gilts + 0.5% (net of fees) from time to time as strategic changes are implemented and/or with changing market conditions.

The primary goal of the Trustee is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis.

If funding improves as a result of better than expected investment returns, the Trustee, in consultation with the Group and the Bank, expects to consider whether to use the opportunity to reduce risk, or to continue to maintain the level of risk with a view to improving the funding level position further.

2.3 Risk Management and Measurement

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. The Trustee will continue to monitor and aim to manage the key risks, principally:-

- **Solvency risk and mismatching risk** - addressed through the asset allocation strategy, through triennial actuarial valuations and the funding objectives.

- **Manager risk** - addressed through the diversification of the Section's assets across a range of managers with different styles and through the ongoing monitoring of the managers.

- **Liquidity risk** - the monthly benefit and expenses outgo is monitored to ensure that sufficient cash balances are available. Investment in illiquid assets is kept to an appropriate level, and a prudent approach is taken to maintaining suitable levels of collateral to support derivative programmes.

- **Counterparty risk** – where the Section enters into derivative transactions, either directly or via pooled funds, these will be collateralised as appropriate. Where possible, the Section will engage a range of counterparties (with counterparty selection for specific trades delegated to investment managers), with limits placed on exposure to any individual counterparty, to reduce the impact of a potential counterparty default.

- **Custody risk** – addressed by monitoring the custodian's activities and the creditworthiness of the custodian bank, and discussing the performance of the custodian with the investment managers when appropriate.

- **Corporate governance risk** – managed through regular reviews of stock concentration and regular discussions with the investment managers about sustainability risks.

- **Sponsor risk –** addressed by regular assessments of the ability and willingness of the sponsor to support the Section and to make good any deficit.

- **Leverage risk** – addressed by regular review of the size, amount and nature of any leveraged investments made by the Section's investment managers and monitoring of potential collateral requirements.

- **Currency risk –** addressed through hedging a portion of non-Sterling currency exposure as appropriate and where this risk is judged to be material.

- **Credit risk –** addressed through holding a diverse range of credit investments across a variety of issuers and sectors, with exposure limits in place, through having in place investment managers who assess the creditworthiness of the debt instruments in which the Section invests and through appropriate limits on credit quality.

- **Hedging Related Risks** – management of the majority of these risks is delegated to the Section's liability hedging manager. However, the Trustee also regularly reviews a range of liability hedging risks within quarterly reporting and other analysis.

- **Environmental, social and governance risk** – addressed through engagement with managers, including an annual report, and by periodic review of Pace's Responsible Investment Policy.

Other risks are addressed through the Investment Restrictions or within the individual investment manager and custodian agreements.

2.4. Portfolio Construction

It is the Trustee's policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques, including but not limited to:

- Asset-backed Securities
- Investment-grade Credit
- Liability Driven Investment ("LDI")

The Trustee has adopted the following control framework in structuring the Section's investments:

- There is a role for active management in some asset classes where it can add value or reduce risk, while in other asset classes other approaches are appropriate, including "buy and maintain" (for investment grade credit specifically); this includes:
  - To diversify risk
  - To invest in markets deemed efficient where the scope for active management to add value is limited
  - As a temporary home pending investment with an active manager
- To help diversify manager specific risk, multiple manager appointments are preferred where practical (e.g. investment grade credit).
- At total Section level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- The Trustee has a policy to consider the place for passive currency hedging for the Section's overseas assets. It has agreed, in conjunction with its Investment Adviser, to target a 100% hedge of non-Sterling currency exposure within the credit portfolio.
- Investment in derivatives is permitted as agreed on a manager by manager basis as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Section are predominantly invested on regulated markets.
- No investment in securities issued by the Sponsoring and Participating Employers or affiliated companies will be made directly (i.e. this excludes any such securities held within a pooled fund in which the Section invests and any securities provided by the Participating Employers which may be held in escrow as contingent assets).

- No investment by an appointed investment manager in the securities issued by the relevant manager's company, or any affiliated companies, will be made (other than any such securities held within a pooled fund in which the Section invests).

2.5 Investment Strategy

The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the liabilities. Given the on-going commitment of the Bank to the Section, a degree of mismatching risk can be accepted on the basis that it is acceptable to the Bank and the Trustee is satisfied that the Bank's covenant strength is adequate to support the mismatching risk.

The Investment Committee has decided to set an investment strategy which is expected, over the medium term, to produce investment returns to meet the investment objectives as set out in Section 2.2, while limiting the risk inherent in the mismatch between assets and liabilities to a level acceptable to the Trustee and to the Bank.

The Investment Adviser provides advice on an appropriate investment strategy with input from the Scheme Actuary and the Bank on the acceptable degree of mismatch.

The Trustee has considered the effect of the volatility of assets in relation to the liabilities. In setting the investment policy, the Trustee has considered the influence that this will have on the Section's funding objectives. It will, however, continue to monitor the position in the light of future developments.

At the time of writing, the Trustee is in the process of implementing a series of changes to the Section's investment arrangements. The changes will allow the Section to better meet the investment objectives as set out in Section 2.2, with a lower level of risk and a higher focus on assets with known income and maturity proceeds than the previous arrangements.

The target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below. (This target is subject to change over time and the Section's actual asset allocation is likely to be different to the target allocation set out for the next 12 months or more as the investment strategy is implemented.)

Asset Class	**Target Allocation (%)**
Asset-backed securities	3.0
Investment grade credit	50.0
Liability Driven Investment	47.0
Total	**100**

The Section may continue to have legacy holdings not listed in the above table over the short to medium term (for example in alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases (for example illiquid private equity/debt holdings) and so the above should be seen as an indicative longer term target that the Trustee is working towards.

The Trustee delegates the definition and implementation of investment strategy, based on the Trustee's stated investment objectives, to the Investment Committee.

The Trustee has agreed to target a hedge of 95% of the interest rate and inflation exposure of the Section's liabilities as measured on a "gilts plus 0.25% p.a." basis.

2.6 Expected Return

Over the long term, the Trustee's expectation is for the assets to achieve a rate of return which is at least 0.5% (net of fees) in excess of gilts to support the approach used to value the Section's liabilities.

Returns over shorter periods are assessed against benchmarks set by the Investment Committee.

3 Defined Contribution Section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the risks faced by members of the Defined Contribution Section
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life

In considering the appropriate investments for the Defined Contribution Section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

3.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Bank, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the Pace Growth (Mixed) Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings into the Pace Cash Fund to provide capital protection.

3.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- Shortfall or 'opportunity cost' risk - the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- Capital risk - the risk of a fall in the value of the members' funds.
- Custody risk - the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- Purchasing power risk - the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- Conversion risk - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.
- Manager risk - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- Lack of diversification risk – the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the defined contribution section have been chosen, in part, to help members mitigate these risks.

3.4 Investment Strategy

The Defined Contribution Section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the "default" investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the objective set out in 3.2 and controlling the risks identified in 3.3 for the membership as a whole.

3.5 Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

4. Day–to-Day Management of the Assets

In compliance with the Financial Services and Markets Act 2000, day to day management of the assets is delegated to professional Investment Managers who are all regulated by the Financial Conduct Authority ("FCA") or the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints and applicable legislation.

For the Defined Benefit section, the Investment Managers have been selected for their expertise in different specialisations and each manages investments for the Defined Benefit section to a specific mandate which includes performance objectives, risk parameters and timescales over which their performance will be measured.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

For the Defined Benefit section, the Investment Committee monitors the allocation between the appointed managers and between asset classes, and rebalances the portfolio as appropriate. This includes consideration of the split within the broad asset classes shown above and the selection, monitoring and termination of the underlying investment managers.

6. Additional Assets

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

7. Socially Responsible Investment

The Trustee has a Responsible Investment Policy which it reviews periodically. This document details the policy for considering Environmental, Social and Governance ("ESG") factors in the strategic investment process and investment decision-making process, assessing the investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

In accordance with its fiduciary responsibilities, the Trustee recognises that the investment managers must base their investment decisions primarily on financial considerations. In addition, the Trustee has asked the investment managers to take account of any social, environmental and ethical factors that may be considered appropriate by the investment managers in carrying out their mandates and to adopt a practice of engaging in discussions on such matters with those companies in which they invest. The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response, or in some instances (subject to appropriate legal and investment advice) instruct managers in relation to specific ESG factors.

The Trustee will use engagement, where it is considered necessary, to influence investee company management to act in the best interests of Pace members.

The managers are asked to report to the Investment Committee on the issue of responsible investment. In addition, the Investment Committee monitors how each manager is incorporating ESG issues in investment decisions.

8. Corporate Governance

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, wherever it is practicable to do so and to report to the Investment Committee.

The Trustee recognises that where investments are held in pooled funds, it may not be possible to notify the manager to follow a separate voting policy or to exercise votes.

9. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the Defined Benefit section of the Section. The Trustee has appointed Willis Towers Watson to provide advice in relation to the principles and fund choice set out in this document relating to the defined contribution section.

10. Review of this Statement

The Trustee will review this Statement annually and without delay after any significant change in investment policy. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Signed: Date:

Name:

Signed: Date:

Name:

For and on behalf of Pace Trustees Limited

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	**Executed By**
▪ Overall responsibility for the Section’s investments. ▪ Define the terms of appointment of the Investment Committee. ▪ Appoint the members of Investment Committee.	The Trustee
▪ Recommend the Investment Adviser to the Trustee. ▪ Recommend investment objectives to the Trustee. ▪ Recommend strategic framework to the Trustee. ▪ Monitor the Investment Adviser ▪ Make day-to-day decisions relevant to the operation of the Section’s investment strategy.	The Investment Committee / Defined Contribution Committee as applicable
▪ Monitor appointed Investment Managers and other service providers	The Manager Review Committee / Defined Contribution Committee as applicable
▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Investment Committee and Manager Review Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles.	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
▪ Operate within the conditions set down by the Investment Management Agreement. ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity.	The Investment Managers

Appendix 3: Chair's Statement - Example Illustrations for the Co-op DC Section

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at March 2019.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.16%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Target: Lump-Sum. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Target: Lump-Sum	FMC	Growth rate	Transaction costs
Pace Growth (Mixed) Fund	0.13%	2.1%	0.00%
L&G Cash 3	0.10%	-1.3%	-0.04%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 1.6% a year to 1.4%.		Investment growth after inflation reduced from 1.7% a year to 1.4%.	
	No charges	After all charges	No charges	After all charges
1	6,308	6,291	35,145	35,049
3	8,920	8,857	45,440	45,102
5	11,533	11,407	55,759	55,108
10	18,104	17,742	81,802	80,045
20	31,700	30,480	136,079	130,532
30	45,123	42,528	189,851	178,412
35	48,364	45,183	202,254	188,358

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.

Appendix 4: Chair's Statement - Example Illustrations for the Bank DC Section

Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at March 2019.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.13%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

Costs and charges

Investment choices

The investment strategy used in these illustrations is Target: Lump-Sum. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Target: Lump-Sum	FMC	Growth rate	Transaction costs
Pace Growth (Mixed) Fund	0.13%	2.1%	0.00%
L&G Cash 3	0.10%	-1.3%	-0.04%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 30. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £5,000.00 Contribution: £100.00 per month		Current fund value: £30,000.00 Contribution: £375.00 per month	
	Investment growth after inflation reduced from 1.6% a year to 1.4%.		Investment growth after inflation reduced from 1.7% a year to 1.4%.	
	No charges	After all charges	No charges	After all charges
1	6,308	6,293	35,145	35,059
3	8,920	8,864	45,440	45,136
5	11,533	11,420	55,759	55,175
10	18,104	17,779	81,802	80,225
20	31,700	30,603	136,079	131,093
30	45,123	42,791	189,851	179,568
35	48,364	45,512	202,254	189,791

Important note:
The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.