

SOMERFIELD PENSION SCHEME

Financial Statements
For Year Ended 31 March 2022

PENSION SCHEME REGISTRY NO. 10000532

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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 Paul McGlone appointed on 28 June 2022. (Tom Scott resigned 27 June 2022).
Articles of Association	This covers the Trustee's formal governing documents, namely its memorandum and articles of association. These documents, together with the Scheme's trust deed and rules, govern the Trustee.
Closure Members	Members who were still building up benefits on the date the Scheme closed to future accrual, 3 November 2012.
Closure Member Nominated Directors (MNDs)	MNDs appointed from the Scheme's Closure Members.
Co-op Appointed Directors	Trustee Directors who are selected by the Co-op.
Co-op	Co-operative Group Limited. The Co-op is the Scheme's principal employer.
CPI	The Consumer Prices Index, the main UK indicator of consumer price inflation.
PSLT	The Co-op's People Service Leadership Team, a group of senior human resources personnel with responsibility for the Co-op's people-related matters.
Deferred Members	Member of the Scheme who are not Closure Members and whose benefits have not yet come into payment.
In-service Deferred MND	An MND who is deferred but still works for the Co-op.
Independent Trustee Director	Independent Trustee Services Limited. A professional independent trustee company which is a Director of the Trustee (via its representative, Mark Evans, appointed by the Co-op).
MNDs	Member-nominated Directors of the Trustee. These are directors of the Trustee who have been chosen by and from the Scheme's Closure

	Members and Pensioners.
Pensioners	Members of the Scheme whose benefits have come into payment.
Pensioner MNDs	MNDs appointed from the Scheme's Pensioners.
Plymouth Fund	Plymouth & South West Co-operative Society Limited Employees' Superannuation Fund.
PPF	The Pension Protection Fund, an independent body funded by levies collected from defined benefit pension schemes, provides compensation where such a pension scheme's employer has become insolvent.
RPI	The Retail Prices Index, a measure of inflation used widely by pension schemes and in contracts.
Scheme	Somerfield Pension Scheme.
Secretary	The Secretary is responsible for helping the Trustee with its arrangements, and providing support for its meetings. Tom Taylor, of the Co-op's Pensions Department, currently holds this role.
Trustee	TCG Southern Trustees Limited. A company which is appointed as the Trustee of the Scheme and acts via its Directors.

Trustee Directors & Advisers

TCG Southern Trustees Limited is appointed as the Trustee by the Co-op to manage the Scheme. We were also the Trustee of the Plymouth Fund, which merged with the Co-operative Pension Scheme (Pace) on 12 March 2021. The Deed of Termination to wind up the Plymouth Fund was signed on 27 January 2022.

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, M60 0AG.

The board of Directors of the Trustee

We are the board of a Trustee company which is governed by its Articles of Association.

We have up to eight Directors:

- Five appointed by the Co-op (including one Independent Trustee Director).
- Three MNDs.

Who are the current Directors of the Trustee?

- Independent Trustee Services Limited, represented by Mark Evans (Independent Director) (Chair)
- Graham Jones (In-service Deferred MND)
- James Carter (Co-op Appointed Director)
- Robert Ford (Pensioner MND) (Appointed 14 June 2021)
- Amanda Cottrell (Co-op Appointed Director) (Appointed 1 July 2022)

Appointment, resignation and removal of Trustee Directors

- Sadie Ashbee (Co-op Appointed Director) (Resigned 31 July 2021)
- Jack Marland (Co-op Appointed Director) (Resigned 25 July 2021)

Our Articles of Association give the Co-op the power to remove or appoint up to four Trustee Directors plus one independent director.

In addition, legislation requires that at least a third of the Trustee Directors are selected by the Scheme's members. The Articles of Association gives the Scheme's members the power to appoint up to three Trustee Directors who are MNDs.

Each Co-op Appointed Director holds office indefinitely or until they:

- resign as a Trustee Director; or
- are removed by the Co-op; or
- cease to be appointed due to any of the events set out in Article 19 of the Articles of Association (namely: disqualification or certain absences from Trustee meetings).

Each MND holds office for a period of four years or until they:

- resign as a Trustee Director; or
- are removed by the Co-op (with the unanimous consent of all of the other Trustee Directors); or

- cease to be appointed due to any of the events set out in the Article 20 of the Articles of Association (see above).

Chair of the Trustee

We elect the Chair, after considering the Co-op's views on the appointment.

Vacancies

The Co-op has delegated its authority to appoint Co-op Appointed Directors to the PSLT. If a Co-op Appointed Director vacancy arises then the PSLT will appoint a replacement.

If an MND vacancy arises then it will be filled in accordance with our MND arrangements.

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) for some decisions a unanimous decision of the Trustee Directors.

This will also be subject to the provisions of the Scheme's trust deed and rules.

Committees of the Trustee board

An **Audit and Risk Committee** was established on 10 September 2016 to review the Scheme's risk register, internal controls framework and schedule of delegated authorities and also to review the Scheme's financial statements.

We also have an **Investment Committee** which meets on a quarterly basis.

No other committees are currently in place.

Meetings

As the Board of the Trustee, we meet at least four times a year, with special meetings convened as appropriate. During the year, we met four times.

Secretary

The Co-op appoints the Secretary to the Trustee. This authority is delegated to the PSLT. Tom Taylor, of the Co-op's Pensions Department, is appointed as the Secretary.

Trustee Director Remuneration

All Trustee Director remuneration paid to Directors of the Trustee was split for accounting purposes equally between the Scheme and the Plymouth Fund until 12 March 2021.

The Scheme's share is paid for from the Scheme's assets. All figures used below refer to the full amount of remuneration paid to Trustee Directors in relation to both the Scheme and the Plymouth Fund until the Fund was wound up in January 2022.

The Trustee Remuneration Policy provides for payment of £2,000 p.a. to Closure MNDs and In-Service Deferred MNDs, and £5,000 p.a. to Pensioner MNDs. MNDs can choose not to receive any remuneration. Additional remuneration of £1,000 p.a. is payable to Closure MNDs who are members of the Investment Committee, Audit & Risk Committee and/or the Valuation Committee (when operative).

The Trustee remuneration policy is reviewed by the Trustee annually.

The terms of engagement in place with the Independent Trustee Director provide for the Independent Trustee Director to be paid a fixed fee of £40,000 per year, covering both the Scheme and the Plymouth Fund up to 27 January 2022, which covers business as usual trustee actions (e.g. attendance at four trustee meetings a year). In addition, if the Independent Trustee Director is asked to attend additional meetings e.g. additional committee meetings or meetings with the sponsor, the terms provide that the director will be paid £1,000 per meeting.

The Co-op appointed Directors are not separately remunerated in respect of their roles as Trustee Directors.

The figures above cover the work undertaken for the Scheme and also for work with the Plymouth Fund until 27 January 2022.

Enquiries

For enquiries about the Scheme please contact:

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

Email address: somerfieldpensions@coop.co.uk

The Scheme's Professional Advisers are:	
Actuary	Paul McGlone FIA, Aon Solutions UK Limited (Tom Scott resigned 27 June 2022)
Administrator	Co-operative Group Limited, Pensions Department (Dept 10406), 1 Angel Square, Manchester, M60 0AG
Auditor	Deloitte LLP
AVC provider	The Prudential Assurance Company Ltd Aviva
Bankers	Barclays Bank PLC
Buy-in Provider	Pension Insurance Corporation plc ("PIC")
Custodian	Bank of New York Mellon
Employer Covenant Adviser	Interpath Advisory
Investment Consultant	Mercer Limited
Investment Managers	Insight Investment Management (Global) Ltd Intermediate Capital Group plc Legal & General Investment Management Ltd M&G Investments Royal London Asset Management Limited
Legal advisers	Eversheds LLP Linklaters LLP

Our Annual Report

Introduction

We are pleased to present our annual report together with the audited financial statements for the year ended 31 March 2022. The financial statements (set out on pages 32 to 56) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The investment report set out on pages 22 to 27 and the report on actuarial liabilities set out on pages 13 to 15 also form part of this annual report.

Constitution of the Scheme

The Scheme was established in 1971 and is currently governed by the Trust Deed and Rules dated 23 June 2008 (as amended). A Deed of Amendment and Substitution, dated 4 October 2012, documents the closure of the Scheme, and change of Principal Employer.

Scheme Structure

The Scheme now consists solely of a defined benefit ("DB") section, details of which are set out below. The Scheme previously had a defined contribution ("DC") section, the winding up of which was completed on 16 October 2014.

On 3 November 2012 the DB section closed to future accrual. On 4 November 2012 all active members of the Scheme (from both the DB and DC sections) started to accrue benefits in Pace, unless they elected not to join Pace.

The accrued benefits of members of the DB section of the Scheme continue to be held in the Scheme.

Sections of the Scheme

The following details in relation to the DB section of the Scheme apply to the Scheme's structure up to the date of closure on 3 November 2012.

The DB section of the Scheme was further divided into three different benefit categories:

- The Defined Benefit Section of the Scheme consists of members who joined the Scheme prior to 2000 on a DB basis. This section was contracted out of the State Second Pension.
- The Kwik Save RBS Section consists of former members of the Kwik Save Retirement Benefit Scheme that was merged into the Scheme in 1999. This section was contracted out of the State Second Pension.
- The Kwik Save Lump Sum Section consists of former members of the Kwik Save Lump Sum Retirement & Death Benefit Scheme that was merged into the Scheme in 2006. This section was not contracted out of the State Second Pension.

The assets relating to the DB sections are in a general fund and do not relate (apart from additional voluntary contributions) to individual members. The DB section of the Scheme was closed to new entrants in 2000.

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.

Membership statistics for the year to 31 March 2022

	31 March 2022	Adjustments*	Additions	Retirements, leavers and pensions ceasing	Deaths	31 March 2022
Closure Members	140	-	-	(19)	-	121
Deferred Members	4,967	(3)	8	(334)	(3)	4,635
Pensioners	6,209	(3)	343	(634)	(191)	5,724
Total	11,316	(6)	351	(987)	(194)	10,480

*Prior year adjustments have been made for corrections after the completion of last year's report.

Transfer values

Individual transfer values are calculated in accordance with assumptions set by the Trustee and tables provided by the Actuary. No discretionary increases are included in the calculation of transfer values. No transfers were reduced to less than their cash equivalent value during the year.

Guarantees

The Scheme benefits from four guarantees, which operate broadly as follows:

- The Co-op's main trading and/or asset-holding subsidiaries guarantee the obligations of Co-operative Foodstores to the Scheme. The identity of these guarantors may change from time to time based 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. The guarantors under this guarantee are also guarantors for the Co-op's banking and bond debt. This guarantee covers the amounts due under the Schedule of Contributions up to the limit of Co-operative Foodstores' employer debt under section 75 of the Pensions Act 1995, and will expire on 31 December 2034.
- Co-operative Group Food Limited separately guarantees the obligations of Co-operative Foodstores to the Scheme, up to the limit of Co-operative Foodstores' employer debt under section 75 of the Pensions Act 1995.
- The Co-op guarantees the obligations of Co-operative Foodstores to the Scheme. This covers the amounts due under the Schedule of Contributions up to the limit of Co-operative Foodstores' employer debt under section 75 of the Pensions Act 1995.
- The Co-op also guarantees the obligations of Co-operative Foodstores to the Scheme in a separate guarantee based on the Pension Protection Fund's standard format. This covers all of Co-operative Foodstores' liabilities to the Scheme, and is capped at the amount required to take the Scheme's Pension Protection Fund level of funding to 105%.

Pension increases

There were no discretionary increases awarded during the year.

Pensions in payment

Pensions in payment are increased annually on 1 February. The increase which applies to a pension in payment will depend on the Scheme rules applicable to the section of the Scheme under which the pension was accrued, and the relevant category of pension. The increase may be at a fixed rate, or in line with the annual increase in the Retail Prices Index ("RPI") to the preceding November from the 2021 increase onwards. Prior to this date, certain increases were based on the increase in RPI in the year to December. Following a resolution on 15 December 2020 to amend the Scheme Rules, increases in RPI linked pensions in payment were linked to the increase in the RPI over the year to the preceding 30 November rather than the year to the preceding 31 December. The increase may also be subject to a minimum or maximum percentage increase. A pro rata increase is made for pensions in payment for less than a year.

When a member, who has a Guaranteed Minimum Pension ("GMP"), as a result of contracting out of the State Second Pension (or its predecessor, the State Earnings Related Pension Scheme), reaches State Pension Age, a different rate of increase usually applies to that element of the total pension. The table below sets out the increase rates applied by the Scheme on 1 February 2021 and 1 February 2022.

DB Section			
<i>Section / Pension Element</i>	<i>Increase Calculated as:</i>	<i>Increase Rate 1 February 2022</i>	<i>Increase Rate 1 February 2021</i>
GMP in respect of service to 5 April 1988.	This GMP is not increased but if the rise in the Consumer Prices Index for the year to the previous September is less than 3%, the difference is applied to this GMP and forms an additional increase to the member's pre 5 April 1997 pension.	0%	2.5%
GMP in respect of service after 5 April 1988.	A fixed increase of 3% is applied. This is calculated on a notional figure as the full 3% increase required under the Scheme rules is more than the statutory requirement.	3.0%	3.0%

Non-GMP pension for members who retired or reached normal retirement date before 6 April 1990 (or spouses thereof).	The rise in the RPI to November, with a minimum of 3%, capped at a maximum 5%, plus the increase in relation to the GMP in respect of service to 5 April 1988 described above.	5.0%	3.0%
Non-GMP pension for members who retired or reached normal retirement date on or after 6 April 1990 (or spouses thereof) in relation to service up to 5 April 1997.	A fixed increase of 3%, plus the increase in relation to the GMP in respect of service to 5 April 1988 described above.	3.0%	3.0%
Pension relating to service from 6 April 1997 to 31 January 2000.	The rise in the RPI to November, with a minimum of 3%, capped at a maximum 5%.	5.0%	3.0%
Pension relating to service from 1 February 2000 to 5 April 2006.	The rise in the RPI to November, capped at a maximum 5%.	5.0%	0.9%
Pension relating to service after 5 April 2006.	The rise in the RPI to November, capped at a maximum 2.5%.	2.5%	0.9%

Kwik Save RBS Section

Section / Pension Element	Increase Calculated as:	Increase Rate 1 February 2022	Increase Rate 1 February 2021
GMP in respect of service to 5 April 1988.	Nil	Nil	Nil
GMP in respect of service after 5 April 1988.	The rise in the Consumer Prices Index for the year to the previous September capped at 3%.	3.0%	0.5%
Non-GMP pension in relation to service up to 5 April 1997.	The rise in the RPI to November, capped at a maximum 5%.	5.0%	0.9%
Pension relating to service from 6 April 1997 to 5 April 2006.	The rise in the RPI to November, capped at a maximum 5%.	5.0%	0.9%
Pension relating to service after 5 April 2006.	The rise in the RPI to November, capped at a maximum 2.5%.	2.5%	0.9%

Kwik Save Lump Sum Section

<i>Section / Pension Element</i>	<i>Increase Calculated as:</i>	<i>Increase Rate 1 February 2022</i>	<i>Increase Rate 1 February 2021</i>
Pension for members who left after 5 April 2006	Nil.	Nil	Nil

Former Members of the Aberneth Pension Scheme

<i>Section / Pension Element</i>	<i>Increase Calculated as:</i>	<i>Increase Rate 1 February 2022</i>	<i>Increase Rate 1 February 2021</i>
Pension relating to service to 5 April 1997, including GMP.	A fixed increase of 3%.	3.0%	3.0%
Pension relating to service after 5 April 1997.	The rise in the RPI to November, with a minimum of 3%, capped at a maximum 5%.	5.0%	3.0%

Pensions Paid by the Scheme for former DC Section Members now transferred to DB Section and those arising in respect of Additional Voluntary Contributions

<i>Increase Calculated as:</i>	<i>Increase Rate 1 February 2022</i>	<i>Increase Rate 1 February 2021</i>
The rate of increase (if any) will be as requested by the member at retirement. The rates shown only apply if the member has chosen a pension linked to inflation.	5.0%	0.9%

The increase shown for former DC Section Members and Additional Voluntary Contributions is based on the increase in RPI at the previous November up to a maximum of 5%. Members may also choose a non-increasing pension at retirement in relation to DC or AVC pension. AVC pensions may also increase by a fixed 3% increase or RPI at the previous November with a minimum 3% increase and up to a maximum of 5%.

Pension in deferment

Pensions in deferment, in excess of the GMP, will increase between the date the member left and the date the member retired, as required by statute up to a maximum of 5% per annum. Benefits in excess of GMP accrued after 5 April 2009 are increased as required by statute, subject to a maximum of 2.5% per annum for the period of deferment.

For members of the DB Section, the Kwik Save RBS Section and the Aberneth Section, pensions in deferment, in excess of the GMP, increase between the date the member left and the date the member retired as required by statute. The revaluation rate is subject to a maximum of 5% per annum for benefits accrued prior to 6 April 2009, and a maximum of 2.5% per annum for benefits accrued after 5 April 2009. The increase refers to the statutory revaluation orders published annually by the Government, and is based on the Retail Prices Index up to 2011, and the Consumer Prices Index from 2011. Deferred benefits for Aberneth

Section members are also subject to an underpin based on the value of their Personal Pension Account.

For Kwik Save Lump Sum members who left after 31 December 1990, benefits in deferment revalue by 5% per annum.

GMPs are increased in deferment in accordance with legislative requirements.

Contributions

Contributions to fund expenses

The Scheme's Schedule of Contributions, dated 26 June 2020, which became effective following completion of the valuation as at 31 March 2019, provides that Scheme expenses, including any levies due to the Pension Protection Fund (PPF), will be met from the Scheme.

Deficit Funding Contributions

Under the Schedule of Contributions dated 26 June 2020, deficit reduction contributions of £2.6m per annum, payable in equal monthly instalments until 30 June 2020, were paid to the Scheme by the employer.

Additional Voluntary Contributions (AVCs)

Until the closure of the Scheme to future accrual on 3 November 2012, Prudential was the sole AVC provider for members wishing to commence AVC payments. A small number of members also continue to have legacy AVC policies held with Aviva.

The AVC funds of active members of the Scheme who transferred to Pace on 4 November 2012 became 'closed' in the Scheme at this date.

Actuarial Valuation

The Actuary completed an actuarial valuation of the Scheme as at 31 March 2019, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that at 31 March 2019, the Scheme had a shortfall of £7m relative to its technical provisions, which equates to a funding level of 99%.

We discussed the results of the valuation with the Co-op and a recovery plan for the elimination of the funding shortfall was agreed and is reflected in the rate of contribution described above. The recovery plan is dated 26 June 2020 and under this the Scheme's technical provisions funding level was projected to be 100% by 30 June 2020.

The next actuarial valuation of the Scheme will be as at 31 March 2022, and should be completed by 30 June 2023.

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 Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2019. An approximate update of the funding position was carried out and presented in the Annual Actuarial Report as at 31 March 2020 and 31 March 2021. The results of the valuation and these updates are described below:

	31 March 2019	31 March 2020	31 March 2021
The value of the Technical Provisions was	£1,109 million	£1,166 million	£1,093 million
The value of the assets was	£1,102 million	£1,159 million	£1,139 million

Both the technical provisions and asset values as at 31 March 2019 include £424 million in respect of the value of the insurance policies held by the Trustee.

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) dated 26 June 2020:

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: UK Government fixed-interest gilt yield curve at the valuation date, plus a fixed addition of 0.5% per annum at all terms. The same discount rate is used for both pre-retirement and post-retirement liabilities.
- Future Retail Price inflation: the assumption is derived from market implied Bank of England break-even inflation curve at the valuation date.
- Future Consumer Price inflation: The assumption is derived at the valuation date by deducting 0.9% per annum for terms up to 2030 and 0.7% per annum for terms from 2030 onwards from the RPI inflation assumption.

The difference between the long-term assumption for RPI and CPI inflation may vary over time to reflect the Scheme Actuary's changing views of long-term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.

- Pension increases: inflation linked pension increase assumptions are derived from the RPI and CPI inflation assumptions as appropriate, allowing for the maximum and minimum annual increase, and for inflation to vary from year to year in line with best estimate volatility.
- Mortality: The mortality assumptions are as follows:

Post-retirement mortality

Males: Standard Self Administered Pension Scheme ("SAPS") S3 *All* year of birth tables scaled as follows:

- Non-pensioners: 111%
- Pensioners: 105%

Females: SAPS S3 *Middle* year of birth tables scaled as follows:

- Non-pensioners: 112%

- Pensioners: 104%

Allowance for long-term improvements in mortality in line with the most recent CMI mortality projection model.

For the purpose of the funding valuation at 31 March 2019 and the associated annual updates prior to the 31 March 2022 valuation, allowance will be made for the CMI 2018($S_k = 7.0$, $A = 0.5\%$) mortality projection model (core parameters), unless otherwise agreed.

Allowance for an assumed long term rate of improvement of 1.5% per annum.

Pre-retirement mortality

Standard table A(M/F)C00 Ultimate. AFC00 Ultimate scaled consistently with post-retirement mortality.

Base mortality prudence loading

2% loading to technical provisions.

Scheme Changes during the Year

There have been no changes to the Rules of the Scheme during the year to 31 March 2022. The Scheme does not meet the criteria for TCFD reporting.

GMP Equalisation

In October 2018 and late 2020 the High Court gave its judgments regarding the equalisation of pensions for men and women, the 2020 judgement specifically dealing with historic transfers. The judgments affect Guaranteed Minimum Pension ('GMP') built up in any UK pension scheme which was contracted out of the State Second Pension between 17 May 1990 and 5 April 1997. The issues determined by the judgements arise in relation to many other defined benefit pension schemes. The Trustee has considered the next steps in relation to equalising for the effect of GMPs and has taken advice. The Scheme now provides equalised transfer values and trivial commutation payments. Consideration of equalising for the effect of GMPs for retired scheme members, as well as future retirees, is still underway, as is the consideration of historic transfer outs from the Scheme. Under the ruling schemes are required to backdate benefit adjustments in relation to equalising for the effect of unequal GMPs and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Covid-19

Since January 2020 the effects of Covid-19 have adversely affected the global economy and may continue to do so, thereby negatively impacting the Scheme's investment return and the fair value of investments during the Scheme's accounting year.

The Trustee continues to assess the impact of the Covid-19 pandemic. However, given the relatively high levels of interest rate and inflation protection in place, together with the low exposure to growth assets and the diversification of the Fund's assets both by asset class and geography, the Trustee is comfortable that the investment strategy remains appropriate.

The Trustee has no significant concerns about the covenant of the Co-op's key businesses and considers that the going concern basis remains the appropriate basis for the Scheme's accounts.

Russia and Ukraine

In the early hours of 24 February 2022, Russia invaded Ukraine. This led to volatility in financial markets with share prices around the world falling, and had a significant impact on oil and gas prices at a time when inflation in the UK was already high. The invasion also led to economic sanctions against Russia, and significant restrictions on trading of Russian investments.

The Scheme's relatively low risk investment strategy meant that investments in Russia and in Russian companies were already limited. Somerfield had no direct exposure through segregated mandates, and a limited holding through the pooled Legal & General Future World Emerging Market Equity Index Fund (as at 23 February 2022, less than 2% of the emerging market fund was exposed to assets with a "country of risk" of Russia, Ukraine or Belarus, or was exposed to the Rouble – this equates to c. 0.01% of Somerfield's total assets).

Solactive, the provider of the index that the Future World Emerging Market Equity Index fund tracks, took the decision to remove Russian equities from their indices at a price of zero at close of business 9 March 2022; L&G had already taken the decision to place a fair value on these holdings of zero with effect from 2 March 2022. The Trustee continues to monitor the impact of market volatility on its assets and funding position.

Market Volatility

Since the Scheme's year-end, financial markets have been very volatile, particularly following the Chancellor's "mini-budget" on 23 September 2022. This caused gilt yields to rise sharply and prompted the Bank of England to intervene to stabilise financial markets, announcing a £65bn emergency bond-buying package.

Although the sharp rises in gilt yields have caused the value of the Scheme's liabilities to fall, the liability hedging programme, by design, has also resulted in a decline in the value of Liability Driven Investment (LDI) assets managed by Insight. As per the Trustee's LDI collateral waterfall management policy, in late September/early October 2022 the Trustee transferred c. £100m of additional assets to Insight to use as collateral to cushion against the effects of potential further increases in gilt yields and to maintain the current levels of interest rate and inflation hedging (total invested assets for the Scheme at 30 September 2022 were c. £453m). These assets were sourced from both corporate bonds and a sale of all the passively managed equity assets. The Trustee continues to closely liaise with its investment advisors and LDI manager to monitor collateral levels and, in October 2022, also reviewed its collateral waterfall management framework to ensure it remains sufficiently robust given the volatile market environment.

Financial Development of the Scheme

During the year ended 31 March 2022, the net assets of the Scheme decreased from £1,143m to £1,075m.

Statement of Trustee's 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 year and of the amount and disposition at the end of that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in 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 has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible 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 TCG Southern Trustees Limited:

Independent Trustee Services Limited,
represented by Mark Evans
Chair

Tom Taylor
Secretary

Date: 31 October 2022

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.
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. Also known as “fixed interest” investments.
Buy and maintain credit	An investment in corporate bonds where the manager aims to select bonds with low default risk that can be held to maturity, and aims to have very low turnover in holdings.
Buy-in and Buy-out	<p>A pension buy-in is the process by which trustees of a pension scheme buy an insurance policy to cover any current pensioners already in payment. The trustees hold the policy as an asset and remain responsible for paying the pensions.</p> <p>A pension buy-out enables the sponsor of a pension scheme to completely wind up its pension scheme and transfer both its assets and its liabilities to an insurance company which becomes responsible for honouring pension promises as scheme members retire.</p>
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

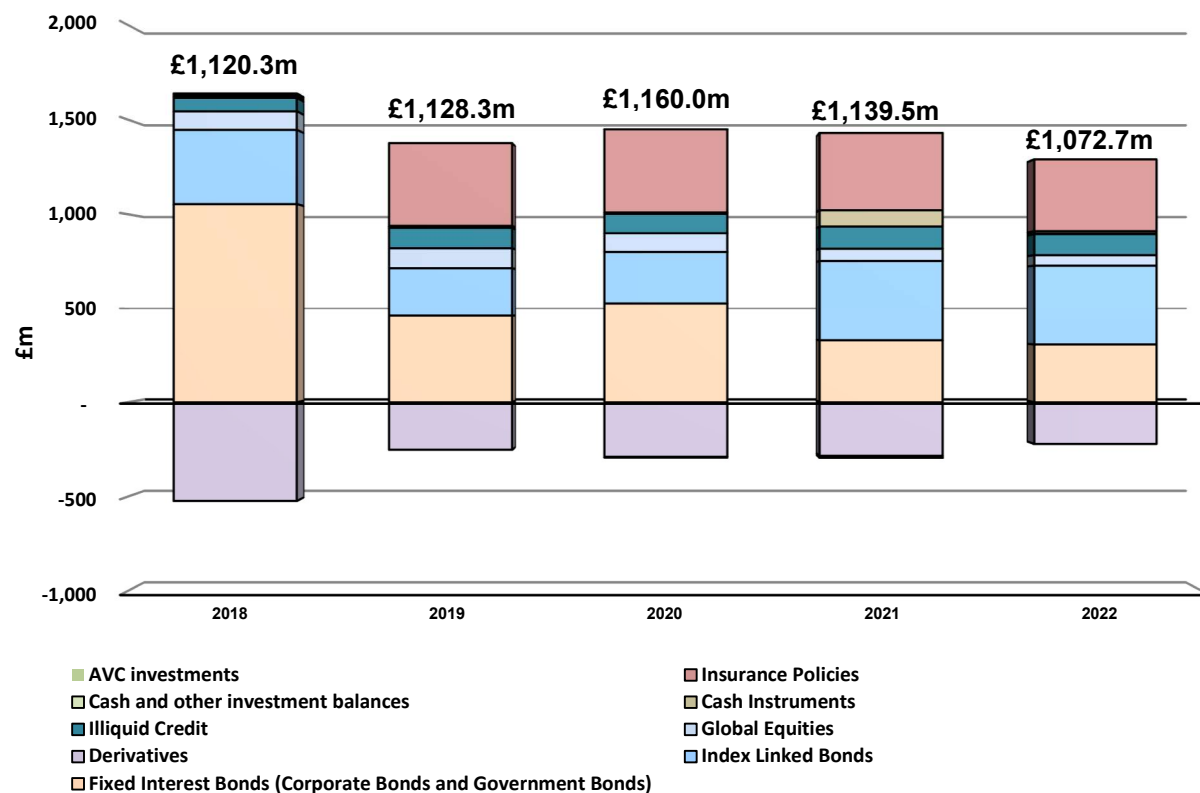
	(e.g. interest rates or inflation). Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying investments.
Equity	An investment in the form of shares in companies (also known as stocks). Owning shares makes shareholders part owners of the company in question and usually entitles them to a share of the profits (if any), which are paid as dividends. An investor does not have the ownership rights if investing in equities via a pooled fund. See “pooled fund”.
ESG (Environmental, Social and Corporate Governance)	Factors considered in investment analysis and portfolio construction. ESG is used to evaluate corporate behaviour and the sustainability of business’ operations.
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 pension schemes are able to access as long-term investors.
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 the interest paid (or decreasing it if inflation is negative – “deflation”). Also known as inflation-linked gilts.
Inflation swap	A derivative allowing the exchange of two cash flows, one based on an agreed inflation rate for a period and the other based on the actual inflation rate for that period. Typically, the inflation basis will be RPI in the UK. Used by pension schemes to hedge inflation risk as part of an LDI strategy.
Interest rate swap	A derivative allowing the exchange of two sets of cash flows, usually one based on a fixed interest rate and the other on a floating interest rate. Used by pension schemes to hedge interest rate risk as part of an LDI strategy.
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 Fund's assets. Also known as an "asset manager" or "fund manager".
Leverage	Use of borrowed money to over-invest a portfolio which magnifies both gains and losses. This may be achieved by using derivatives such as swaps or gilt repos. Allows a pension fund to efficiently hedge interest rate and inflation risk where it does not have sufficient assets to invest entirely in bonds (or where suitable bonds are not available).
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 (although will no longer be required to be published from December 2021, and therefore typically being replaced by SONIA).
Market Value	The price at which an investment can be bought or sold on a given date.
Passive management	A style of managing a portfolio by linking the investments to a particular index, such as the FTSE All Share Index, so that the portfolio value moves in line with that index.
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.
Segregated	Where assets are legally owned by a pension scheme rather than a pooled fund, are managed independently of those of other funds under the investment manager's control.
Statement of Investment Principles (SIP)	A written statement of the principles governing decisions about investment for an occupational pension scheme, which trustees are required to prepare and maintain. Trustees must have regard

	to advice from a suitably qualified person and consult with the employer.
Sterling Overnight Index Average ("SONIA")	<p>SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours.</p> <p>SONIA is used as an alternative to LIBOR as a benchmark interest rate for financial transactions.</p>
Strategic Asset Allocation	The target split of the Scheme's assets between different types of investments (e.g. Bonds and Equities).
Swap	Derivatives designed to permit investors to exchange payment streams for their mutual benefit. Payments can be based on interest rates, inflation indices, currencies or equity returns.
Yield	A measure of the annual income earned on an investment. Normally expressed as a percentage of its market price.

Our Investment Report

The chart below provides a snapshot of the different types of investment categories held by the Scheme at each year end for the DB section.



	2018		2019		2020		2021		2022	
	£000	%	£000	%	£000	%	£000	%	£000	%
Fixed Interest Bonds (Corporate Bonds and Government Bonds)	1,053,542	94.0	459,367	40.7	528,235	45.5	328,439	28.8	306,356	28.6
Index Linked Bonds	391,785	35.0	255,413	22.6	272,620	23.5	424,693	37.3	421,950	39.3
Derivatives*	(521,686)	(46.6)	(250,862)	(22.2)	(287,907)	(24.8)	(283,204)	(24.9)	(219,856)	(20.5)
Global Equities	98,002	8.7	105,498	9.3	98,820	8.5	64,662	5.7	55,532	5.2
Illiquid Credit	71,118	6.4	108,144	9.6	102,567	8.8	117,315	10.3	110,810	10.3
Cash Instruments	12,300	1.1	5,749	0.5	6,941	0.6	86,138	7.6	12,934	1.2
Cash and other investment balances	10,989	1.0	3,974	0.4	(3,926)	(0.3)	(10,011)	(0.9)	2,876	0.3
Insurance Policy (buy-in)	-	-	437,000	38.7	439,000	37.9	408,000	35.8	379,000	35.3
AVC investments	4,297	0.4	3,970	0.4	3,622	0.3	3,501	0.3	3,146	0.3
TOTAL	1,120,347	100	1,128,253	100	1,159,972	100	1,139,533	100	1,072,748	100

*Repurchase agreements included within derivatives.

The Scheme's investment policy

The 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 us in the strategic management of the assets and control of the various risks to which the Scheme is exposed. Our primary objectives are as follows:

- To target an expected return on the Scheme's portfolio of assets which exceeds the return required to improve the funding level of the Scheme on both a technical provisions basis and a gilt-based least risk basis. For the technical provisions basis, the Scheme's Actuary used a discount rate assumption of gilts plus 0.5% at the most recent actuarial valuation. The Scheme's current strategy, which was adopted in September 2021, is expected to achieve a return of c1.0% p.a. above gilts (when excluding the buy-in policy).
- To ensure that the interest rate and inflation sensitivity of the assets is very similar to that of the liabilities.

The Scheme's Statement of Investment Principles

We have produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. A copy of the statement is available on request to the Secretary to the Trustee at the address shown on page 6 or via <https://coop.pacepensions.co.uk/other-schemes>. We have appointed Mercer Limited as the Scheme's investment consultant.

During the year, no investments were made outside the scope of the Statement of Investment Principles.

Management of assets

We have delegated management of investments to professional investment managers which are listed on page 7. 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?

The strategic asset allocation as at the year-end is shown below. We consider alternative investment opportunities on a regular basis within overall investment policy requirements.

We believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Last year, we reported on the de-risked investment strategy, which was agreed in February 2021, involved selling 50% of the Scheme's equities and investing the proceeds equally between the LGIM and RLAM Buy and Maintain credit mandates. This strategy change was completed at the end of April 2021.

Furthermore, the Trustee has instructed one of the Scheme's Illiquid Credit investment managers, ICG, to enter 'run-off' naturally over time, which will result in the return of capital to the Trustee as investments are realised. In September 2021, the Trustee agreed that the proceeds from the redemption are to be invested equally into the existing LDI and Buy and Maintain portfolios, resulting in an increase to the strategic allocation to these asset classes and a reduction in the strategic allocation to Illiquid Credit. The new target investment strategy

will take approximately two years to implement. As a result of this, the expected return (excluding the Buy-in Portfolio) will reduce from gilts +1.0% p.a. to gilts +0.9% p.a when the new target is implemented.

As at 31 March 2022 the buy-in annuity policy was valued at approximately £379m by the Scheme Actuary. The annuity policy remains an asset of the Scheme and is therefore included as part of the Scheme's assets in this report although is not considered as part of the performance analysis. The assets excluding the buy-in policy are set out as the "Main Portfolio", details of which are shown below.

Asset allocation – Main Portfolio as at 31 March 2022

Corporate Bonds	Illiquid Credit	Passive Equity	Liability Driven Investment (LDI)
LGIM 19.4%	Insight 6.4%	LGIM 8.1%	Insight 36.7%
RLAM 19.7%	ICG 4.2%	-	-
-	M&G 5.5%	-	-
39.1%	16.1%	8.1%	36.7%

Percentages are of total Scheme assets as at 31 March 2022, excludes AVCs and the buy-in policy.

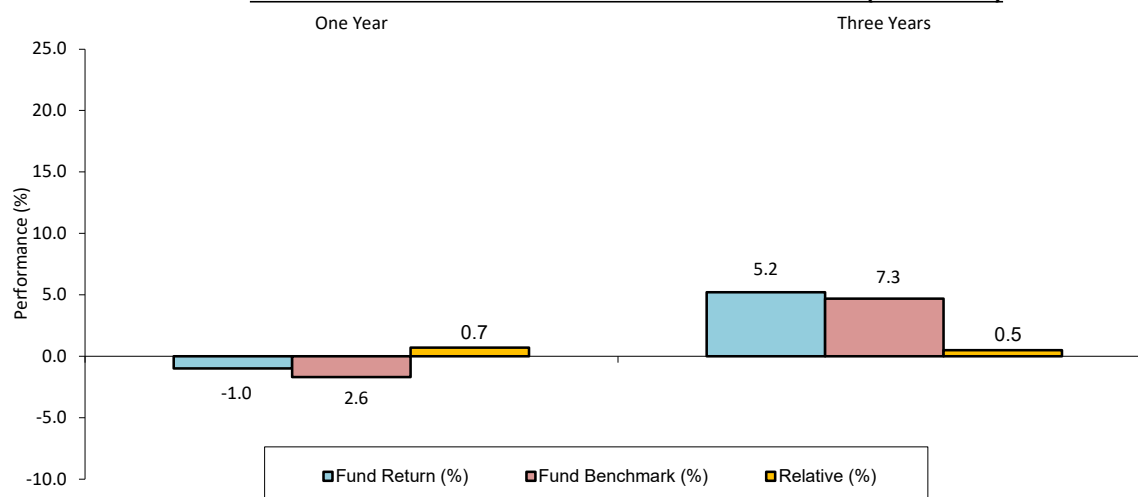
Investment performance

Investment performance is measured on a quarterly basis; all performance data is shown to 31 March 2022.

On an absolute basis, the value of the Scheme's assets decreased from £1,143m on 31 March 2021 to £1,075m on 31 March 2022 (including an estimate of the value of the buy-in policy). The performance of the Scheme's invested assets (excluding the buy-in) for the year to 31 March 2022 was -1.0% compared with the overall total fund monitoring benchmark of -1.7%.

The overall gross of fees performance of Scheme assets, over one and three years to 31 March 2022, is shown below:

1 Yr & 3 Yrs Performance of the Fund to 31 March 2022 (annualised)

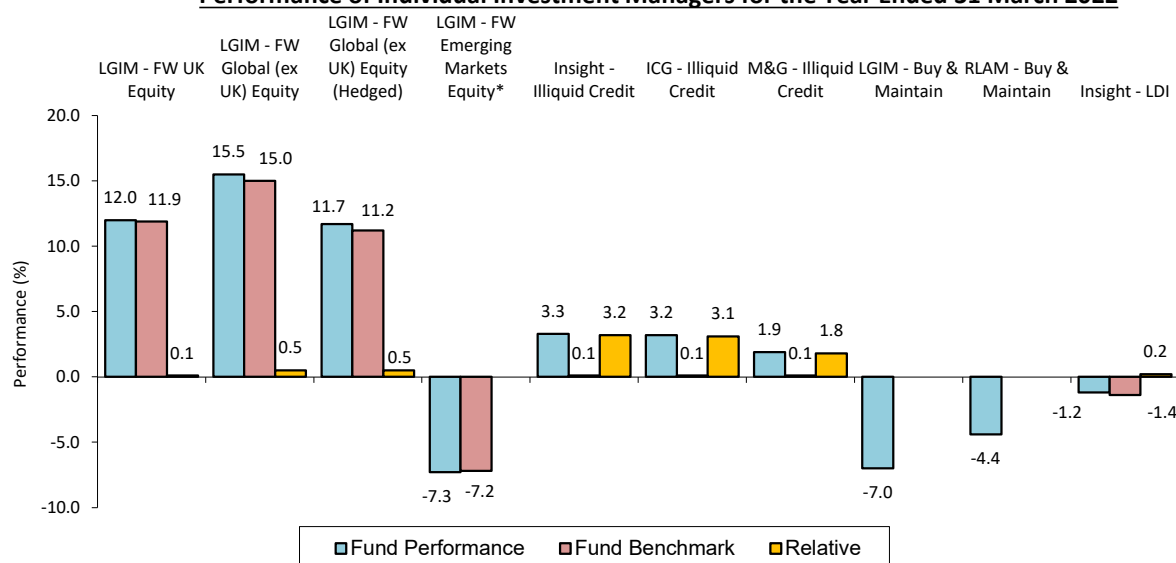


Source: Estimated by Co-op Pensions Department using data sourced from investment managers and Mercer.

The Scheme's assets are invested so as to reduce the risk of major underperformance relative to UK gilts (including inflation-linked gilts). In recent years, as investors have sought more secure investments, these gilts, and the Scheme, have performed relatively strongly (however, if interest rates were to rise, this strong performance in absolute terms could be reversed). The key for Scheme members (and for the Co-op Group which financially supports the Scheme) is that the performance should stay close to, or exceed, the performance of its benchmark. This provides the guide to whether the value of the Scheme's investments are keeping up with changes in the value of the pensions it has to pay over the years ahead.

The chart below shows the performance of each of the Scheme's investments over the past year. It highlights the divergence in performance between growth and defensive asset classes. Although developed equity markets yielded positive returns across the year, they were negatively effected in Q1 2022 by the Ukraine conflict and monetary tightening. Similarly, credit fell over the year due to significant rises in gilt yields 2022 and a widening of credit spreads, which also led to negative absolute returns for the LDI mandate.

Performance of Individual Investment Managers for the Year Ended 31 March 2022



Source: Estimated by Co-op Pensions Department using data sourced from investment managers and Mercer. Please note that the Buy and Maintain Credit funds with LGIM and RLAM do not have formal performance benchmarks.

Custodial arrangements

Segregated Assets

Bank of New York Mellon acts as independent custodian for the Scheme's segregated assets; this includes the Scheme's bond portfolios managed by LGIM and RLAM, and the LDI assets managed by Insight. The services provided during the year included custody of assets and investment accounting.

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.

Responsible Investment and Corporate Governance

The Trustee has a Responsible Investment Policy which is reviewed annually. The Responsible Investment Policy and Practice Statement can be found at <https://coop.pacepensions.co.uk/other-schemes>. The 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 the Scheme's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of the Scheme'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 will apply these considerations in setting the RI Policy, with the Trustee assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Co-op when developing the Policy.

At the time of writing, the RI Policy reflects three broad Responsible Investment issues which the Trustee believes represent particular risk to the Scheme and which the Trustee believes can be addressed. As the RI Policy is kept under regular review, (at least annually) the issues identified may change over time. These issues are:

- Protection of the environment.
- Labour conditions and equal pay.
- Corporate Governance.

The Trustee seeks to address these issues in a number of ways. For example, the Scheme's equity assets are invested in the LGIM Future World Funds which have tilts towards companies with positive ESG scores. The Trustee also applies a specific exclusion list of

stocks for the segregated investment grade credit mandate to restrict investment in companies identified as conflicting with the Trustee's aims under these issues.

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 Scheme 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.

Investment 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 into investment decisions and, where relevant, exercising their approach to stewardship.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.

While the Trustee or Investment Committee will meet with certain managers from time to time (including the LDI manager which the Scheme's Investment Committee aims to meet at least annually), the MMIC is typically responsible for meeting with the Scheme's investment managers. At any manager presentation, the MMIC on behalf of the Trustee will ask the investment managers to provide further detail about ESG considerations such as voting history, engagement activity and AAF reports.

In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.

The Scheme's equity manager (who is registered in the UK), is expected to report on their adherence to the UK Stewardship code on an annual basis.

Independent Auditor's Report to the Trustee of the Somerfield Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Somerfield Pension Scheme (the "Scheme"):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2022 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 year;
- 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 available for benefits; and
- the related notes 1 to 17.

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 Somerfield Pension Scheme (continued)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, 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 Somerfield Pension Scheme (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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Scheme's industry and its control environment, and reviewed the Scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of the Trustee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pension Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty. These included the Scheme's regulatory requirements.

We discussed among the audit engagement team, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting

estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of the Trustee concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee and subcommittee meetings, and reviewing correspondence with the Pensions Regulator.

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
Belfast
United Kingdom

Date:

Fund Account

for the year ended 31 March 2022

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 year. The result is the Scheme's net asset position at the end of the reporting period.

		2022	2021
Contributions and Benefits	Note	£'000	£'000
Employer contributions	2	-	650
Benefits paid or payable	3	(40,032)	(32,241)
Payments to and on account of leavers	4	(12,534)	(9,962)
Administrative expenses	5	(1,158)	(983)
Pension levies	6	(64)	(58)
		(53,788)	(43,244)
Net withdrawals from dealing with members		(53,788)	(42,594)
Returns on investments			
Investment income/(payments)	7	56,126	(8,681)
Change in market value of investments	9	(68,611)	33,355
Investment management expenses	8	(1,831)	(1,482)
Net returns on investments		(14,316)	23,192
Net decrease in the fund during the year		(68,104)	(19,402)
Net assets of the fund at 1 April		1,142,973	1,162,375
Net assets of the Fund as at 31 March		1,074,869	1,142,973

The notes on pages 35 to 56 form part of these financial statements.

Statement of Net Assets

(available for benefits) as at 31 March 2022

What does this show?

The Statement of Net Assets below provides a snapshot of the financial position of the Scheme as at 31 March. 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 year; this is dealt with in the Report on Actuarial Liabilities.

	Note	2022 £'000	2021 £'000
Investment assets			
Bonds	9	958,121	894,751
Pooled investment vehicles	9.1	174,931	270,166
Derivatives	9.2	628,427	872,104
AVC investments	9.3	3,146	3,501
Insurance policy	9.4	379,000	408,000
Other investment balances	9.5	4,594	-
Accrued income	9	3,829	3,244
Amounts receivable under reverse repurchase agreements	9	238,026	142,805
Investment liabilities			
Bonds	9	(229,815)	(141,619)
Derivatives	9.2	(675,059)	(925,021)
Other investment balances	9.5	(1,202)	(15,306)
Amounts due under repurchase agreements	9	(411,250)	(373,092)
Total net investments		1,072,748	1,139,533
Current assets	13	3,362	4,313
Current liabilities	14	(1,241)	(873)
Total net assets of the Fund at 31 March		1,074,869	1,142,973

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposition of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial certificate on page 59 and Report on Actuarial Liabilities included on pages 13 to 15 of this annual report, and these financial statements should be read in conjunction with them.

The Trustee approved these financial statements on 31 October 2022.

Signed for and on behalf of TCG Southern Trustees Limited:

Independent Trustee Services Limited,
represented by Mark Evans
Chair

Tom Taylor
Secretary

Notes to the Financial Statements

What does this show?

This section outlines the general accounting policies of the Scheme that relate to the financial statements as a whole.

1.1 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 (2018).

1.2 Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is Co-operative Group Limited, Pensions Department, Department 10406, 1 Angel Square, Manchester, M60 0AG.

1.3 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year, are as follows.

Critical accounting judgements and estimation uncertainty

No significant judgements have been made by the Trustee in the application of the principal accounting policies. Significant assumptions and estimates have been made in the valuation of the Scheme's financial assets and liabilities classified as level 3 under the fair valuation hierarchy. Details of these financial assets and liabilities, the valuation techniques applied, and the significant valuation assumptions, are provided in notes to these financial statements.

Contributions and benefits paid and payable

Employer deficit contributions are accounted for in the period they fall due as payable to the Scheme in accordance with the Schedule of Contributions and Recovery Plan.

Benefits are accounted for in the period in which the member notifies the Trustee of their 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

Individual transfers out represent the capital sums paid to other pension funds for members who have left the Scheme. Transfer values are accounted for when the liability is discharged, which is normally when the transfer amount is paid.

Expenses

Administration expenses are paid by the Co-op and then reimbursed by the Scheme and are accounted for on an accruals basis.

Investment management fees are accounted for on an accruals basis.

Investment income

Interest on deposits is accounted for on an accruals basis and accrued daily.

Income from bonds is accounted for on an accruals basis and includes interest brought and sold on investment purchases and sales.

With the exception of the illiquid credit fund managers, 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'.

For investment income distributed by the illiquid credit fund managers, this income is reported within 'investment income.'

Receipts from annuity policies are accounted for as investment income on an accruals basis.

Foreign currencies

Translation of foreign income into pounds is at the exchange rate on the date of receipt. For the investments held in foreign currency, the translation into pounds is at the exchange rate as at year-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 year-end, measured by the difference between the spot and the contract rate, is included in the change in market value of investments, together with realised gains and losses on forward contracts maturing during the year.

Valuation of investments

Investments are included in the statement of net assets at their market values. Listed securities are valued at the bid market value or latest traded price at the year-end. Pooled investment vehicles are stated at the bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment manager at the year-end.

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

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 valued at fair value, using a pricing model which calculates the current value of future expected net cash flows arising from the swap, for which the time value of money is taken into account. Interest is accrued monthly under the terms relating to individual contracts.

Net receipts or payments on swap contracts are reported either within investment income where the economic purpose of the swap is income related, or within change in market value where the economic purpose of the swap is related to the assets and liabilities of the Scheme. Realised gains and losses on closed contracts and unrealised gains or losses on open contracts are included within change in market value.

Open futures contracts are recognised in the statement of net assets at their fair value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract, as determined by the closing exchange price as at the year-end. Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

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 – 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 payable amount.
- Reverse repurchase agreements – the Scheme does not recognise the securities received as collateral in its financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements.

The fair value of annuities (excluding the buy-in) 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'.

The buy-in annuity policy is valued by the Actuary based on market conditions at 31 March 2022 and using the Scheme's technical provision assumptions as set out in the Statement of Funding Principles dated 26 June 2020 (updating for a revised assumption for the difference between RPI and CPI following the Government's confirmation in November 2020 of planned changes to the RPI measure of inflation from 2030). The Actuary has rolled forward the data to 31 March 2022 from the latest actuarial valuation, allowing for members ageing and dying, benefits that have been paid in the intervening period and pension increases over the period.

Currency

The Scheme's functional and presentational currency is pounds sterling (GBP). Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the Scheme's year end. Foreign currency transactions are translated into sterling at the spot rate at the date of the transaction.

2 Employer contributions

What does this show?

This note shows what contributions have been received by the Scheme from the Co-op during the year.

	2022 £000	2021 £000
Deficit funding	-	650

Contributions were paid during the prior year from 1 April 2020 to 30 June 2020 in accordance to the Schedules of Contributions certified on 30 June 2017 and 26 June 2020. Under these schedules, deficit funding contributions of £2.6m per annum were paid in equal monthly instalments from 1 April 2019 to 30 June 2020 and thereafter contributions ceased.

3 Benefits paid or payable

What does this show?

This note shows what benefits have been paid out to members of the Scheme during the year.

	2022 £000	2021 £000
Pensions	24,365	23,963
Commutation and lump sum retirement benefits	15,540	8,152
Lump sum death benefits	127	123
Annuities purchased	-	3
	40,032	32,241

During the year, a trivial commutation exercise took place whereby £10m of trivial commutations were paid out to members who chose to trivialise their pension. This exercise involved multiple communications regarding the trivial commutation offer to around 1,500 deferred and pensioner members of Somerfield.

GMP Equalisation

In October 2018 and late 2020 the High Court gave its judgments regarding the equalisation of pensions for men and women, the 2020 judgement specifically dealing with historic transfers. The judgments affect Guaranteed Minimum Pension ('GMP') built up in any UK pension scheme which was contracted out of the State Second Pension between 17 May 1990 and 5 April 1997. The issues determined by the judgements arise in relation to many other defined benefit pension schemes. The Trustee has considered the next steps in relation to equalising for the effect of GMPs and has taken advice. The Scheme now provides equalised transfer values and trivial commutation payments. Consideration of equalising for the effect of GMPs for retired scheme members, as well as future retirees, is still underway, as is the consideration of historic transfer outs from the Scheme. Under the ruling schemes are required to backdate benefit adjustments in relation to equalising for the effect of unequal GMPs and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

4 Payment to and on accounts of leavers

What does this show?

This note shows how much has been paid out to other pension schemes for members who have left the Scheme during the year.

	2022 £000	2021 £000
Individual transfers to other schemes	12,534	9,962

5 Administrative expenses

What does this show?

This note shows what expenses the Scheme has incurred during the year. It splits expenses into key categories, such as actuarial and administration fees.

	2022 £000	2021 £000
Administration	641	609
Actuarial	208	216
Audit	49	49
Legal and other	260	109
	1,158	983

6 Pension Levies

What does this show?

This note shows the total amount of levies paid to the Pensions Regulator and Pension Protection Fund during the year.

	2022 £000	2021 £000
Pension Levies	64	58

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

7 Investment income/(payments)

What does this show?

The Scheme receives income and pays interest from its assets; this note shows the different types of income received and interest paid during the year.

	2022 £000	2021 £000
Income from bonds	29,412	16,755
Income from pooled investment vehicles	1,757	1,487
Cash income/(payments) from swaps	3,956	(45,180)
Interest paid on repurchase agreements	(853)	(743)
Interest paid on swaps collateral	(158)	(45)
Interest received on cash deposit & cash instruments	12	4
Gain/(loss) on foreign exchange	2,155	(942)
Annuity income*	19,809	19,962
Other	36	21
	56,126	(8,681)

*In January 2019 the Trustee entered into a buy-in annuity policy with Pension Insurance Corporation plc (PIC). Under this agreement the Trustee purchased an insurance policy in relation to the majority of the Scheme's pensioner liabilities. During the year, £20m (2021: £20m) was received from PIC to cover the pension paid to this population.

8 Investment management expenses

What does this show?

This note shows the investment management expenses incurred by the Scheme during the year.

	2022 £000	2021 £000
Investment management fees	1,492	1,117
Custody fees	104	103
Advisory fees	219	250
Other investment expenses	16	12
	1,831	1,482

9 Reconciliation of investments

What does this show?

This note provides a reconciliation of the sales, purchases and change in market value during the year between the opening and closing value of investments and analysed by asset class as disclosed on the face of the Statement of Net Assets.

		1 April 2021	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in market value	31 March 2022
	Note	£000	£000	£000	£000	£000
Assets/(Liabilities) not allocated to members						
Bonds*		753,132	610,924	(608,100)	(27,650)	728,306
Pooled investment vehicles	9.1	270,166	216,938	(320,588)	8,415	174,931
Net Derivative contracts	9.2					
- Swaps		(53,827)	43,016	(17,296)	(18,833)	(46,940)
- Futures		1,333	2,112	(3,089)	1,049	1,405
- Foreign exchange		(423)	3,255	(1,110)	(2,819)	(1,097)
Repurchase agreements**		(230,287)	2,160,780	(2,103,717)	-	(173,224)
		740,094	3,037,025	(3,053,900)	(39,838)	683,381
Assets/(Liabilities) allocated to members						
AVC investments	9.3	3,501	-	(582)	227	3,146
Insurance Policy	9.4	408,000	-	-	(29,000)	379,000
		411,501	-	(582)	(28,773)	382,146
Total Fund						
Not allocated to members		740,094	3,037,025	(3,053,900)	(39,838)	683,381
Allocated to members		411,501	-	(582)	(28,773)	382,146
		1,151,595	3,037,025	(3,054,482)	(68,611)	1,065,527
Other investment balances	9.5	(15,306)				3,392
Accrued income		3,244				3,829
		1,139,533			(68,611)	1,072,748

* Bonds above represents the net value which comprises of positive bonds (assets) of £958.1m and negative bonds (liabilities) of -£229.8m, the latter of which reflects the mark to market amounts payable under reverse repurchase agreements entered into by the Scheme (and which are shown as the amounts receivable under reverse repurchase agreements in the Statement of Net Assets on page 33).

** Repurchase agreements above represents the net value which comprises of amounts payable under repurchase agreements of £411.2m and amounts receivable under reverse repurchase agreements of £238m. At year end, the Scheme held £0.5m in UK Gilts as collateral and paid out -£10m in UK Gilts as collateral (2021: held £0.3m in UK Gilts, paid out -£17.1m of UK Gilts).

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

Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

Transaction costs analysed by main asset class and type of cost are as follows:

	Commission £	2022 Total £	2021 Total £
Cash instruments	4,979	4,979	3,825
2022 Total	4,979	4,979	-
2021 Total	3,825	-	3,825

9.1 Pooled investment vehicles

	2022 £000	2021 £000
Illiquid credit	110,810	117,315
Equity	55,532	64,662
Cash	8,589	88,189
	174,931	270,166

Concentration of investments

The following investments (other than UK Government Securities) at the year-end which are more than 5% of the total value of the net assets of the Scheme comprise:

		2022 Market value £000	Net assets %	2021 Market value £000	Net assets %
PIC	Buy-in annuity policy	379,000	35.3	408,000	35.7
Insight	Merrill Lynch rev repo 0.400%	61,220	5.7	-	-
Insight	Goldman Sachs rev repo 0.020%	-	-	62,940	5.5
Insight	Goldman Sachs rev repo 0.040%	-	-	62,247	5.4
Insight	Lloyds TSB bk plc repo 0.110%	-	-	(62,817)	(5.5)

9.2 Derivatives

Assets	Note	2022 £000	2021 £000
Interest rate swaps (OTC)	(i)	521,650	717,118
Inflation swaps (OTC)	(i)	72,908	116,315
Asset swaps (OTC)	(i)	32,311	33,012
Total return swaps (OTC)	(i)	-	4,285
Forward foreign exchange (OTC)	(ii)	152	41
Futures (Exchange traded)	(iii)	1,406	1,333
		628,427	872,104

Liabilities	Note	2022 £000	2021 £000
Interest rate swaps (OTC)	(i)	(478,452)	(661,165)
Inflation swaps (OTC)	(i)	(57,802)	(111,782)
Asset swaps (OTC)	(i)	(137,555)	(138,525)
Total return swaps (OTC)	(i)	-	(13,085)
Forward foreign exchange (OTC)	(ii)	(1,249)	(464)
Futures (Exchange traded)	(iii)	(1)	-
		(675,059)	(925,021)

Derivative contracts - Objectives and policies

We have authorised the use of derivatives by investment managers as part of the investment strategy for the Scheme. The main objectives for the use of derivatives and the policies followed during the year are summarised as follows:

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 underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Pounds, investment managers are able to use forward foreign exchange contracts to reduce the currency exposure of these overseas investments to the targeted level.

Swaps – Our aim is to match a substantial majority of the assets of the Scheme to the Scheme's long-term liabilities, in particular in relation to their sensitivities to interest rate and inflation movements. We have, therefore, entered into interest rate and inflation linked swap contracts that extend the duration of the liability matching portfolio to better match the long-term liabilities of the Scheme.

Futures – Futures are used to prevent cash held being “out of the market”. Index based futures contracts are entered into which have an underlying economic value broadly equivalent to cash being held. Futures are also used to manage interest rate exposure. Gilt 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.

(i) Swaps contracts

The Scheme held the following Swaps contracts at the year-end as follows:

Nature Duration	Notional Principal £000	Asset value at year-end £000	Liability value at year-end £000
Inflation rate (OTC)			
2022-2030	368,433	10,627	(15,183)
2031-2040	236,791	17,387	(20,128)
2041-2050	170,563	18,517	(6,219)
2051-2060	144,385	18,985	(11,230)
2061-2070	24,998	7,392	(5,042)
		<hr/>	<hr/>
		72,908	(57,802)
Interest rate (OTC)			
2022-2030	774,258	102,189	(128,095)
2031-2040	557,028	104,298	(121,825)
2041-2050	722,436	195,324	(107,356)
2051-2060	450,196	109,418	(100,389)
2061-2070	124,483	7,045	(20,586)
2071-2080	14,174	3,376	(201)
		<hr/>	<hr/>
		521,650	(478,452)
Asset swap (OTC)			
to 22 Nov 2022	5,000	-	(2,355)
to 22 Nov 2037	4,500	-	(5,422)
to 07 Dec 2040	50,000	-	(18,687)
to 22 Nov 2042	33,259	23,939	(33,364)
to 22 Nov 2047	37,802	-	(61,605)
to 07 Dec 2049	29,766	8,372	(6,468)
to 22 Mar 2050	5,323	-	(9,654)
		<hr/>	<hr/>
		32,311	(137,555)
Total 2022		626,869	(673,809)
Total 2021		870,730	(924,557)

At the end of the year the Scheme received and paid collateral as set out in the below table in respect of OTC swaps (this is not recorded in the statement of net assets).

	2022 £000 Received	2022 £000 Paid
Cash	37,493	-
UK Gilts	569	7,027
UK IL Gilts	5,943	86,220
Total 2022	44,005	93,247
Total 2021	53,723	108,694

(ii) Forward foreign exchange (FX)

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

Nature value	Settlement date	Currency bought £000	Currency bought	Currency sold £000	Currency sold	Asset value at year-end £000	Liability at year-end £000
Forward OTC	27 April 2022	17,589	GBP	(18,226)	USD	-	(637)
Forward OTC	27 April 2022	270	USD	(271)	GBP	-	-
Forward OTC	25 May 2022	1,064	USD	(1,051)	GBP	13	-
Forward OTC	25 May 2022	18,421	GBP	(19,033)	USD	-	(612)
Forward OTC	15 June 2022	17,326	GBP	(17,187)	USD	139	-
Total 2022		54,670		(55,768)		152	(1,249)
Total 2021		54,565		(54,988)		41	(464)

(iii) Futures

The Scheme held the following Futures contracts (exchange traded) at the year-end as follows:

Nature	Notional Amount position £000	Expiration	Asset value at year-end £000	Liability value at year-end £000
US 2YR NOTE FUTURE (CBT)	(322)	June 2022	4	-
US 5YR NOTE FUTURE (CBT)	(3,571)	June 2022	89	-
US 10YR NOTE FUTURE (CBT)	(9,612)	June 2022	271	-
US 10YR ULTRA FUTURE (CBT)	(10,083)	June 2022	322	(1)
US LONG BOND FUTURE (CBT)	(10,713)	June 2022	324	-
US ULTRA BOND (CBT)	(10,493)	June 2022	396	-
Total 2022			1,406	(1)
Total 2021			1,333	-

Included within cash balances is £(1,562k) (2021: £1,124k) in respect of initial and variation margins arising on open futures contracts at the year-end.

9.3 AVC investments

	2022 £000	2021 £000
Prudential*	2,957	3,256
Aviva	189	245
	3,146	3,501

* Note: Due to the unavailability of the year end valuation for Prudential for year ending 31 March 2022, the value reported above represents the 31 March 2021 valuation plus any cash movements during the year.

We hold assets invested separately from the main fund in the form of insurance policies securing additional benefits on a defined contribution basis for those members electing to pay additional voluntary contributions (AVC). Those participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

9.4 Insurance Policy

	2022 £000	2021 £000
Buy-in annuity policy	379,000	408,000

The buy-in annuity policy is held with Pension Insurance Corporation PLC in relation to the majority of the Scheme's pensioner liabilities. Assumptions used by the Actuary to determine the year end valuation of the buy-in annuity policy is set out on page 37.

9.5 Other investments balances

	2022 £000	2021 £000
Cash deposits	4,345	(2,051)
Sales awaiting settlement	249	-
Purchases awaiting settlement	(1,202)	(13,255)
	3,392	(15,306)

10 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.

11 Fair value determination

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). Investments reported under Level 3 are included at fair value based on values estimated by the underlying fund managers or the custodians (and their pricing vendors) using accepted valuation methodologies and use of market information in the absence of observable market data.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

At 31 March 2022

	Held at amortised cost not fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds*	-	-	716,831	11,475	728,306
Pooled investment vehicles	-	-	101,674	73,257	174,931
Swaps	-	-	(46,940)	-	(46,940)
Futures	-	1,405	-	-	1,405
Foreign exchange	-	-	(1,097)	-	(1,097)
Repurchase agreements	(173,224)	-	-	-	(173,224)
AVC investments	-	-	-	3,146	3,146
Cash deposits	-	4,345	-	-	4,345
Insurance Policy	-	-	-	379,000	379,000
Accrued income	-	3,829	-	-	3,829
Purchases awaiting settlement	-	(1,202)	-	-	(1,202)
Sales awaiting settlement	-	249	-	-	249
TOTAL	(173,224)	8,626	770,468	466,878	1,072,748

* Bonds above represents the net value which comprises of positive bonds (assets) of £958.1m and negative bonds (liabilities) of -£229.8m, the latter of which reflects the mark to

market amounts payable under reverse repurchase agreements entered into by the Scheme (and which are shown as the amounts receivable under reverse repurchase agreements in the Statement of Net Assets on page 33).

At 31 March 2021

	Held at amortised cost not fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds*	-	-	738,355	14,777	753,132
Pooled investment vehicles	-	-	189,839	80,327	270,166
Swaps	-	-	(53,827)	-	(53,827)
Futures	-	1,333	-	-	1,333
Foreign exchange	-	-	(423)	-	(423)
Repurchase agreements	(230,287)	-	-	-	(230,287)
AVC investments	-	-	2,144	1,357	3,501
Cash deposits	-	(2,051)	-	-	(2,051)
Insurance Policy	-	-	-	408,000	408,000
Accrued income	-	3,244	-	-	3,244
Purchases awaiting settlement	-	(13,255)	-	-	(13,255)
TOTAL	(230,287)	(10,729)	876,088	504,461	1,139,533

12 Investment risk disclosures

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 decreases or increases 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 or currencies).

Other 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.
- **“Counterparty risk”:** The risk that where the Scheme enters into swap transactions via pooled funds, the selected counterparty cannot fulfil its obligations.
- **“Custody risk”:** The risk that the Scheme’s assets are not held safely.
- **“Corporate governance risk”:** The risk that the Scheme invests in poorly managed companies, and that the value of those investments falls as a result.
- **“Sponsor risk”:** The risk that the Scheme’s sponsor 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.
- **“Inappropriate investments”:** The risk that the Scheme invests in inappropriate investments (e.g. investments that are too risky).
- **“Environmental, Social and Governance (“ESG”) risk (including climate risk)”:** the risk that the Scheme’s investment returns and/or reputation are damaged due to the failure to implement and adhere to its responsible investment policy.

12.1 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 23 and 24 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 AVC investments, because these are relatively small compared to the overall investments of the Scheme. Where the term 'invested assets' is used below, it includes the value of the annuity policy purchased.

(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 holds a 'buy-in' annuity policy with Pension Insurance Corporation ("PIC");
- 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 these pooled investment vehicles.

Credit risk – Insurance policies:

The Scheme is subject to credit risk arising from its investment in a buy-in policy with PIC, which was purchased in January 2019. This risk is, however, mitigated by the fact that PIC is regulated by the Financial Conduct Authority and in the event of insurer default, the benefits secured by the buy-in will be protected 100% by the Financial Services Compensation Scheme ("FSCS"). As at 31 March 2022, the value attributed to the buy-in policy was approximately £379m (2021: £408m)

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 ensuring that the majority of the bonds held by Insight, Legal and General and RLAM 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 9 on page 41).

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. 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. LGIM is not permitted to purchase bonds that are sub-investment grade but there is a limit of 10% for retaining bonds that are sub-investment grade.

At the period end a total of 0.4% of the Scheme's invested assets were sub-investment grade corporate bonds (2021: 0.2%).

Credit risk – derivatives:

Credit risk arising on derivative contracts, which are not guaranteed by any regulated exchange, and which are therefore subject to risk of failure of the counterparty. The level of credit risk for derivative contracts is reduced by using collateral arrangements (see note 9.2). Credit risk can also arise on forward foreign currency contracts (9.2.ii); 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 are exposed to credit risk on the currency hedging derivatives held by the manager, 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.

Credit risk – cash:

Cash is held within financial institutions which are at least investment grade credit rated. At year end, the total cash held is 0.3% of the Scheme's total net assets (2021: 0.4%).

Credit risk – repurchase agreements:

Credit risk on repurchase agreements is mitigated through collateral arrangements. At year end, the Scheme held -£9.5 million in collateral (2020: -£16.8 million).

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 9.1.

The Scheme's investments in PIVs and bonds are either rated investment grade or unrated. Direct credit risk arising from bonds and PIVs 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

	2022 £ '000	2021 £ '000
Open Ended Investment Company		
- Insight Liquidity fund	2,127	9,542
Unit Linked Insurance Policy		
- LGIM equity funds	55,532	64,662
- LGIM AR Cash fund	-	42,001
- LGIM Liquidity fund	6,462	36,646
Qualifying Investor Alternative Investment Funds		
- M&G illiquid credit fund	37,553	36,988
- Insight illiquid credit fund	44,011	42,521
Luxembourg Securitisation Undertaking (“organisme de titrisation”)		
- ICG illiquid credit fund	29,246	37,806
TOTAL	174,931	270,166

A summary of pooled investment vehicles by type of arrangement can be found in note 9.1. At year end, 16.3% of invested assets were held in pooled investment vehicles (2021: 23.7%).

Credit risk – custody:

We have appointed a global custodian for the safekeeping 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 pooled illiquid credit investment vehicles that the Scheme invests in (totalling 10.3% of invested assets at year end, including the buy-in – 2021: 10.3%). For example, if the Scheme invested in an pooled illiquid credit fund 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.

(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 where we judge the 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 year-end was as follows:

	2022 £'000	2021 £'000
Currency		
US Dollar	17,827	21,518
Euro	2,182	2,793
Japanese Yen	1,676	2,358
Other	8,191	9,511
Total overseas exposure	29,876	36,180

(iii) Interest rate 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 mandate managed by Insight, and Buy and Maintain Credit mandates managed by LGIM and RLAM. The LDI portfolio holds gilts, corporate bonds, derivatives and cash collateral. We monitor the level of cash held within the LDI mandate 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.

The bulk annuity policy purchased in January 2019 also provides interest rate and inflation hedging in relation to the liabilities it matches.

We have set a target investment in LDI and bonds of 80.8% of the total investment portfolio (excluding the buy-in policy). 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 bonds investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. These assets would be expected to change in value by £1.4 million for a change in interest rates of 0.01% (2021: £1.4 million). The Scheme's liabilities would change by approximately £1.5 million for a change in interest rates of 0.01% (2021: £1.5 million).

(iv) Inflation risk

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. These assets would be expected to change in value by £0.6 million for a change in expected inflation of 0.01% (2021: £0.7 million). The Scheme's liabilities would change by approximately £0.7 million for a change in expected inflation of 0.01% (2021: £0.8 million).

At the year end the LDI portfolio and bonds represented 47.7% of total assets including the buy-in (2021: 39.9%).

(v) Other price risk

The Scheme is also exposed to “other price risk”, largely because of its investments in return seeking assets (which include equities held in pooled vehicles), and holdings invested 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 Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets by limiting the target size of the equity and illiquid credit allocation to 5% and 10% respectively (the target allocation figure for the equity and illiquid credit portfolios is 8.2% and 16.4% respectively if the insurance policy is excluded).

At the year end, the Scheme’s exposures to investments subject to other price risk was 5.2% and 10.3% of total assets for the equity mandate and Illiquid Credit funds respectively (8.0% and 16.0% if total investment excludes the buy-in portfolio) (2021: 8% and 16.0% respectively)

(vi) Other risks

Other 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 a range of managers, and we regularly monitor the 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.
- **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.
- **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.
- **Sponsor risk** – this is managed by regular assessments of the ability of the Co-op 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.
- **Inappropriate investments** – this is managed by our policies in relation to the range of assets held and the pooled funds invested in.
- **Environmental, social and governance (“ESG”) risk (including climate change)** – the Scheme considers its Responsible Investment Policy when implementing its

investment strategy. It also reviews the policy each year to make sure it remains appropriate. We also engage with investment managers, and where appropriate and viable, exclude specific investments from the Scheme's portfolios to comply with the policy.

13 Current assets

What does this show?

This note shows the value of non-investment assets held by the Scheme at the year end.

	2022 £000	2021 £000
Cash balances	3,362	4,311
Pension returns	-	2
	3,362	4,313

14 Current liabilities

What does this show?

This note shows the value of non-investment liabilities owed by the Scheme at the year end.

	2022 £000	2021 £000
Unpaid benefits	(288)	(151)
Other creditors	(953)	(722)
	(1,241)	(873)

15 Related party transactions

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 the Co-op, other related party transactions are:

- At the Scheme's year-end two directors hold deferred benefits in the Scheme and during the year one director was receiving a pension from the Scheme.
- Expenses incurred by Trustee Directors, including training, travel and overnight accommodation, where appropriate, may be charged to the Scheme.
- The Co-op's Pensions Department performs Scheme administration.
- Pensioner Member-Nominated Trustee Directors receive pensions from the Scheme under normal terms and conditions and are paid £5,000 per annum.

- Member Nominated Trustee Directors who still work for the Co-op 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 workload 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 year was £52,600 (2021: £36,308).

16 Employer related investments

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 year, there were no direct or indirect employer related investments.

17 Subsequent Events

What does this show?

This note shows those events, favourable and unfavourable, that occur between the end of the reporting year and the date the financial statements are authorised for issue.

Since the Scheme's year-end, financial markets have been very volatile, particularly following the Chancellor's "mini-budget" on 23 September 2022. This caused gilt yields to rise sharply and prompted the Bank of England to intervene to stabilise financial markets, announcing a £65bn emergency bond-buying package.

Although the sharp rises in gilt yields have caused the value of the Scheme's liabilities to fall, the liability hedging programme, by design, has also resulted in a decline in the value of LDI assets managed by Insight. As per the Trustee's LDI collateral waterfall management policy, in late September/early October 2022 the Trustee transferred c. £100m of additional assets to Insight to use as collateral to cushion against the effects of potential further increases in gilt yields and to maintain the current levels of interest rate and inflation hedging (total invested assets for the Scheme at 30 September 2022 were c. £453m). These assets were sourced from both corporate bonds and a sale of all the passively managed equity assets. The Trustee continues to closely liaise with its investment advisors and LDI manager to monitor collateral levels and, in October 2022, also reviewed its collateral waterfall management framework to ensure it remains sufficiently robust given the volatile market environment.

Independent Auditor's Statement about Contributions to the Trustee of the Somerfield Pension Scheme

We have examined the summary of contributions to the Somerfield Pension Scheme for the year ended 31 March 2022 to which this statement is attached.

In our opinion contributions for the Scheme for the year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedule of Contribution have in all material respects been paid at least in accordance with the Schedule of Contribution certified by the actuary 26 June 2020.

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 fund and the timing of those payments under the Schedule of Contributions.

Respective Responsibilities of Trustee and the Auditor

As explained in the Statement of Trustee's responsibilities in respect of Contributions on page 58, 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
Belfast
United Kingdom

Date:

Statement of Trustee's Responsibilities in respect of Contributions

The Trustee is responsible under pension legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Trustee's Summary of Contributions payable under the Schedule in respect of the Scheme year ended 31 March 2022 in the Statement of Trustee's Responsibilities in respect of Contributions

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer contributions payable to the Scheme under the Schedule of Contributions certified by the Actuary 26 June 2020 in respect of the Scheme year ended 31 March 2022. The Auditor reports on these contributions payable in the Auditor's Statement about Contributions.

Contributions payable under the Schedule of Contributions in respect of the Scheme year	
	£'000
Employer:	
Contributions towards the elimination of funding deficit	-
Contributions payable under the Schedule of Contributions and reported in the financial statements (as reported on by the scheme auditor)	-

For and on behalf of TCG Southern Trustees Limited:

Independent Trustee Services Limited,
represented by Mark Evans
Chair

Tom Taylor
Secretary

Date: 31 October 2022

Actuary's Certification of Schedule of Contributions

Certification of schedule of contributions

Somerfield Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period specified in the Recovery Plan dated 26 June 2020.

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 26 June 2020.

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

Signature

Date:

26 June 2020

Name: Tom Scott

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Aon Solutions UK Limited
Colmore Gate
2 Colmore Row
Birmingham
B3 2QD

Name of employer: Aon Solutions UK Limited

Appendix 1 – Engagement Policy Implementation Statement

20 September 2022

Background

In 2019, the government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 which requires the Trustee to a statement setting out (among other things) how the Trustee has followed its policies on the exercise of voting rights attaching to their investments and engagement activities. This document is intended to meet those requirements and will be included in the Scheme's Report and Accounts and published on the Scheme's website.

This is the Somerfield Pension Scheme's third published Implementation Statement and covers the Scheme year from 1 April 2021 to 31 March 2022.

The Trustee's review of the SIP over the year

The Trustee maintains a Statement of Investment Principles (or "SIP") for the Scheme, and it is reviewed annually or following any significant changes in investment policy.

The Trustee reviewed and updated the SIP in September 2021 following a change to the Scheme's long term investment strategy to reflect one of the Scheme's illiquid credit mandates being put into "run off", and again in June 2022 to reflect the updated timeframe for run off of the ICG portfolio.

The most recent version of the SIP was updated on 23 June 2022 and is available on the Scheme's website, <https://coop.pacepensions.co.uk/other-schemes/>.

In preparing the SIP, the Trustee consults with the sponsoring employer. The employer is consulted regarding any proposed changes to the Statement and investment strategy, however, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities (Section 12 of the SIP)

The Trustee's policies on engagement (as applicable during the year) are set out in the SIP, and are summarised below, together with the Trustee's assessment of how and the extent to which these policies have been implemented:

Policy	Assessment
<i>The Trustee seeks to address [the broad Responsible Investment issues set out in its Responsible Investment Policy] ... in a number of ways. For example, the Scheme's equity assets are invested in the LGIM Future World Funds which have tilts towards companies with positive ESG scores.... The Trustee also applies a specific exclusion list of stocks for the segregated investment grade credit</i>	The Trustee considers the most effective way to align the Scheme's investment with its values is to appoint fund managers that take a responsible and sustainable approach to investment, as well as to engage with asset managers in relation to the three broad issues that the Trustee identifies as priorities in the Scheme's responsible investment policy, namely:

mandates to restrict investment in companies identified as conflicting with the Trustee's aims under these issues.

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 Scheme 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.

- **Climate change and the protection of the environment;**
- **Labour conditions and equal pay;** and
- **Corporate governance.**

Where assets are held directly by the Scheme (specifically the segregated Royal London Asset Management ("RLAM") and Legal & General Investment Management ("LGIM") corporate bond assets), the Trustee applies explicit exclusion lists to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. This has been applied throughout the year with updated exclusions lists provided to the managers quarterly based on ESG data licensed from MSCI.

Elsewhere, the Scheme invests entirely in pooled investment funds alongside other investors and does not therefore directly invest in underlying companies or have the ability to engage directly with these companies.

The Scheme's equity holdings are managed by Legal & General Investment Management ("LGIM"). This was through LGIM's Future World equity index funds, which "tilt" investments towards companies assessed as having better ESG ratings (e.g. more diverse boards, lower carbon footprints or stronger supply chain policies), and that also publicly disinvest from companies who have failed to engage seriously on climate change, as the Trustee believed this was better aligned with the Scheme's responsible investment priorities than a traditional market capitalisation approach.

The Scheme's equity investments are held through pooled vehicles and the Trustee does not therefore directly exercise voting rights. LGIM votes on these shares using ISS's ProxyExchange electronic voting platform, but voting decisions are retained by the manager and are strategic decisions made by LGIM's Corporate Governance

	<p>Team in accordance with their corporate governance policies.</p> <p>LGIM votes on its shares using ISS's ProxyExchange electronic voting platform, but voting decisions are retained by the manager and are strategic decisions made by LGIM's Investment Stewardship Team in accordance with their corporate governance policies.</p> <p>LGIM discloses its voting records on its website, including summaries of their positions for significant shareholder votes, and these are summarised in their quarterly ESG impact reports.</p>
<i>The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.</i>	<p>Following the Russian invasion of Ukraine in February 2022, the Co-op Pensions Department worked with the Scheme's asset managers to quantify and understand exposure to Russian investments.</p>
<i>Investment Managers are asked to report to the Investment Committee on the issue of responsible investment.</i>	<p>The Trustee has, directly or through the Co-op's Manager Monitoring and Implementation Committee, met with all five of the Scheme's managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments, and areas of engagement as well as developments over the year.</p> <p>Over the year, LGIM highlighted their collective engagement in relation to social media responsibility. In response to the Christchurch terror attack in early 2019, LGIM joined 104 global investors in a collaborative effort to engage the world's three largest social media companies to strengthen controls to prevent the livestreaming and dissemination of objectionable content through the Social Media Collaborative Engagement, through the publication of an open letter to Meta, Alphabet and Twitter, and voting in support of shareholder proposals at all three companies. Analysis following the engagement showed that all the company platforms have moved to strengthen controls to prevent the live streaming and distribution of objectionable content, and independent research by an external think tank showed that the platforms have made and continue</p>

	to make reasonable efforts to reduce the spread of objectionable content.
<i>In addition, the Investment Committee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.</i>	<p>As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Investment Committee receives reporting from its investment consultants integrated into the Scheme's quarterly performance monitoring on its researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.</p> <p>Since Q2 2020 each quarter the Investment Committee has reviewed LGIM's quarterly ESG impact report, which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions.</p>
<i>As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.</i>	No new managers were appointed over the year.
<i>In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.</i>	As noted above, the Co-op's Manager Monitoring committee met with all five of the Fund's managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies were discussed at each meeting. The Manager Monitoring Investment Committee met directly with LGIM and received a presentation on their ESG policies and approach to engagement in August 2021.
<i>The Scheme's equity manager (who is registered in the UK) is expected to report on their adherence to the UK Stewardship code on an annual basis.</i>	LGIM report on their compliance with their engagement policies annually via their Active Ownership Report. The 2021 report was published in April 2022 and will be reviewed later in 2022 by the Investment Committee.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Exercise of voting rights

As noted above, the Trustee invests in equities through pooled funds managed by LGIM. The table below sets out further details relating to LGIM's voting record for stocks held within each fund for the year to 31 March 2022 (as reporting is aligned with calendar quarters).

	Fund		
	L&G Future World UK Equity Index Fund	L&G Future World Developed ex UK Equity Index Fund	L&G Future World Emerging Markets Equity Index Fund
Number of equity holdings in the fund (at 31 March 2022)	359	1,413	1,183
Number of meetings at which fund manager was eligible to vote over the year	491	1,526	2,450
Number of resolutions fund manager was eligible to vote on over the year	7,012	20,108	20,742
% of resolutions fund manager was eligible to vote on where they exercised that vote	99.94%	99.82%	99.86%
% of resolutions where fund manager voted for management / voted against management / abstained from voting*	Voted with 93.46% Voted against 6.54% Abstained 0.00%	Voted with 78.37% Voted against 21.28% Abstained 0.35%	Voted with 81.03% Voted against 17.39% Abstained 1.59%
% of meetings at which fund manager voted at least once against management	38.78%	81.64%	54.19%
% of meetings at which fund manager voted against the recommendation of the proxy advisor	5.76%	14.76%	8.44%

*May not sum due to rounding.

Significant Votes

LGIM provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly Investment Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny).
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote.
- A sanction vote as a result of a direct, or collaborative, engagement.
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

The Trustee and the Co-op Pensions Department have reviewed LGIM's reporting and identified the votes on the following page as 'most significant' using these criteria and considering which votes were most aligned with the Trustee's stewardship priorities as set out above.

Relevant Stewardship priority	Climate change at the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Labour conditions and equal pay	Corporate Governance	Corporate Governance
Asset manager	LGIM	LGIM	LGIM	LGIM	LGIM	LGIM
Company	HSBC	Apple Inc	Frasers Group plc	Intel Corporation	Microsoft Corporation	NVIDIA Corporation
Date of the vote	28 May 2021	4 March 2022	29 September 2021	13 May 2021	30 November 2021	3 June 2021
Approximate size of the Fund's holding at the date of the vote	c£130k	c£2.9m	c£1k	c£301k	c£3.7m	c£521k
Summary of the resolution	To set, disclose and implement short- and medium-term targets, to publish and implement a phase-out policy and to report on progress.	Shareholder resolution to require Apple to undertake a third-party audit analyzing the impact of Apple's policies and practices on the civil rights of company stakeholders, and to provide recommendations for improving the company's civil rights impact	To receive and adopt the report & accounts.	Shareholder resolution to require Intel to report on Global Median Gender/Racial Pay Gaps	To elect Satya Nadella as a Director.	To elect Harvey C. Jones as a Director
How the asset manager voted	In favour	In favour	Against	In favour	Against	Against
Was the voting intention communicated to the company ahead of the vote?	Yes (see below)	Yes - LGIM engaged with Apple prior to the annual meeting and communicated its policies and how it was likely to vote.	No	No	No	No

Rationale	ShareAction initially proposed a resolution to strengthen HSBC's climate change policies and disclosure. LGIM joined a collaborative engagement around the shareholder proposal ahead of the 2021 AGM. As a result of further discussions between the company, the proponents and shareholders, ShareAction was sufficiently comfortable with management's counter proposal to withdraw its own resolution, leading to a single resolution supported by management and proxy advisers.	LGIM supports proposals related to diversity and inclusion policies as LGIM considers these issues to be a material risk to companies.	Fraser's Group had failed for two consecutive years to meet the requirements of the Modern Slavery Act to publish a statement on the steps they have taken to ensure that slavery and human trafficking is not taking place in their own operations or within their supply chain; LGIM's vote was a sanction against this.	LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. This division of responsibilities ensures that a single individual does not have unfettered powers of decision-making at the head of the company, thereby securing a proper balance of authority and responsibility on the board. Its policy is to vote against the election or re-election of any individual holding such a combined role.	LGIM views gender diversity as a financially material issue for its clients, and expects companies in well-governed markets to have at least 30% women on their boards. For the North American market, by 2023 LGIM expects women to make up at least one-third of board directors and Named Executive Officers. To assist companies in reaching this target, LGIM votes against director nominations for companies in the S&P500 and the S&P/TSX that have fewer than 25% women on the board.
Outcome	99.7% of voters supported the resolution.	53.6% of the voters supported the resolution	99.5% of voters supported the resolution.	14.3% of voters supported the resolution.	94.7% of voters supported the resolution.	94.2% of voters supported the resolution.
Does the asset manager intend to escalate the stewardship efforts?	LGIM will continue to monitor the strength of HSBC's climate change policies and progress towards improved disclosure of targets and emissions across the portfolio.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.	LGIM's engagement with the company suggests it will be compliant with the requirements of section 54 by the end of 2022.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.	LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.