CAPITA

Travis Perkins Pension & Dependants' Benefit Scheme

Scheme Registration Number: 10121600

Trustee's Annual Report and Financial Statements For the Year Ended 30 September 2018

CONFIDENTIAL

Contents

Trustee and Advisors

Trustee and Advisors (continued)

INVESTMENT MANAGERS

Absolute Insight Funds plc
Insight TA Team, 78 Sir John Rogerson's Quay, Dublin 2, Ireland

BlackRock Investment Management
33 King William Street, London EC4R 9AS

Legal & General Investment Management Ltd
One Coleman Street, London EC2R 5AA

Prudential M&G Secured Property Income Fund (SPIF)
Close Fund Services Ltd, PO Box 105, Trafalgar Court, Admiral Park, St Peter Port, Guernsey, Channel Islands, GY1 3EP

Aberdeen Standard Investments
1 George Street, Edinburgh EH2 2LL

Baillie Gifford & Co
Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN

Royal London Asset Management
55 Gracechurch Street, London EC3V 0RL

M&G Alternatives Investment Management Limited
Laurence Pountney Hill, London, EC4R 0HH

CUSTODIANS

Manager	Mandate	Custodian
BlackRock	Corporate Bonds	Bank of New York Mellon
	Pooled LDI	Northern Trust Fiduciary Services (Ireland) Limited
Insight	Broad Opportunities	Bank of New York Mellon
	Buy & Maintain Credit	Bank of New York Mellon
	Liability Hedging	Bank of New York Mellon
	Secured Finance	Northern Trust Fiduciary Services (Ireland) Limited
L&G	Global Equity/Sterling Liquidity	HSBC/Citibank N.A.
M&G	HLV Property	Kleinwort Benson (Guernsey) Limited
Aberdeen Standard	Diversified Growth	Citibank N.A.
Prudential M&G	Illiquid Credit	State Street Bank and Trust Company
Baillie Gifford	Long Term Global	Bank of New York Mellon
Royal London AM	Buy & Maintain Credit	Bank of New York Mellon

CORRESPONDENCE ADDRESS

Andy Mills
Secretary to the Trustee
Capital Cranfield Pension Trustees Limited
Unit 15, Poplars Court
Lenton Lane
Nottingham NG7 2RR

Trustee's Report

The Trustee presents the report and audited financial statements of the Travis Perkins Pension & Dependants' Benefit Scheme ("the Scheme") for the year ended 30 September 2018.

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

Scheme Management

The Scheme is a final salary scheme, paying defined pension benefits and lump sum payments to members on their retirement in respect of their pensionable service with Travis Perkins plc, or any of its participating subsidiary companies or to their dependants on death before or after retirement. The Scheme closed to future accrual on 31 August 2018.

Appointment of Trustee

The power of appointment of the Trustee, or of a new Director or Directors of the Trustee Company and the power of removal of the Trustee, or one or more Directors of the Trustee Company are vested in Travis Perkins plc.

In accordance with the Pensions Act 2004 at least one third of the Trustee Directors are member nominated. The removal of a member nominated Director requires the agreement of all the other Trustee Directors.

Rules and Benefits

Details of the benefits which the Scheme provides for Members can be found in the explanatory booklet and the leaflet 'Looking to the Future; copies of which can be obtained from the Secretary to the Trustee. Amendments to the Scheme are notified to Members by means of a notice giving details of the changes. The Scheme is governed by the rules as set out in the Trust Deed. From 1 February 2006 the Scheme closed to new entrants. From 1 April 2006 active members could pay pension contributions through salary sacrifice. From 1 December 2009, a 3% cap on increases to pensionable salary was introduced. From 31 August 2018 the Scheme closed to future accrual.

Investments

The investments of the Scheme have been managed by the Trustee in conjunction with the Scheme's investment managers. The Trustee agrees the investment strategy after taking appropriate advice. Subject to complying with the agreed strategy, which specifies the target proportions of the fund, which should be invested in the principal market sectors, day-to-day management of the Scheme's portfolio, which includes full discretion for stock selection, is the responsibility of the investment managers. Investment matters for the year ended 30 September 2018 is included in the Trustee's report on pages 9 to 14.

The Trustee has produced a statement of investment principles (SIP), as required by Section 35 of the Pensions Act 1995, and a copy is available to members on request.

The investment managers' duties include the consideration of social, environmental or ethical issues in the selection, retention and realisation of investments as well as voting and corporate governance in relation to the Scheme's assets. The Trustee has reviewed each of the investment managers' policies on these issues. The Trustee believes that the policies adopted by the managers are consistent with its own views.

Trustee's Report (continued)

Scheme Management (continued)

Contributions

Contributions received from members and participating employers were paid in all material respects at least in accordance with the Schedule of Contributions, and are paid in line with disclosure regulations on or before the 19th of the month after the month they are deducted from the payroll. Various checks and controls are in place to track payment of these contributions and to ensure that payment is made consistently on time.

Best Practice

The Investment Subcommittee (ISC) of the Trustee Board, in consultation with its advisers, has considered how far it complies with Myners Principle 5 and the UK Stewardship Code (the "Code"). The ISC was satisfied that the Trustee was broadly compliant with the principles and Code, having reviewed the position in September 2018.

Custodial Arrangements

Custody of the Scheme's assets is delegated by the Trustee to the custodians. The custodians are responsible for the safekeeping of documents relating to the ownership of listed investments. Equities and bonds are held in the name of the custodians' nominee companies, which is in line with common practice for pension scheme investments.

These custodians are disclosed on page 3.

Trustee Training

The Pensions Act 2004 introduces a requirement under Section 247-249 for trustees to have knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets. Trustees are also required to be conversant with their own scheme's policy documents.

During the Scheme year all of the Trustee Directors received appropriate training. A training log is maintained and updated on an ongoing basis.

Risk Management

The major risks to which the Scheme is exposed, as identified by the Trustee, have been reviewed and systems and procedures established to monitor, mitigate or reduce those risks. Investment risks are disclosed in note 14 to the financial statements.

Further Information

The data provided by members is processed using computers. The employer registers the use of the data under the applicable Data Protection Legislation for the purposes of pensions administration by the Trustee and for personnel/employee administration.

Trustee's Report (continued)

Scheme Management (continued)

Membership

	No.
Contributing members at 30 September 2017	521
Withdrawals	
- Adjustments	(96)
- With preserved benefits	(398)
- Deaths	(1)
- Retirements	(26)
Contributing members at 30 September 2018	**-**
Deferred members at 30 September 2017	5,353
Additions	
- Adjustments	77
- New deferred members	398
Withdrawals	
- Member reinstated to active member status	-
- Commutations with no ongoing pension	(18)
- Retirements	(169)
- Transfers out	(63)
- Deaths in deferment	(13)
- Refunds of contributions	(14)
Deferred members at 30 September 2018	**5,551**
Pensioner members at 30 September 2017	4,643
- Adjustments	20
- New pensions during the year	249
- Commutation	(4)
- Deaths	(176)
- Suspended/ineligible pensions	(64)
- Bought out with insurance co	(1)
Pensioner members at 30 September 2018	**4,667**

Pension Increases

In accordance with the Scheme rules, pensions in payment relating to service in the Scheme before 6 April 1997 were increased on 1 September 2018. Where a guaranteed minimum pension (GMP) or a spouse's pension was in payment, these were increased in accordance with statutory requirements and the above increases were applied only to the excess of the pension over that amount. Pensions in payment relating to service from 6 April 1997 were increased in line with statutory requirements.

For pensioners who left service as members of the Keyline Builders Merchants Pension Scheme, pensions in excess of GMP for service prior to 6 April 1997 were increased in line with the annual increase in the RPI, subject to an annual limit of 3%. GMPs and pensions in payment relating to service from 6 April 1997 were increased in line with statutory requirements. Increases were granted on the anniversary of retirement.

Trustee's Report (continued)

Scheme Management (continued)

Pension Increases (continued)

For pensioners who left service as members of the Wickes Group Retirement Benefits Plan, pensions in payment in excess of GMP relating to service before 6 April 1997 were increased by 3%. Pensions in payment relating to service from 6 April 1997 were increased in line with the annual increase in the CPI, subject to a minimum increase of 3% and a maximum increase of 5%. GMPs were increased in line with statutory requirements. Increases were granted on 1 April.

In addition there are smaller numbers of pensioners with different increase provisions.

Deferred members' preserved pensions were increased in accordance with statutory requirements.

There were no discretionary increases.

Transfers out of the Scheme

Cash equivalents paid during the period were calculated and verified a prescribed in Section 94(1) of the Pension Schemes Act 1993. No allowance was made in the calculation for any discretionary benefits.

Trustee's Report (continued)

Scheme Management (continued)

Summary of Contributions Payable in the Year

During the year ended 30 September 2018 the contributions payable to the Scheme by the employer under the Schedule of Contributions was as follows:

	2018 £000
Employer salary sacrifice contributions	1,467
Employer deficit funding contributions	2,150
Employee salary sacrifice contributions	1,940
Contributions payable under the Schedule	5,557
Contributions as reported in the financial statements	5,557

Trustee's Report (continued)

Investment Matters

Introduction

The Travis Perkins Pension and Dependants' Benefit Scheme has two sections: a Defined Benefit ("DB") section and Defined Contribution ("DC") section.

Summary of Scheme's Investment Structure

All investments have been managed during the year under review by the investment managers as follows: Baillie Gifford and Co Limited ("Baillie Gifford"), Insight Investment Management (Global) ("Insight"), Legal & General Investment Management Limited ("LGIM"), M&G Investments ("M&G"), Royal London Asset Management ("RLAM") and Aberdeen Standard Investments ("Aberdeen Standard"). AVC Providers are detailed in the Notes to the Financial Statements on page 42. There is a degree of delegation of responsibility for investment decisions with the investment managers.

The Trustee is responsible for determining the Scheme's investment strategy. The Trustee has set the investment strategy for the Scheme after taking appropriate advice. The Trustee has delegated the day-to-day management of investments to professional external investment managers. These managers, which are regulated by the Financial Conduct Authority ("FCA") in the United Kingdom, manage the investments within the restrictions set out in the Statement of Investment Principles ("SIP") and Investment Implementation Policy Document ("IIPD"). Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, the day-to-day management of the asset portfolio of the Scheme, including the full discretion for stock selection, is the responsibility of the investment managers.

The main priority of the Trustee when considering the investment policy for the Scheme is to aim to ensure that the benefits payable to members are met as they fall due.

DB Section

Investment Strategy

The Trustee is aiming to achieve a funding level of 100% on the Technical Provisions assumptions (as set out in the Section's Statement of Funding Principles) and thereafter to maintain 100% funding.

A further objective is for the DB Section's investment managers to meet their performance targets without operating outside their target range of tracking error.

Current Strategy

The target investment strategy of the DB Section is as follows:

- 40.0% in return seeking assets comprising global equities, High Lease to Value ("HLV") property, diversified growth funds and Secured Finance.
- 30.0% in buy & maintain corporate bonds, which are expected to modestly outperform the DB Section's liabilities over the long term whilst exhibiting some sensitivity to interest rates.
- 30.0% in a liability hedging portfolio designed to hedge a proportion of the movements in the liabilities due to changes in interest rate and inflation expectations.

Trustee's Report (continued)

Investment Matters (continued)

Current Strategy (continued)

The Scheme had previously made a commitment of £48m to the LGIM HLV Property fund and drawdown requests were made on 15 December 2017 (c. £24m) and 8 February 2018 (c. £24m). The drawdown requests were funded via disinvestment proceeds from LGIM's Sterling Liquidity Fund.

The Myners Review and Code of Best Practice

The Myners principles codify best practice in investment decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they have used them.

The principles were initially published in 2001 following a Government sponsored review of institutional investment by Paul Myners, which found shortcomings in the expertise and organisation of investment decision-making by pension fund Trustees.

In March 2008 the Government consulted on proposals to update the Myners principles. This led to the publication of a revised set of six principles for DB Schemes in October 2008, together with the establishment of an Investment Governance Group ("IGG") to oversee the industry-led framework for the application of the principles.

While there are now only six DB principles, in place of the original ten, their scope is largely unchanged. The principles continue to emphasise the essentials of investment governance, notably the importance of effective decision-making, clear investment objectives and a focus on the nature of each Scheme's liabilities. The principles also require that Trustees include a statement of the Scheme's policy on responsible ownership in the Statement of Investment Principles and report periodically to members on the discharge of these responsibilities. The Investment Sub-Committee ("ISC") have reviewed the Scheme's compliance with the Myners Principles on the Trustees' behalf and considers that the Scheme's investment policies and their implementation are broadly in keeping with the revised principles for DB Schemes.

Responsible Investment and Corporate Governance

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the DB and DC Section's investments.

Similarly, both sections' voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are FCA registered are expected to report to their adherence to the UK Stewardship Code on an annual basis.

Trustee's Report (continued)

Investment Matters (continued)

DC Section

The DC Section's investments have been managed during the year under review by Aberdeen Standard.

Deployment of investments

Defined Benefit Section

The deployment of the DB Section's invested assets is shown in the table below.

Manager	Fund	30 September 2018 (%)	30 September 2017 (%)
Baillie Gifford	Long Term Global Growth	6.1	5.7
Insight	Segregated Liability Hedging	28.8	29.5
	Secured Finance	3.4	3.3
	Broad Opportunities Fund	5.3	5.2
	Segregated Buy & Maintain Credit	15.0	15.1
LGIM	Global Equity (RAFI – Hedged)	5.7	5.4
	Sterling Liquidity Fund	0.1	4.4[1]
	HLV Property	4.2	-
M&G	Secured Property Income Fund	4.8	4.6
	Illiquid Credit Opportunities Fund II	6.5	6.5
Aberdeen Standard	Global Absolute Return Strategies	5.0	5.1
RLAM	Segregated Buy & Maintain Credit	15.0	15.1
Total DB Section		**100.0**	**100.0**

Source: Investment managers. Figures may not sum due to rounding.

1 Includes £48.0m that had been allocated for investment in the LGIM LPI Income Property Fund.

Defined Contribution Section

The Trustee estimates that the market value of DC monies held within investments to be £190k as at 30 September 2018.

Trustee's Report (continued)

Investment Matters (continued)

Review of investment performance

Defined Benefit Section

For periods to 30 September 2018, the DB Section's estimated total investment returns are set out in the table below. All returns are gross of investment management fees.

	Year to 30 September 2018 (%)	3 Years to 30 September 2018 (% p.a.)
DB Section Total	3.6	10.2
Benchmark	2.0	n/a

Source: Estimated by Mercer, based on data from the DB Section's investment managers. Benchmark performance is not available over the 3 year period due to the change in the DB Section's investment strategy over the period.

With the exception of the Secured Finance and HLV property mandates, the Trustee regards all investments as readily marketable. Further detail is provided below:

- The Baillie Gifford Long Term Global Growth Fund, LGIM Sterling Liquidity Fund and Aberdeen Standard Global Absolute Return Strategies Fund are daily priced and traded;
- The LGIM Global Equity (RAFI) Fund is weekly priced and traded;
- The M&G Secured Property Income Fund is monthly priced and traded;
- The M&G Illiquid Credit Opportunities Fund II is quarterly priced and traded. Redemptions from the Fund are restricted until three years after the date of initial investment. Redemptions from the Insight Secured Finance Fund can be instructed on a quarterly basis, subject to a three month notice period (otherwise, the Fund is monthly priced);
- The buy & maintain corporate bond portfolios managed by Insight and RLAM are comprised of daily priced and traded securities and the Trustee is able to disinvest from these portfolios on a daily basis by giving the respective investment managers appropriate notice to do so.
- The Insight segregated Broad Opportunities portfolio holds daily priced and traded units of the Broad Opportunities Fund.
- The segregated liability hedging portfolio managed by Insight is comprised of physical holdings of fixed interest and index-linked gilts, futures, interest and inflation rate swaps, repurchase agreements and liquidity funds. All of the securities are daily priced and traded.

DC Section

For periods to 30 September 2018, the DC Section's fund investment returns are set out in the table below. All returns are gross of investment management fees.

Fund	Last Year		Last 3 Years	
	Fund (%)	B'mark (%)	Fund (% p.a.)	B'mark (% p.a.)
Multi-Asset Fund	-4.12	-4.32	+7.17	+7.44
Managed Pension Fund	-3.6	-2.7	+22.4	+20.9
Heritage With Profits Fund	3.4	n/a	-0.4	n/a

Source: Aberdeen Standard. Figures shown are gross of fees.

Trustee's Report (continued)

Investment Matters (continued)

Custodial arrangements

The Trustee is responsible for ensuring the DB Section's assets continue to be securely held. The Trustee reviews the custodial arrangements from time to time and the Scheme auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

The Trustee has appointed Bank of New York Mellon ("BNYM") as the DB Section's global custodian for the DB Section's segregated arrangements. The custodian is responsible for the safekeeping, monitoring and reconciliation of documentation relating to the ownership of listed investments (except for assets held in pooled funds). Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments.

For the DB Section's pooled fund investments, the Trustee has no direct ownership of the underlying pooled funds or the underlying assets of the pooled funds. The policies, proposal forms, prospectuses and related principles of operation, set out the terms on which the assets are managed. The safekeeping of the assets within the pooled funds is performed on behalf of the respective investment managers by custodian banks specifically appointed to undertake this function and whose appointment is reviewed at regular intervals by the manager. The custodians as at the year-end are shown in the table below:

Manager	Mandate	Pooled / Segregated	Custodian
Baillie Gifford	Long Term Global Growth	Pooled	BNYM
Insight	Broad Opportunities Fund	Segregated	BNYM [1]
	Buy & Maintain Credit	Segregated	BNYM
	Liability Hedging	Segregated	BNYM
	Secured Finance	Segregated	BNYM [1]
LGIM	Global Equity (RAFI)	Pooled	HSBC / Citibank NA[2]
	HLV Property	Pooled	HSBC
Aberdeen Standard	Global Absolute Return Strategies	Pooled	Citibank NA, Securities and Fund Services
M&G	Illiquid Credit Opportunities Fund II	Pooled	State Street Custodial Services (Ireland) Ltd
	Secured Property Income Fund	Pooled	Kleinwort Benson (Guernsey) Limited
RLAM	Buy & Maintain Credit	Segregated	BNYM

Source: Investment managers and the DB Section's custodian.

[1] State Street Custodial Services (Ireland) Ltd and Northern Trust are Insight's appointed custodian for the pooled Broad Opportunities and Secured Finance funds, respectively. The DB Section's units in the pooled funds are held in a segregated account at the DB Section's appointed custodian, BNYM.

[2] HSBC are LGIM's appointed custodian for UK assets and Citibank are the appointed custodian for overseas assets.

Trustee's Report (continued)

Investment Matters (continued)

Employer-related investments

Under the Pensions Act 1995 particular types of investment are classed as "employer-related investments" ("ERI"). Under laws governing ERI not more than 5% of the current value of Scheme assets may be invested in ERI (subject to certain specific exceptions). In addition, some ERI is absolutely prohibited, including an employer related loan or guarantee. In September 2010 the prohibition of ERI was extended to cover pooled funds. It should be noted that this prohibition does not cover pooled funds held in life wrappers, i.e. funds which are packaged in an insurance policy.

The Trustee reviews the Scheme's allocation to ERI on an on-going basis and are satisfied that the proportion of the Scheme's assets in ERI did not exceed 5% of the market value of the Scheme's assets as at 30 September 2018, and the Scheme therefore complies with legislative requirements. This will continue to be monitored annually. Furthermore, the Trustee has agreed with the relevant investment managers with whom segregated mandates are held to restrict ERI to zero.

As at 30 September 2018 the Scheme held an indirect investment in Travis Perkins through the pooled investment vehicle held with Legal & General. With a market value of £6,904 (2017: £411,372) this indirect investment represented less than 0.0006% of the total investment portfolio.

The Scheme also holds an SPV asset backed by physical assets of the employer as disclosed in note 13 to the financial statements.

Investment risk disclosures

Investment risks are disclosed in note 14 to the financial statements.

Trustee's Report (continued)

Compliance Matters

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

Constitution

The Travis Perkins Pension & Dependents' Benefit Scheme is governed by a Consolidated Deed and Rules dated 31 March 2006.

Taxation Status

The Scheme is registered for tax relief and exemptions under the Finance Act 2004. The Trustee knows of no reason why this status may be prejudicial or withdrawn.

Changes to Scheme Constitution, Rules or Basic Information

The Travis Perkins Pension & Dependants' Benefit Scheme closed to future accrual from 31 August 2018.

Internal Disputes Resolution Procedure

A disputes resolution procedure has been agreed by the Trustee to resolve any queries raised by beneficiaries or potential beneficiaries of the Scheme and details of this can be obtained by writing to the Secretary to the Trustee at the contact address on page 3.

TPAS, The Pensions Ombudsman and the Pensions Regulator

In accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 1996, as amended, members are advised that:

- The Pensions Advisory Service (TPAS) of 11 Belgrave Road, London SW1V 1RB is available to assist members and beneficiaries with difficulties which may arise in relation to an occupational pension scheme
- The Pensions Ombudsman of 10 S Colonnade, Canary Wharf, London, E14 4PU may investigate and determine any complaint or dispute or fact of law which a member has failed to resolve with the Trustee or the Scheme administrator, in relation to an occupational pension scheme

In addition to the above, the Pensions Regulator (TPR) regulates company pension schemes and enforces the law as it relates to them. It has wide ranging powers, which include the power to:

- suspend, disqualify and remove a trustee, or director of a trustee company, for consistently not carrying out their duties
- wind up schemes where necessary
- apply for injunctions to prevent the misuse and misappropriation of schemee assets and apply for restitution where necessary

TPR can be contacted at:

The Pensions Regulator, Napier House, Trafalgar Terrace, Brighton BN1 4DW

The sponsoring employer, Trustee and its advisors and service providers have a statutory duty to consider the need to make a written report to TPR if they believe that legal duties concerned with the running of the Scheme are not being carried out.

Trustee's Report (continued)

Compliance Matters (continued)

Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pensions Act 1993.

Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions. The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU, Telephone: 0800 731 0193.

Contact for Further Information

Any enquiries or complaints about the Scheme, including requests for scheme documentation, should be sent to:

Andy Mills
Secretary to the Trustee
Capital Cranfield Pension Trustees Limited
Unit 15, Poplars Court,
Lenton Lane,
Nottingham NG7 2RR

Email: travisperkins@cctl.co.uk

Requests from individuals for information about their benefits should be sent to:

Travis Perkins Pension & Dependants' Benefit Scheme
c/o Capita Employee Solutions
Radio House, Thanet Way
Whitstable
Kent CT5 3QP

Email: travisperkinspensions@capita.co.uk

Trustee's Report (continued)

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

The most recent full actuarial valuation of the Scheme was carried out as at 30 September 2017. An update of the position was obtained as at 30 September 2018. These showed:

	Actuarial Valuation 30 September 2017 £m	Actuarial Update 30 September 2018 £m
The value of the Technical Provisions was:	**1,126.4**	1,114.0
The value of the Scheme's assets was:	**1,095.9**	1,121.8
The resulting shortfall was:	**(31.5)**	7.8

The next full actuarial valuation is planned to be undertaken as at 30 September 2020.

The 2017 shortfall is being met by a combination of additional payments together with assumed investment returns on the Scheme's assets and an extension of the guaranteed payments from the SPV in place. The employer paid contributions equal to £2.3m per annum from 1 October 2017 to 31 December 2018 inclusive. Subsequently, the employer is paying deficit reduction contributions of £0.75m per annum until 30 September 2022.

In addition to these contributions, in June 2010, the Scheme acquired an SPV asset which is structured to provide the Scheme with a flow of rental income, backed by physical assets of the employer. Further details regarding the SPV asset are provided in note 13 to the financial statements. However, as part of the 2017 actuarial valuation it was agreed to amend the SPV to guarantee all of the payments, whereas the payments beyond 2021 were previously subject to a funding level trigger – allowing for the extra guaranteed payments would have increased the asset value at 30 September 2017 by £25.1m.

In addition, the employer directly pays the PPF levy and makes contributions towards the expenses of running the Scheme.

Further details on the contribution rates are given in note 3 to the financial statements. A copy of the most recent Schedule of Contributions together with the actuary's certification is given on page 36.

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

Method

The actuarial method to be used in the calculation of the technical provisions is the projected unit method.

Trustee's Report (continued)

Report on Actuarial Liabilities (continued)

Principal actuarial assumptions applied in the valuation as at 30 September 2017

Discount rate:	
until 2025	3.00% p.a.
post-2025	2.30% p.a.
Future Retail Price inflation:	
Until 2025	3.30% p.a.
Post-2025	3.40% p.a.
Future Consumer Price inflation:	
Until 2025	2.30% p.a.
Post-2025	2.40% p.a.
Salary increases allowing for 3% p.a. cap:	2.75% p.a.
Deferred pension revaluation (until 2025/ post-2025):	
CPI max 5%	2.30% p.a. / 2.40% p.a.
CPI max 2.5%	2.30% p.a. / 2.40% p.a.
Pension increases in payment(until 2025/ post-2025):	
RPI max 5%	3.15% p.a. / 3.20% p.a.
RPI max 2.5%	2.15% p.a. / 2.15% p.a.
CPI max 3%	1.95% p.a. / 2.00% p.a.
CPI min 3%, max 5%	3.40% p.a. / 3.40% p.a.
Mortality:	S2PA YoB tables with CMI_2016 projected improvements with a long term trend of 1.5% p.a., weighted by 90% for females only.

Significant actuarial assumptions

Discount rate: term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an addition of 1.2% per annum for the 8 years from 30 September 2017 to 30 September 2025, then reducing to an addition of 0.5% p.a. thereafter.

Future Retail Price inflation: term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date with a deduction of 0.1% per annum for the 8 years from 30 September 2017 to 30 September 2025.

Future Consumer Price inflation: term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 1.0% per annum.

Pension increases: derived from the term dependent rates for future consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

Mortality: for the period in retirement, standard tables are used: S2PA Year of Birth tables with CMI_2016 projected improvements with a long term trend of 1.5% p.a., weighted by 90% for females only.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018

Under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the 'Administration Regulations'), the Chair of Cobtree Nominees Limited, the Trustee of the TP Scheme, is required to include a statement (the 'Chair's Statement') on governance in the annual report, to explain how the Trustee is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits. Although the majority of members of the TP Scheme do not have money purchase benefits, some members do. Additionally, this statement covers Additional Voluntary Contributions (AVCs) which are also invested on a money purchase basis.

For the TP Scheme, these benefits fall into three categories, namely;

- Money purchase underpins, where a member's defined benefit pension is compared to the pension provided by their money purchase underpin and they receive the higher of the two. For some members this underpin relates to the period from 6 April 1988 to 5 April 2012 when the Scheme was contracted out on a "Protected Rights" basis, while for some legacy Wickes members the underpin only relates to contributions paid up to 1 April 1990. These underpins are generally not expected to 'bite';
- Money purchase investments. For some members these relate to Protected Rights contributions which could not be reinstated in the State Pension Scheme when they left service and, for some ex-Wickes members who left service before April 1990, they relate to a prior money purchase scheme; and
- Additional Voluntary Contributions ('AVCs').

The Trustee is pleased to present this Chair's Statement for inclusion in the Report and Accounts for the TP Scheme, covering the period 1 October 2017 to 30 September 2018. This statement describes how the Trustee seeks to make sure that the TP Scheme is well-managed and delivers the required services to members. In doing so, we provide the various statutory disclosures required by legislation. This statement covers five key areas:

1. The investment strategy;
2. The processing of core financial transactions;
3. Charges and transaction costs;
4. "Value for Money" (also known as a "Value for Members") assessment; and
5. The Trustee's compliance with the statutory knowledge and understanding requirements.

Money Purchase Arrangements (other than AVCs)

Default Investment Arrangements

The TP Scheme is not being used as a qualifying scheme for automatic enrolment purposes, which would necessitate a default investment arrangement. Legislative requirements for a "default statement of investment principles" to be included within the Chair's Statement also do not apply to AVC investments or DC/money purchase arrangements established before 2015.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Money Purchase Arrangements (other than AVCs) (continued)

Default Investment Arrangements (continued)

The investment strategy relating to the money purchase benefits is either:

- The same as the strategy for the investments of the underlying defined benefits within the TP Scheme. Hence, the TP Scheme's Statement of Investment Principles documents the strategy used for those money purchase benefits invested in the TP Scheme's main investments; or
- They are invested with:
- Aberdeen Life Multi-Asset Fund Class E
- Standard Life With Profits Fund
- Standard Life Managed Fund

The Trustee has prepared the Statement of Investment Principles (the 'SIP') for the TP Scheme in compliance with Section 35 of the Pensions Act 1995, regulation 2 / regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and the Administration Regulations. It was last updated February 2018.

No new money has been invested into money purchase arrangements or the AVC arrangements since the regulations came into force and there will be no further new money invested.

A copy of the latest Statement of Investment Principles ('SIP') is appended to this Chair Statement and is also available on request, by contacting Trustee.

Core DC Financial Transactions

The Trustee recognises that a delay or error can cause significant losses for members. The Trustee therefore operates measures and controls aimed at ensuring that all financial transactions are processed promptly and accurately.

Core DC financial transactions are (broadly, as the TP Scheme is closed to further member contributions):

- Transfers out of the TP Scheme, of assets relating to members;
- Switches of members' investments between different funds within the TP Scheme, where options exist; and
- Payments from the TP Scheme to or in respect of members e.g. payment of death benefits.

The Trustee delegates the day to day administration of the TP Scheme via an administration agreement in place with Capita. The administration agreement sets out the service standards expected of Capita.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Money Purchase Arrangements (other than AVCs) (continued)

Core DC Financial Transactions (continued)

During the year Capita has reported to the Trustee on their processes and procedures for data accuracy, authorisation and checking of transactions and maintaining records. The Trustee receives quarterly stewardship reports that provide information on performance standards. Over the year to 31 October 2018, the four quarterly reports indicated that between 85% and 99% of service standards had been met, in relation to approximately 6,000 work items, including those in respect of core DC financial transactions. Each DC core financial transaction and outstanding work items are listed in the quarterly reports to facilitate discussion with the Trustee.

No material issues or delays have been reported. The Trustee will continue to monitor the quarterly reports and take any actions that are required to ensure that all core financial transactions are processed promptly and accurately.

Trustee has made attempts to source service level data from providers other than Capita but very few AVC product providers report on their service standards, whether that is financial transaction turnaround times or other work. However, their response times to work requested via Capita do reflect to some degree in Capita's reporting.

Adherence to processes is reviewed annually by the Trustee through the AAF01/06 report provided by Capita which is an independent audit of compliance with their internal controls and processes.

Last year's Chair's Statement referred to some historic mismatches between the investment assets recorded on the administration system and the investment managers' records. Considerable work has been undertaken by Capita since then, looking at relevant trading of investments since they took over the administration on 1 January 2013, all of which have been reconciled. They also undertake monthly reconciliations to ensure all transactions are correctly recorded. Capita has recently provided a detailed report to the Trustee which the Trustee will be considering further.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Money Purchase Arrangements (other than AVCs) (continued)

Charges, Transaction Costs and Value for Money

As required by the Administration Regulations, the Trustee is required to report on the charges and transaction costs for the investments used for the pure Money Purchase investments and the AVCs, to assess the extent to which the charges and costs represent good value for members.

The returns on the investments in the main assets of the TP Scheme are applied to the member's fund values on a gross basis i.e. there are no charges applied. The total charges payable by members who have money purchase benefits invested outside of the main DB assets, with Aberdeen and Standard Life, are quoted in the table below:

Fund Name	AMC* (% p.a.)	TER** (% p.a.)
Aberdeen Life Multi-Asset Fund Class E	0.50	0.639
Standard Life With Profits Fund	0.30	Total charges are not quantified, but reduce the rate of bonus declared from time to time
Standard Life Managed Fund	0.50	0.52

*AMC = Annual Management Charge

**TER = Total Expense Ratio

Additional Voluntary Contributions (AVCs)

The AVCs invested by members of the TP Scheme are invested with:

- Aviva (originally Norwich Union)
- Clerical Medical
- Equitable Life
- Prudential
- Santander (originally Abbey National), and
- Zurich.

The Annual Management Charges ("AMCs") applicable to the funds currently in use for AVCs in the TP Scheme are detailed below.

Provider	Fund Name	AMC (% p.a.)	TER (% p.a.)
Aviva	With Profits	Charges are not quantified, but reduce the rate of bonus declared from time to time	
Clerical Medical	All Unit Linked Funds	0.5	Clerical Medical confirmed AMC is the only charge
	With Profits	Charges are not quantified, but reduce the rate of bonus declared from time to time	
Equitable Life	Managed Fund	0.75	0.75
	Money Fund	0.50	0.50
	With Profits	Charges are not quantified, but reduce the rate of bonus declared from time to time	
Prudential	Discretionary Fund	0.75	
	With Profits		
	Deposit Fund		
Santander	Deposit Fund	Charges are not quantified, but reduce the rate of bonus declared from time to time	
Zurich	With Profits		

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Additional Voluntary Contributions (AVCs)

Transaction costs

The charges stated above do not include transaction costs, the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty. Details of the transaction costs which apply to these funds, where known, are provided in Appendix B.

The Pensions Regulator expects trustees to have an understanding of the types and levels of transaction costs that are incurred by different investments and include them in a value for members' assessment. However, the complexity of transaction cost reporting is an 'issue' which is not still fully resolved within the industry and we note the following:

- In the first phase of enhanced transparency, trustees have been required to report on the transaction costs about which they are able to get information from those managing their scheme's assets. While trustees are encouraged to report this information in as useful a way as possible, flexibility has been built into these requirements to recognise that in some cases it may not be possible to obtain and report on full information on transaction costs.
- The second phase built on these requirements for disclosure of information about transaction costs in a standardised, comparable format. The DWP and FCA published a joint call for evidence on this issue in March 2015, and further guidance and information was provided by the FCA (in September 2017) on how to calculate all transaction costs on a consistent basis with the regulation coming in to force on 3 January 2018. This requires assessment, within the Value for Members exercise, of the transaction costs incurred due to underlying trading by the fund managers within the funds and needs to be reported in Chair's Statements with a Scheme Year-End past April 2018. We have collected this information as far as it is available and it is provided in Appendix A. There is nothing in the data that suggests members are not receiving value from these trading costs, but no assessment of value in relation to transaction costs has been possible at this time, due to the absence of wider market data that would enable appropriate comparative assessment.
- The Trustee anticipates being able to build more useful information on transaction costs into its 2019 Chair's Statement.

Value for Money

The Trustee has undertaken a review of the charges and (where available) transaction costs incurred by members in order to ascertain whether or not the Money Purchase Benefits and AVC arrangements in place represent good value for members, relative to peers and alternative arrangements that are available.

There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Additional Voluntary Contributions (AVCs)

Value for Money (continued)

The TP Scheme's value for money assessment examines the current management charges relative to standard institutional fees for equivalent size mandates, Mercer Manager Research Ratings, alternative providers/managers, the available services and historical performance. Where funds offered to members are highly rated by Mercer, are being offered at a competitive fee rate, and are performing in line with their objectives over the longer term, they can be considered to be offering good value for money for members. The administrative services, for example, provided to members in the Money Purchase arrangements are paid for by the TP Scheme, so effectively free of charge to the members. With AVCs, the providers are supplying services to the members beyond "just" investment management, so these are relevant too.

The review concluded that, overall, the TP Scheme represents **"neutral to good" value for money** for the Money Purchase and AVC services it provides overall, in comparison to the costs payable by members. Understandably, the reasons underpinning this conclusion vary between the Money Purchase arrangements and each of the AVC arrangements:

- The Money Purchase arrangements, where the investments are within the main TP Scheme's underlying assets, do not incur any member charges. Hence, "value for money" can only be good,
- For those Money Purchase investments with Aberdeen and Standard Life, the charges made by the investment managers are very competitive and members are not charged for the administration services. Hence, "value for money" is similarly quite good,
- The competitiveness of the charges, range of services and investment performance amongst the AVC providers varies. However, the AVC arrangements are currently under review.
- The Company also pays for an Independent Trustee and a range of other service providers to assist with governing the TP Scheme's arrangements and provide oversight on behalf the members' best interests.

Using the available charges and transaction cost data, and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared illustrations detailing the impact of the charges and (where available) transaction costs typically paid by a member of the TP Scheme who is invested in the Money Purchase arrangements with Aberdeen and Standard Life or in the main the AVC arrangements. This is shown in Appendix C.

Trustee Knowledge and Understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding that, together with the professional advice available to them, enables them to properly exercise their functions and duties in relation to the TP Scheme. The Trustee is Cobtree Nominees Limited, and its board of directors includes an independent trustee, company and member nominated trustees. In addition the Trustee delegates some of its investment responsibilities to an investment sub-committee made up of TP Scheme Trustee Directors, some Trustee Directors from another pension scheme sponsored by the Company and an independent investment expert.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Trustee Knowledge and Understanding (continued)

This Chair's Statement has been signed by Stella Girvin, who is an independent professional trustee and chair of the Trustee Board for the TP Scheme. Stella has had a varied prior career, including a period as Pensions Manager at Travis Perkins plc. The heart of her career has been in pensions, but she is also a qualified Company Secretary, experienced in Corporate Governance and Compliance.

Each of the Trustee Directors continuously consider their personal training needs, in conjunction with the code of practice issued by the Pensions Regulator, and a formal record of training is held in the form of a training log maintained by the Secretary to the Trustee.

During the period 1 October 2017 to 30 September 2018, the Trustee Directors (either independently or as a group) have undertaken the following activities:

- A KMPG seminar (with the Pension Regulator) which covered governance, Trustee Board effectiveness, investment strategy, DB valuation processes and DC investment strategy;
- A Mercer webinar on integrated risk management;
- A legal training session which covered the following topics: what is a trust, basic common law duties, key acts of the 90s and 2000s onwards, trustee knowledge and understanding, regulatory framework, TPR – statutory objectives, TPR's powers, TPR's annual funding statement, notifiable events – in all circumstances, notifiable events – if the Scheme is underfunded; PPF and the Pensions Ombudsman;
- A Mercer webinar on member's options for transferring their benefits; and
- A session on GDPR and the handling of data protection breaches. This session outlined what is a personal data breach, breach notification – when, content of notices to the Information Commissioner's Office, notifying affected individuals, content of individual notices, record keeping and accountability, incident response planning and a case study example.

In addition to the above, the Trustees receive updates from their advisers at regular trustee meetings throughout the year and are all required to complete the Pension Regulator's Trustee Tool Kit.

The Trustee Directors view these regular and ongoing training opportunities as an essential part of expanding their combined knowledge to exercise their functions as trustees of the TP scheme. This is in addition to their legal duty to be conversant with the trust deed and rules of the TP Scheme, the TP Scheme's Statement of Investment Principles and other key documents such as the TP Scheme's Risk Register which articulates what the Trustee considers to be key concerns and ensures that they are regularly monitored.

This Chair's Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced and approved by Travis Perkins Pension & Dependants' Benefit Scheme's Trustee Directors to the best of their knowledge.

Signed:

Position: Chair of Trustees
Date:

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles

Travis Perkins Pension & Dependants' Benefit Scheme

Statement of Investment Principles

1. Introduction

1.1 This Statement has been prepared by the Trustee of the Travis Perkins Pension & Dependants' Benefit Scheme ("the Scheme"), Cobtree Nominees Limited. It sets out the principles that govern the Trustee's decisions about the investment of the Scheme's assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with these principles. It is adopted with effect from September 2017.

1.2 The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Implementation Policy Document ("IIPD") which is available to Scheme members on request. The IIPD will be reviewed at least annually by the Investment Sub Committee ("the ISC") and any amendments agreed by the Trustee.

1.3 In preparing this Statement, the Trustee has obtained written advice from the Scheme's Investment Consultant. Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever they review this Statement.

1.4 The Trustee's investment powers are set out within the Scheme's governing documentation and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these. The Trustee notes that, according to the law, they have ultimate power and responsibility for the Scheme's investment arrangements.

1.5 The Trustee seeks to maintain a good working relationship with the Sponsor (Travis Perkins plc) ("the Sponsor") and will discuss any proposed changes to this Statement with the Sponsor. However, the Trustee's fiduciary obligations to Scheme members will take precedence over the Sponsor's wishes, should these ever conflict.

1.6 The Scheme offers defined benefits to the majority of members. Some members have defined contribution benefits either in isolation or underpinning defined benefits within the Scheme.

1.7 The Trustee believes that its investment policies and implementation are in keeping with best practice, including the principles underlying the Myners Code for pension scheme investment.

1.8 The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. The ISC will review it (and the Trustee will agree it) at least once every three years, and without undue delay if there are relevant, material changes to the Scheme and/or the Sponsor.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles (continued)

2. **Scheme Governance**

2.1 The Trustee is accountable for the investment of the Scheme's assets although decision making in some areas is delegated to the ISC. The ISC is a joint body operating across the Scheme and the BSS Group Pension Scheme ("the BSS Scheme"). The Trustee delegates some aspects of the Scheme's investment arrangements to third party service providers, in order to manage the Scheme's affairs effectively. The Trustee and ISC decides what to delegate after considering whether they have the necessary skills, knowledge and professional support to make informed and effective decisions.

2.2 The role of the ISC is to assist the Trustee in addressing investment issues relating to the Scheme. The function, duties, powers and composition of the Committee in respect of the defined benefit element of the Scheme are set out in the ISC's Terms of Reference which have been agreed with the Trustee. The key provisions of the Terms of Reference are:

- The Trustee retains overall responsibility and decision making power over investment objectives, the target level of risk and return, investment strategy (the allocation between the main asset classes) and whether to invest in new asset classes.
- The ISC makes recommendations to the Trustee on investment objectives, the level of risk and return and long term investment strategy
- The ISC is responsible for implementing the investment strategy agreed by the Trustee.
- The ISC is responsible for selecting and monitoring the Scheme's investment managers.
- The ISC is responsible for managing and implementing the allocation of cashflows between the investment managers within tolerance ranges (defined in the Terms of Reference) of the Scheme's overall strategic benchmark.
- At least two Committee members who are Trustee Directors must participate in an ISC meeting in order for business to be validly transacted.

2.3 The Trustee has appointed a firm of professional consultants (the "Investment Consultant") to provide relevant investment advice to the Trustee and ISC. The Trustee and ISC also take advice as appropriate from the Scheme Actuary and other professional advisers.

2.4 The investment managers are responsible for the day-to-day management of the Scheme's assets in accordance with the mandates agreed with the ISC. They have discretion to buy, sell or retain individual securities in accordance with these mandates. They report to the ISC regularly regarding their performance.

2.5 A Custodian has been appointed in respect of the assets managed under segregated mandates. The Custodian is responsible for arranging the custody and safekeeping of the assets. Where the Scheme invests in pooled funds, the custodian is appointed by the investment manager or trustee of the pooled fund.

2.6 Fees for the Investment Consultant are based on hourly charge rates, with agreed fees for particular projects.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles (continued)

2.7 The investment managers' fees are based on the value of assets managed within the portfolio.

3. **Investment Objectives – Defined Benefits**

3.1 The Trustee's primary investment objective is to invest the Scheme's defined benefit assets, within an agreed risk profile, in such a manner that members' benefit entitlements can be paid as and when they fall due.

3.2 The Trustee is therefore aiming to achieve a funding level of 100% on the Technical Provisions assumptions (as set out in the Scheme's Statement of Funding Principles) and thereafter to maintain 100% funding.

3.3 A further objective is for the Scheme's investment managers to meet their performance targets without operating outside their target range of tracking error.

4. **Risk and Return – Defined Benefits**

4.1 The Trustee recognises that, with the development of modem financial instruments, it would be possible to select investments that broadly match the estimated defined benefit liability cash flows. However, in order to meet the long-term funding objective with an acceptable level of Sponsor contributions, the Trustee has agreed to take investment risk relative to the liabilities. This is to target a greater return than the matching assets are expected to provide.

4.2 Before deciding to take investment risk relative to the liabilities, the Trustee received advice from the Investment Consultant and held discussions with the Sponsor. In particular, the Trustee considered carefully the following possible consequences:

- The assets might not achieve the excess retum relative to the liabilities anticipated over the longer term. This would result in deterioration in the Scheme's financial position and consequently higher contributions from the Sponsor than are currently expected.

- The relative value of the assets and liabilities will be more volatile over the short term than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Scheme. This consequence is particularly serious if it coincides with the Sponsor being unable to make good the shortfall.

- This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

4.3 The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Scheme. The financial strength of the Sponsor and its perceived commitment to the Scheme is monitored and the Trustee and ISC will review investment risk relative to the liabilities should either of these deteriorate.

4.4 The degree of investment risk the Trustee is willing to take also depends on the financial health of the Scheme and the Scheme's liability profile. The Trustee and ISC monitors these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles (continued)

5. **Diversification of risks – Defined Benefits**

5.1 In addition to targeting an appropriate overall level of investment risk, the Trustee and ISC seeks to spread risks across a range of different sources. The Trustee and ISC aims to take on those risks for which they expect to be rewarded over time, in the form of excess returns. The Trustee and ISC believe that diversification limits the impact of any single risk.

5.2 The Trustee and ISC have considered the following risks:

- *Interest rate risk* - the risk that the value of assets does not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates.
- *Inflation risk* - similar to interest rate risk but concerning inflation.
- *Credit risk* - the risk that payments due to investors in bonds and other forms of credit investment might not be made.
- *Currency risk* - the risk that the value of the overseas assets changes relative to the sterling based liabilities due to exchange rate fluctuations.
- *Equity market risk* - the risk that equity values fluctuate.
- *Property market risk* – the risk that property values fluctuate.
- *Longevity* – the risk that Scheme members live longer than expected.

5.3 The Trustee and ISC have chosen to employ some active management. The Trustee and ISC have selected investment managers whom they believe have the skills and judgement to add value net of fees. Active management gives rise to *active risk*, which arises due to an investment manager holding a combination of securities that differs from the asset class benchmark.

5.4 The Scheme faces risk from dealings with *counterparties,* because they may be unable to pay amounts due to the Scheme as they fall due. The Scheme has exposure to counterparties in a number of areas including holding units in investment vehicles which have a life insurance company structure, in respect of derivative positions taken by the Scheme's investment managers and in respect of the custodians appointed directly by the Trustee and indirectly via the use of pooled funds.

5.5 The investment managers employ derivatives for the purposes of efficient portfolio management and subject to agreed restrictions. Aside from the counterparty risks, the risks of using derivatives are largely the same as those of investing in the underlying asset categories.

5.6 Across all of the Scheme's investments, the Trustee and ISC are aware of the potential for regulatory and political risks. *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes.

5.7 *Liquidity risk* refers to the ease with which assets are marketable and realisable.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles (continued)

5.8 The Trustee and ISC recognise that there is *liquidity risk* in holding assets that are not readily marketable and realisable. Given the Trustee's long-term investment horizon, the Trustee and ISC believe that a degree of liquidity risk is acceptable because they expect to be rewarded for assuming it. The sale of the Scheme's property and secured finance units may be subject to a delay before dealing can take place and the investment in the Special Purpose Vehicle is also illiquid. However, the remainder of the assets are realisable at short notice. The Trustee and ISC are also aware of *concentration risk* which arises when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers or markets. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

6. **Strategic investment benchmark and investment manager structure – Defined Benefits**

6.1 The overall strategic investment benchmark for the defined benefit assets as set by the Trustee on the advice of the ISC is detailed in the IIPD. The IIPD also contains full details of the manager structure.

6.2 The strategic investment benchmark and the high-level investment manager structure have been determined to capture the level of investment risk and the target investment return set out above, based on assumptions about the behaviour of different asset classes. The ISC reviews these assumptions regularly, and revises the benchmark and/or manager structure as appropriate in order to maintain consistency with the risk and return targets.

6.3 The ISC will monitor the Scheme's overall asset distribution and make any changes necessary either by transferring assets or directing cashflows.

7. **Investment Objectives – Defined Contribution Benefits and AVCs**

7.1 There is a legacy DC arrangement within the Scheme to which member and employee contributions ceased in 1990. In addition some members have AVC benefits. These assets are relatively small and are unlikely to represent a significant proportion of members' likely retirement benefits. As such the Trustee believes the investment funds made available to these members are appropriate. The Trustee will revisit the investment funds from time to time to review whether the investment funds remain appropriate.

7.2 The Trustee reviews the performance of the AVC and DC funds from time to time.

7.3 The funds available are expected to achieve returns in excess of inflation over the long term and preserve members' purchasing power for these assets.

7.4 There are also a small number of members with orphaned Protected Rights pots that receive the overall Scheme return.

7.5 The Trustee encourages members to seek independent financial advice from an appropriate party in determining the most suitable investment strategy for their individual circumstances;

8. **Risk and Return Targets – Defined Contribution Benefits**

8.1 The Trustee regards "risk" as the likelihood of failing to achieve the objectives set out above and seeks to minimise these risks, so far as possible.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles (continued)

8.2 Aside from the risks listed in Section 5 in relation to the defined benefit assets, the Trustee considers the following risks specifically for the defined contribution investment arrangements:

8.2.1 That a low investment return over members' working lives secures inadequate pensions;

8.2.2 That market movements in the years just prior to retirement lead to a substantial reduction in the benefits which could otherwise have been secured;

8.2.3 The risk that the chosen investment managers underperform the benchmark return against which the manager is assessed;

9. **Investment managers**

9.1 Day-to-day management of the assets is delegated to professional investment managers who are regulated by the Financial Conduct Authority (the "FCA") or regulatory bodies in their country of operation. The current investment managers are listed in the IIPD.

9.2 The investment managers have discretion to buy and sell investments on behalf of the Scheme, subject to agreed constraints. They have been selected for their expertise in different specialisations and manage investments for the Scheme to a specific mandate. The IIPD gives details of the managers' mandates as set out in their investment management agreements.

9.3 The ISC's main objectives when considering the selection of investment managers are as follows:

1) To select a combination of investment products that together (though not necessarily individually) would generate the maximum net of fees added value over the benchmark, given the ISC's and Trustee's tolerance for investment manager risk.

2) To employ highly-rated investment products, according to the investment consultant's research, wherever possible (subject to objective 1).

3) To minimise potential transition costs by retaining the incumbent managers where possible (subject to objectives (1) and (2) above), but allowing for the fact that the cost of making a change can easily be outweighed by superior future performance.

9.4 The ISC and Trustee accept that it is not possible to specify investment restrictions where assets are managed via pooled funds. Nevertheless, notwithstanding how the assets are managed the ISC and Trustee take appropriate legal and investment advice regarding the suitability of the investment management agreements and relevant investment vehicles.

9.5 The ISC assesses the continuing suitability of the Scheme's investment managers. The ISC meets the investment managers from time to time to discuss their performance, activity and wider issues. The Investment Consultant provides help in monitoring the investment managers, both in the form of written reports and attendance at meetings.

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix A – Statement of Investment Principles (continued)

10. Responsible Investment and Corporate Governance

10.1 The Scheme's assets are managed in both pooled and segregated arrangements and the Trustee accepts that the assets are subject to the investment managers' policies on social, ethical or environmental considerations relating to the selection, retention and realisation of investments. The ISC reviews the managers' Socially Responsible Investment ("SRI") policies from time to time.

10.2 Where investment is in pooled vehicles, the Trustee cannot direct the appointed investment managers on how to vote. The ISC reviews the voting policies of each of the pooled vehicles in which the Scheme invests from time to time to determine whether the managers' policies are acceptable. Where assets are held on a segregated basis, the Trustee delegates the exercise of voting rights to the investment manager and the ISC reviews the managers' policy on voting from time to time. The Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

10.3 Equity managers who are FCA registered are expected to report to the Trustee on their adherence to the UK Stewardship Code on an annual basis.

11. Defined Contribution ("DC") and Additional Voluntary Contribution ("AVCs") Assets

11.1 No further contributions are being made to the DC arrangements and the arrangement is closed to new members. As a result the DC arrangements do not have a default investment strategy. Further details on the DC arrangements are included within the IIPD.

11.2 The Scheme does not allow members to make AVCs. Scheme members may join the Travis Perkins Group Retirement Savings Plan as "AVC only" members if they wish to make additional contributions.

11.3 The Scheme has a number of legacy AVC arrangements. Members with assets in these arrangements have the option to transfer their assets to other arrangements. More information on the AVC providers is detailed in the IIPD to this Statement. There is no default investment strategy for any of the AVC arrangements.

February 2018

Trustee's Report (continued)

Chair's Annual Statement Regarding Governance for the Year to 30 September 2018 (continued)

Appendix B - Transaction Costs

Money Purchase Arrangements (other than AVCs)

Fund Name	Transaction Costs
Aberdeen Life Multi-Asset Fund Class E	Unavailable
Standard Life With Profits Fund	Unavailable
Standard Life Managed Fund	Unavailable

Additional Voluntary Contributions (AVCs)

Provider	Fund Name	Transaction Costs % p.a.
Clerical Medical	All Unit Linked Funds	Incl. in AMC
	With Profits	Unavailable
Equitable Life	Managed Fund	0.000911
	Money Fund	N/A per Equitable
	With Profits	-0.003540
Prudential	Discretionary Fund	Unavailable
	With Profits	Unavailable
Aviva	With Profits	Unavailable
Zurich	With Profits	Unavailable
Santander	Deposit Fund	Unavailable
Prudential	Deposit Fund	Unavailable

Appendix C - The impact of Costs and Charges

Using the available charges and transaction cost data, and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the TP Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

To illustrate the impact of charges on a typical member's AVC fund, we have provided examples below based on a typical member having a current fund value of £6,111. We have assumed a future investment term of up to 27 years, based on the youngest member of the TP Scheme being 38 and assuming a normal retirement age of 65. Unfortunately, due to provider limitations, the illustration only includes details of transaction costs where available.

	Cheapest Fund **TER, 0.30% p.a.**		**Most Expensive Fund** **TER, 0.75% p.a. Transaction Cost , 0.000911% p.a.**		**Fund with Lowest Expected Investment Return** **TER, 0.50% p.a.**		**Fund with highest Expected Investment Return** **TER, 0.50% p.a.**	
	Standard Life With Profits		**Equitable Life Managed Fund**		**Clerical Medical Cash Fund**		**Clerical Medical UK Growth Fund**	
Term	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	6,219	6,200	6,236	6,184	6,051	6,021	6,290	6,259
5	6,668	6,569	6,764	6,485	5,817	5,673	7,060	6,886
10	7,276	7,060	7,487	6,881	5,538	5,267	8,157	7,758
15	7,939	7,589	8,288	7,301	5,272	4,890	9,424	8,742
20	8,663	8,158	9,174	7,748	5,018	4,540	10,888	9,849
25	9,452	8,768	10,154	8,221	4,777	4,215	12,579	11,098
27	9,788	9,025	6,236	8,419	6,051	4,091	13,327	11,640

Notes:

1. Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. They have been discounted by 2.5% p.a. to allow for the assumed impact of inflation in "buying power" terms
2. The starting pot size is assumed to be £6,111.
3. We have assumed no further contributions
4. Values are estimates and are not guaranteed
5. The assumed growth rate for each fund is as follows:
   a. Cheapest Fund: 4.30% p.a. gross return (as it is guarantees a return of 4% per annum), so a 1.80% expected real return above inflation
   b. Most Expensive Fund: 2.44% p.a. gross expected real return above inflation
   c. Lowest Expected Investment Return: -0.98% p.a. gross expected real return relative to inflation
   d. Highest Expected Investment Return: 2.93% p.a. gross expected real return above inflation
6. The Transaction Costs relate to the actual transaction costs incurred in the Scheme year
   The Money Purchase arrangements, where the investments are within the main TP Scheme's underlying assets, do not incur any member charges. Hence, it has not been illustrated above.

Trustee's Report (continued)

Statement of the Trustee's Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulations 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 estimate 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 it 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.

Trustee Responsibilities in Respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are paid.

The Trustee is also responsible for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Act 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed for and on behalf of the Trustee:

G. Mulgrue.

Trustee Director:

Trustee Director:

Date: 26/3/19

Actuary's Certification of the Schedule of Contributions

Certification of schedule of contributions

Name of Scheme	Travis Perkins Pension & Dependants' Benefit 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 30 September 2017 to be met by the end of the period specified in the recovery plan dated 21 December 2018.

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 21 December 2018.

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

Signature	
Scheme Actuary	Ali Tayyebi
Date of signing	21/12/2018
Name of Employer	Mercer Limited
Address	Four Brindleyplace Birmingham B1 2JQ
Qualification	Fellow of the Institute and Faculty of Actuaries

Independent Auditor's Statement about Contributions to the Trustee of the Travis Perkins Pension & Dependants' Benefit Scheme

We have examined the summary of contributions to the Travis Perkins Pension & Dependants' Benefit Scheme for the Scheme year ended 30 September 2018 to which this statement is attached.

Opinion

In our opinion contributions for the Scheme year ended 30 September 2018 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme actuary on 21 December 2015.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, 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
Birmingham, United Kingdom
Date

Independent Auditor's Report to the Trustee of the Travis Perkins Pension & Dependants' Benefits Scheme

Report on the Audit of the Financial Statements

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2018 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the 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 of the Travis Perkins Pension & Dependants' Benefit Scheme which comprise:

- the Fund Account;
- the Statement of Net Assets (available for benefits); and
- the related notes 1 to 18.

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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we has obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Trustee of the Travis Perkins Pension & Dependants' Benefits Scheme (continued)

Other Information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Trustee

As explained more fully in the 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 have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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
Birmingham
United Kingdom

Fund Account

For the year ended 30 September 2018

	Note	2018 £000	2017 £000
Contributions and benefits			
Employer contributions	3	**3,617**	4,404
Employee contributions	3	**1,940**	2,662
Total contributions		**5,557**	7,066
Benefits paid or payable	4	**(28,423)**	(26,967)
Payment to and on account of leavers	5	**(14,332)**	(10,920)
Administration expenses	6	**(1,116)**	(641)
		(43,871)	(38,528)
Net withdrawals from dealings with Members		**(38,314)**	(31,462)
Returns on investments			
Investment income	7	**24,959**	23,257
Change in market value of investments	8	**40,673**	48,029
Investment management expenses	10	**(614)**	(578)
Net returns on investments		**65,018**	70,708
Net increase in the fund during the year		**26,704**	39,246
Net assets of the Scheme at start of year		**1,097,801**	1,058,555
Net assets of the Scheme at end of year		**1,124,505**	1,097,801

The notes on pages 42 to 57 form part of these financial statements.

Statement of Net Assets Statement Available for Benefits

As at 30 September 2018

	Note	2018 £000	2017 £000
Investment assets:	8		
Bonds		**999,900**	834,148
Pooled investment vehicles		**444,839**	435,871
Cash equivalents		**8,991**	13,316
SPV asset		**39,300**	14,800
Derivatives	9	**6,285**	454
AVC investments		**4,237**	4,554
Investment debtors		**6,464**	5,554
Cash deposits		**4,364**	5,839
		1,514,380	1,314,536
Investment liabilities:			
Derivatives	9	**(2,636)**	(2,517)
Repurchase agreements		**(386,899)**	(214,257)
Total net investments		**1,124,845**	1,097,762
Current assets	15	**350**	1,794
Current liabilities	16	**(690)**	(1,755)
Net current assets		**(340)**	39
Net assets of the Scheme at end of year		**1,124,505**	1,097,801

The notes on pages 42 to 57 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pension and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the summary of the actuarial valuation paragraphs in the Report of the Trustee's Report, and the actuarial certificates included on page 36 of the Annual Report and these financial statements should be read in conjunction with them.

These financial statements were approved by the Directors of Cobtree Nominees Limited on 26/3/19 ....and signed on their behalf by:

...........................Director of Cobtree Nominees Limited

G. Mulyner..........Director of Cobtree Nominees Limited

Notes to the Financial Statements

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, the Amendments to FRS 102 – Fair Value Hierarchy Disclosures (March 2016) issue by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (November 2014).

2. **Accounting policies**

The principal accounting policies used to prepare the financial statements are set out below.

(a) **Contributions receivable**

Employers' and members' normal contributions are accounted for on an accruals basis at rates agreed between the Trustee and the employer based on the recommendation of the Actuary and as set out in the Schedule of Contributions.

Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions.

(b) **Investment income**

Income from cash and short term deposits is accounted for on an accruals basis.

Investment income arising from the underlying investments of certain pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the unit prices. It is reported within 'change in market value'.

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

Dividends from equities are accounted for on the date of payment.

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

(c) **Change in market value of investments**

The change in the value of investments during the year includes any realised profit or loss on the sale of investments as well as the unrealised movement in the value of the investments still held at the year end.

(d) **Benefits paid and payable**

Expenditure and benefits payable are accounted for on an accruals basis, except that no account is taken of the long-term liabilities to pay benefits. Members who leave the Scheme are assumed to have taken a preserved pension until the Trustee is otherwise advised.

(e) **Additional voluntary contributions (AVCs)**

From May 2007 members were no longer permitted to make additional voluntary contributions through the Scheme.

Notes to the Financial Statements

2. Accounting policies (continued)

(f) Investments

Investments include all cash held by investment managers and available for investment.

- Investments are included at market value or fair value where there is no market.
- The majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net asset statement.
- Bonds are valued by valuation techniques that use observable market data.
- Pooled investment vehicles are valued at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, or NAV price, as provided by the investment manager.
- Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- Over the counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the year-end date.
- Forward foreign exchange (Forward FX) – the gain or loss that would arise from closing out the contracts at the reporting date by entering into an equal and opposite contract at that date.
- All gains and losses arising on derivative contracts are reported with 'Change in Market Value'.
- The Scheme's Special Purpose Vehicle (SPV) is valued at an appropriate fair value based on the discounted guaranteed cash flows, taking into account any changes to anticipated returns on investments, the gilt yield, the risk premium and CPI. Details of the SPV are given in note 13 to the financial statements. The methodology of valuing the SPV has been proposed by Mercer on behalf of the Trustee, and is consistent with the prior year. From time to time cashflows are payable by the SPV to the Scheme. These are recorded in note 8 on a cash basis.
- Repurchase agreements - the Scheme recognises and values the securities that are delivered out as collateral and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.
- AVC investments are included at the value given by the AVC provider.
- Under FRS 102 annuity policies are reported at the value of the related obligation to pay future benefits funded by the annuity policy. The Trustee has determined that there are no material annuity policies held in the name of the Trustee.

(g) Administration and investment management expenses

Administration expenses are accounted for on an accruals basis. Investment managers' expenses are charged on a quarterly basis based on the value of the fund at the end of each quarter.

Notes to the Financial Statements

2. Accounting policies (continued)

(h) Transfers out

These are accounted for at such time as the cash transfers to the receiving Scheme.

(i) Pensions in payment

The Scheme holds insurance policies to cover pensions in payment in respect of certain members. The cost of acquiring these policies was written off in the fund account for the year in which they were purchased and represented the cost of discharging the obligations of the Scheme to the relevant members at the time of purchase. No value is attributed to these policies in the net assets statement as they are immaterial. Annuity income from these policies is shown within investment income and the benefits payments are shown within pensions payable.

3. Contributions

	2018 £000	2017 £000
Employer contributions		
Section 75	-	150
Deficit funding	**2,150**	2,300
Salary sacrifice	**1,467**	1,954
	3,617	4,404
Employee contributions		
Normal	-	98
Salary sacrifice	**1,940**	2,564
	1,940	2,662
	5,557	7,066

The Scheme closed to future accrual from 31 August 2018. Employee's normal contributions are calculated in accordance with the rules of the Scheme. Contributions by the participating employers are based on advice from the Actuary as to the rate of contributions, which they consider appropriate to provide for the benefits defined in the rules.

The 2017 shortfall is being met by a combination of additional payments together with assumed investment returns on the Scheme's assets. In 2018 only £2.15m was paid by the employer as the amount was reduced due to the Section 75 debt in respect of 2017, which was received in March 2018. Subsequently, the employer is paying contributions of £2.3m per annum on a discretionary basis. In addition to these contributions, the employer directly pays the PPF levy, whilst the employer and employees each paid contributions towards the cost of benefits continuing to accrue in the Scheme up to the closure in August 2018. From 1 January 2019 to 30 September 2022, the Employer will pay deficit funding of at least £750k per annum.

The Section 75 debt payment of £149,685 in 2017 related to PTS Group Limited (PTS) who ceased to be a participating employer of the Scheme on 20 April 2016.

Notes to the Financial Statements

4. Benefits paid or payable

	2018 £000	2017 £000
Pensions payable	**22,740**	21,974
Commutations of pensions and lump sum retirement benefits	**5,365**	4,798
Lump sum death benefits	**192**	195
Taxation where lifetime annual allowance exceeded	**126**	-
	28,423	26,967

5. Payments to and on account of leavers

	2018 £000	2017 £000
Individual transfers out to other schemes	**14,305**	10,901
Refunds of contributions in respect of non-vested leavers	**27**	19
	14,332	10,920

6. Administration expenses

	2018 £000	2017 £000
Auditor's remuneration	**22**	19
Consultancy and actuarial	**548**	421
Administration services	**546**	201
	1,116	641

7. Investment income

	2018 £000	2017 £000
Income from equities	**-**	4,696
Income from pooled investment vehicles	**7,525**	2,133
Income from bonds	**17,680**	16,936
Interest on cash deposits	**-**	110
Investment fee rebates	**20**	16
Bank interest	**(2)**	7
Annuity income	**216**	342
Loss on foreign exchange	**(579)**	(983)
Other	**99**	-
	24,959	23,257

Notes to the Financial Statements

8. Reconciliation of investments held at the beginning and end of the year

	Value at 1 October 2017 £000	Purchases at cost & derivative payments £000	Sales proceeds & derivative receipts £000	Change in market value £000	Value at 30 September 2018 £000
Bonds	834,148	**412,176**	**(233,037)**	**(13,387)**	**999,900**
Pooled investment vehicles	435,871	**106,175**	**(119,799)**	**22,592**	**444,839**
Cash equivalents	13,316	**90,322**	**(94,647)**	**-**	**8,991**
Derivatives	(2,063)	**3,734**	**(1,778)**	**3,756**	**3,649**
SPV asset	14,800	**-**	**(3,324)**	**27,824**	**39,300**
	1,296,072	**612,407**	**(452,585)**	**40,785**	**1,496,679**
AVCs	4,554	**1**	**(627)**	**309**	**4,237**
Total investments	1,300,626	**612,408**	**(453,212)**	**41,094**	**1,500,916**
Repurchase agreements	(214,257)			**(421)**	**(386,899)**
Investment debtors	5,554				**6,464**
Cash deposits	5,839				**4,364**
Total investments	1,097,762			**40,673**	**1,124,845**

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.

8a. Analysis of pooled investment vehicles

Further analysis of the pooled investment vehicles in the above funds is as follows:

	2018 £000	2017 £000
Equities	**173,863**	168,082
Property	**51,959**	49,935
Bonds	**37,060**	35,638
Diversified Growth	**111,519**	111,680
Illiquid Credit	**70,438**	70,536
	444,839	435,871

Notes to the Financial Statements

8b. Concentration of investments

The companies operating the pooled investment vehicles are all registered in the United Kingdom.

The table below shows all funds with a value of greater than 5% of the Scheme net assets:

	2018 £000	% of net assets	2017 £000	% of net assets
M&G Illiquid Credit Opportunities Fund	**70,438**	**6%**	70,536	6%
Baillie Gifford Long Term Growth Fund	**66,205**	**6%**	61,476	6%
Legal & General FTSE RAFI AW 3000 GBP Hedged	**-**	**-%**	58,572	5%
Insight Broad Opportunities Fund	**56,930**	**5%**	55,995	5%
Aberdeen Standard Global Abs Return Strategies	**-**	**-%**	55,685	5%

9. Derivatives

Objectives and policies

The Trustee has authorised the use of derivatives by their investment managers as part of its investment strategy for the pension scheme.

The main objectives for the use of key classes 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 sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investors to the targeted level.

Swaps - The Trustee's aim is to match off the Scheme's long term liabilities with its fixed income assets, in particular in relation to the liabilities' sensitivities to interest rate movements. The Trustee has entered into interest rate swaps to better align the Scheme's assets to the long term liabilities of the Scheme. The Scheme had the following swaps contracts outstanding at the period end:

			Economic Exposure	2018 £000		2017 £000	
	Duration	**No.**	**£000**	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swap	2019-2045	39	190,600	**6,421**	**(136)**	401	(147)
Total return swap	2018-2020	5	(67,398)	**-**	**(2,619)**	-	(2,370)
				6,421	**(2,755)**	401	(2,517)
	Duration	**Notional principal £000**					
Forward FX contracts	Oct 2018		278	**-**	**(17)**	53	-
				6,421	**(2,772)**	454	(2,517)
Net asset/ (liability)				**3,649**			(2,063)

As at 30 September 2018, the Scheme received £6.3m collateral in the form of cash. As at that date, the Scheme had paid collateral to the counterparty of £2m in the form of gilts.

Notes to the Financial Statements (continued)

10. Investment management expenses

	2018 £000	2017 £000
Management fees	**614**	578

Investment fees for the other fund managers are adjusted for within the unit prices of each fund.

11. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

12. AVC investments

The Trustee hold assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members who previously elected to pay additional voluntary contribution. This also includes assets invested separately in respect of a small number of members who have no final salary benefits but where money purchase funds are held within the Scheme. From May 2007 members were no longer permitted to make additional voluntary contributions through the Scheme.

The aggregate amounts of AVC investments are as follows:

	2018 £000	2017 £000
Equitable Life	**561**	623
Prudential	**307**	418
Zurich	**11**	45
Abbey National	**7**	7
Aviva	**16**	14
Clerical Medical	**703**	770
Standard Life	**1,516**	1,559
Aberdeen Asset	**1,116**	1,118
	4,237	4,554

Notes to the Financial Statements

13. Fair value determination

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

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

As at 30 September 2018	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Bonds	-	999,900	-	999,900
Pooled investment vehicles	-	322,442	122,397	444,839
Cash equivalents	-	8,991	-	8,991
Derivatives	(17)	3,666	-	3,649
Special Purpose Vehicle	-	-	39,300	39,300
AVCs	-	2,224	2,013	4,237
Other investments*	10,828	-	-	10,828
	10,811	1,337,223	163,710	1,511,744

As at 30 September 2017	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Bonds	-	834,148	-	834,148
Pooled investment vehicles	-	385,936	49,935	435,871
Cash equivalents	-	13,316		13,316
Derivatives	53	(2,116)	-	(2,063)
Special Purpose Vehicle	-	-	14,800	14,800
AVCs	-	2,304	2,250	4,554
Other investments*	11,393	-	-	11,393
	11,446	1,233,588	66,985	1,312,019

* Repurchase agreements are held at amortised cost and are therefore excluded from the fair value hierarchy.

SPV Asset

In June 2010 the Scheme acquired an SPV asset which is structured to provide the Scheme with a flow of rental income, backed by physical assets of the employer. The asset was orginally acquired for £34.7m and represents a schedule of guaranteed cash-flow paid annually in arrears from February 2011 to February 2022 and annual non-guaranteed payments subject to the Scheme being in deficit on a technical provisions basis from February 2022 to June 2030.

Should the SPV default on payments to the Scheme, the Scheme can seek to recover the lower of the existing deficit on a Buyout (section 75) basis and the asset value of the SPV from the employer.

The valuations as at 30 September 2017 and 30 September 2018 are for the guaranteed cash flows element of the SPV valuation only.

Notes to the Financial Statements (continued)

13. Fair value determination (continued)

AVC investments

The Trustee holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members who elected to pay additional voluntary contributions. Such policies are not affected by the main fund's performance.

Transaction costs

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.

14. Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed at the end of the reporting period. These risks are set out by FRS 102 as follows:

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

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

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

The Scheme has exposure to the above risks because of the investments it makes to implement its investment strategy. The Trustee reviews the investment risks to which the Scheme is exposed on a regular basis taking into account the Scheme's strategic investment objectives. The investment objectives are implemented through the investment management agreements (or equivalent contractual agreements) in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios. The investment objectives and processes in place to monitor and manage risks of the Scheme are further detailed in the Statement of Investment Principles (SIP) and the Investment Implementation Policy Document (IIPD).

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Notes to the Financial Statements (continued)

14. Investment risk disclosures (continued)

Investment strategy

The Trustee is aiming to achieve a funding level of 100% on the Technical Provisions assumptions (as set out in the Scheme's Statement of Funding Principles) and thereafter to maintain 100% funding.

A further objective is for the Scheme's investment managers to meet their performance targets.

The target investment strategy of the Scheme was changed during the year following the decision made by the Trustee to move to a lower risk investment strategy. The Scheme's new lower risk investment strategy is as follows:

- 40.0% in return seeking assets comprising global equities, High Lease to Value ("HLV") property, diversified growth funds and Secured Finance.
- 30.0% in Buy & Maintain Corporate Bonds, which are expected to modestly outperform the Scheme's liabilities over the long term whilst exhibiting some sensitivity to interest rates.
- 30.0% in a liability hedging portfolio designed to hedge a proportion of the movements in the liabilities due to changes in interest rate and inflation expectations.
- The actual allocations will vary from the above due to market price movements and intervals between rebalancing the portfolio.

1) Market risk

(i) Currency risk

The Scheme is subject to direct currency risk where assets denominated in overseas currencies are held in segregated mandates denominated in overseas currencies. Because all of the overseas currency exposure in segregated mandates is hedged back to Sterling, direct currency exposure at year-end was 0.0% (2017: 0.0%).

Indirect currency risk arises from the Scheme's investment in Sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currencies. The Scheme is subject to indirect currency risk through its investment in the global equity fund managed by Baillie Gifford, which may hold underlying investments denominated in an unhedged foreign currency. However, in order to reduce currency risk within the equity portfolio as a whole (to a level with which the Trustee is comfortable), the Scheme invests in the currency hedged version of the Legal and General ("L&G") Global Equity (RAFI 3000) Fund. To mitigate risk arising from any one currency, the Trustee has constructed a global equity portfolio that has exposure to a number of global currencies. At year end, 6.1% of the Scheme assets (2017: 5.6%) were invested with Baillie Gifford and hence subject to indirect currency risk from their allocation to overseas developed and emerging market currencies.

The Scheme also invests in two diversified growth funds, which consist of underlying investments across a range of asset class and regions (and therefore foreign currencies), which further exposes the Scheme to indirect currency risk. The two funds are Sterling priced, however the managers may use underlying currency exposures as part of their respective investment strategies.

Notes to the Financial Statements (continued)

14. Investment risk disclosures (continued)

1) Market risk (continued)

(i) Interest rate risk

The Scheme is subject to direct interest rate risk because some of the Scheme's investments are held in government bonds, repurchase agreements, interest rate and bond derivatives and cash, either as segregated investments.

The Trustee has set a benchmark for total investment in liability hedging assets of 30.0% of the total investment portfolio, as part of its liability driven investment ("LDI") strategy. Under this strategy, if interest rates fall, all else being equal, the value of these investments should rise to help match the increase in the value placed on the liabilities arising from a fall in the discount rate (which is derived from market interest rates). Similarly, if interest rates rise, all else being equal, these investments should fall in value, as should the value placed on the liabilities because of an increase in the discount rate.

At the year end, the liability hedging portfolio, managed by Insight Investment Management ("Insight"), represented c.28.8% of the total investment portfolio (2017: 29.5%). This variance from the target asset allocation is deemed to be within an acceptable range and will vary depending on normal market movements. As at year end 2018, the hedge ratio of the Scheme's fixed and inflation linked-liabilities on the Trustee's liability hedging basis (gilts +0.75%p.a.) was c.67.0% (2017: c.49.0%), in line with the target of 67.0%. The level of hedging has been increased over the year through a series of market based hedging triggers. The interest rate sensitivity within the Royal London Asset Management ("RLAM") buy & maintain credit portfolio is taken into account by Insight in the hedging arrangements. The interest rate sensitivity within the Insight buy & maintain credit portfolio is hedged out and so does not contribute to liability hedging.

The Scheme also has further indirect exposure to interest rate risk through investments in diversified growth and secured finance funds. In the case of the diversified growth funds, the interest rate exposure that these funds introduce is taken by the respective investment managers as part of their investment strategies to add value. The interest rate sensitivity within the secured finance mandates is limited as the underlying investments are predominantly floating rate in nature. Any interest rate sensitivity from these two asset classes is therefore not allowed for in Insight's liability hedging arrangements.

(ii) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking assets which include equity funds, diversified growth funds, HLV property and secured finance through underlying investments in pooled investment vehicles.

The Scheme has set a target asset allocation of 40.0% of investments being held in return seeking investments (although the 10.0% allocation to secured finance included within this is also a fixed income asset but with growth like properties and hence discussed further below in the Credit Risk section). The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and asset classes,

At the year end, the Scheme's return seeking assets represented c.41.1% of total assets (2017: 35.8%). The Scheme is marginally overweight in return seeking assets relative to the benchmark allocation as at 30 September 2018, although this is within a reasonable tolerance range.

Notes to the Financial Statements (continued)

14. Investment risk disclosures (continued)

2) Credit risk

The Scheme is subject to direct credit risk because the Scheme invests in bonds, over-the-counter ("OTC") derivatives, has cash balances and enters into repurchase agreements through its segregated investments. As at the year end, the Scheme had exposure to c.£TBCm of investment grade bonds, related derivatives and cash (2017: £829.3m) and c.£14.1m of non-investment grade corporate bonds (2017: £11.3m) in segregated vehicles.

The Scheme also invests in pooled investment vehicles which may invest in sovereign government bonds and corporate bonds. The total value of pooled investment vehicles at year end exposed to indirect credit risk amounted to c.£219.1m (2017: c.£217.9m).

Some of the pooled investment arrangements used by the Scheme are structured as unit-linked insurance contracts and Qualifying Investor Alternative Investment Funds ("QIAIFs"). The Scheme is therefore directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising on the underlying investments held by these pooled investment vehicles.

Indirect credit risk also arises in respect of the Scheme's allocation to HLV property, as a high proportion of the value of the underlying investments held within the pooled funds are in relation to rental income whose payment is subject to the solvency of the leaseholders. The investment managers are responsible for controlling this credit risk by monitoring the credit quality of tenants.

In addition, the notes below provide more detail on how this risk is managed and mitigated for the different asset classes.

(i) Government bonds

Credit risk arising on government bonds held directly and within pooled funds is mitigated by investing specifically in government bonds whereby the credit risk is deemed minimal. Some of the buy & maintain credit, diversified growth and secured finance funds may invest in government bonds where credit risk is taken as part of the strategy to add value or for liquidity management purposes.

(ii) Corporate bonds

Credit risk arising on corporate bonds held within the underlying pooled funds (diversified growth and secured finance funds) and those held directly (in the segregated buy & maintain corporate bond mandates managed by Insight and RLAM) is mitigated by the portfolios being mainly invested in corporate bonds which are rated at least investment grade. The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

(iii) Non-investment grade bonds

Credit risk arising on non-investment grade bonds held directly is mitigated through diversification of the underlying securities to minimise the impact of default by any one issuer. Should more than 10% of the Insight Buy & Maintain Credit portfolio be invested in non-investment grade corporate bonds, the manager will discuss further action with the Trustee. The RLAM portfolio has a limit of 15% of the total portfolio being invested in non-investment grade bonds. The pooled diversified growth and secured finance funds may also invest in non-investment grade bonds as part of their strategies to add value.

Notes to the Financial Statements (continued)

14. Investment risk disclosures (continued)

2) Credit risk (continued)

(iv) Cash balances

Credit risk arising on cash held within financial institutions is mitigated by ensuring cash is held with a diversified range of institutions which are at least investment grade credit rated.

(v) Derivatives

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter ("OTC"). Exchange traded instruments have minimal credit risk as they are arranged via a central counterparty.

OTC derivative contracts are not guaranteed by any regulated exchange and therefore the pooled funds and segregated mandates holding these contracts are subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements at the discretion of the appointed investment manager.

The ISC, on behalf of the Trustee, have also agreed restrictions with Insight in their investment guidelines set out in the investment manager agreement ("IMA") for the LDI portfolio. These set out limits for transacting with particular counterparties, prevents excessive exposure to an individual counterparty and requires a minimum level of credit quality for the approved counterparties.

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

(vi) Repurchase Agreements

Credit risk on repurchase agreements is mitigated through collateral arrangements at the discretion of the appointed investment manager.

The pooled investment arrangements used by the Scheme comprise unit-linked insurance contracts (L&G Global Equity (RAFI) and Sterling Liquidity Fund, Aberdeen Standard GARS and the M&G Secured Property Income Fund), open ended investment companies ("OEIC") (Insight Broad Opportunities Fund and Baillie Gifford Long Term Global Growth) and QIAIFs (M&G Illiquid Credit Opportunities Fund II and Insight Secured Finance). The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Trustee manages and monitors the credit risk arising from the Scheme's pooled investments by considering the nature of the arrangement, the legal structure, and regulatory environment.

Direct credit risk arising from the pooled investment in the OEIC and the QIAIFs is mitigated by the underlying assets of the pooled arrangement being ring-fenced from the pooled manager, and the regulatory environments in which the pooled manager operates. Cash held by the pooled manager's custodian is ring-fenced where possible. Where this is not possible, the credit risk arising is mitigated by the use of regular cash sweeps (typically daily) and investing cash in liquidity funds.

Notes to the Financial Statements (continued)

14. Investment risk disclosures (continued)

2) Credit risk (continued)

(vi) Repurchase Agreements (continued)

Direct credit risk arising from pooled investment vehicles structured as unit-linked insurance contracts is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight. In the event of default by the insurer, the Scheme may be protected by the Financial Services Compensation Scheme and may be able to make a claim for up to 100% of its policy value, although noting that compensation is not guaranteed. The Trustee carries out due diligence checks on the appointment of new pooled investment managers, and on an ongoing basis monitors any changes to the operating environment of the pooled managers.

The majority of the Scheme's assets are invested in pooled and segregated vehicles. These vehicles may hold units within other pooled arrangements. The Trustee has considered the impact of these arrangements in relation to the Scheme's exposure to failure by the sub-funds or reinsurers who may have different regulatory or insolvency protections compared to the pooled investment made directly by the Scheme.

(vii) Investment Strategy – DC Section

The funds offered to members of the Scheme are as follows:

Manager	Fund Name
Aberdeen Standard (formerly Aberdeen Asset Management)	Multi-Asset Fund
Aberdeen Standard (formerly Standard Life Investments)	Managed Pension Fund Heritage With Profits Fund

The day-to-day management of the underlying investments of the funds is the responsibility of Aberdeen Standard, including the direct management of credit and market risks.

All investments with Aberdeen Standard are pooled funds and denominated in Sterling.

(viii) Credit & Market Risk

The Scheme is subject to indirect credit risk, indirect currency, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by Aberdeen Standard.

- Indirect credit risk arises in relation to underlying bond investments held in the pooled investment vehicles.

Indirect currency risk arises from the Sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency.

Indirect market risk arises from the pooled investment vehicles being exposed to interest rate or other price risks.

The Trustee has considered the indirect risks in the context inherent in the pooled investment vehicles described above. The risks disclosed here relate to each of the investments in the DC section as a whole. It should be noted that member level risk exposures will be dependent on the funds invested in by members. The following is a summary of the funds and their exposures.

14. Investment risk disclosures (continued)

2) Credit & Market Risk (continued)

	Indirect risk exposures			
Fund	**Credit risk**	**Currency risk**	**Interest rate risk**	**Other price risk**
Multi-Asset Fund	✓	✓	✓	✓
Managed Pension Fund	✓	✓	✓	✓
Heritage with Profits Fund	✓	✓	✓	✓

Source: Aberdeen Standard.

The Trustee estimates that the market value of DC monies held within investments to be £190k as at 30th September 2018.

15. Current assets

	2018 £000	2017 £000
Contributions due from employer in respect of:		
Section 75 debt	-	150
Employer	191	330
Employee	-	192
Cash balances	105	1,122
VAT recoverable	54	-
	350	1,794

Employer and employee contributions due from Travis Perkins represent contributions due for the month of September 2018. These contributions were paid over to the Scheme wihin the stautory timescale and in accordance with the Schedule of Contributions.

16. Current liabilities

	2018 £000	2017 £000
Administration expenses	191	1,080
Unpaid benefits	97	258
PAYE due to HMRC	282	298
Tax on contribution refunds	3	2
Due to employer	117	117
	690	1,755

Notes to the Financial Statements (continued)

17. Related party transactions

Transactions with related parties of the Scheme have been disclosed in the annual report as follows:

Contributions received from the participating employers of the Scheme are disclosed in note 3. Amounts due from the employers as at 30 September 2018 are disclosed in note 15.

The following who are, or were, Trustee Directors during the year are members of the Scheme:

Graham Malpas (pensioner)

David Saunderson (deferred member)

Chris Shircore (pensioner)

Stella Girvin (deferred member)

Any benefits and transactions paid in the year have been made in accordance with the rules of the Scheme. All other expenses and fees not included in the administration expense are borne by the Sponsoring Employer.

There were no other related party transactions during the year.

18. Self investment

As at 30 September 2018 the Scheme held an indirect investment in Travis Perkins through the pooled investment vehicle held with Legal & General. With a market value of £6,904 (2017: £411,372) this indirect investment represented less than 0.0006% of the total investment portfolio.

The Scheme also holds an SPV asset backed by physical assets of the employer as disclosed in note 8 to the financial statements.