

**THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**  
**ANNUAL REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 5 APRIL 2018**

**Scheme Registration Number: 100030154**

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

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# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

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### TRUSTEES AND ADVISERS

#### Trustees:

Gregory Meekings	- National Trust appointed (Chair)
Peter Griffiths	- member nominated (retired 26.2.18)
Andrew Hutton	- National Trust appointed (retired 5.12.17)
Brendan McCarthy	- member nominated
Steve Tyson	- National Trust appointed
Nicola Grace	- member nominated
Peter Pearce	- member nominated
Ian Bailey	- National Trust appointed
Janet Thomson	- National Trust appointed (appointed 5.12.17)
Peter Nixon	- member nominated (appointed 26.2.18)

#### Secretary to the Trustees:

Judith Alborough  
The National Trust Retirement and Death Benefits Scheme  
Heelis  
Kemble Drive  
Swindon SN2 2NA

#### Principal Employer:

The National Trust  
Heelis  
Kemble Drive  
Swindon SN2 2NA

#### Enquiries:

Judith Alborough,  
Secretary to the Trustees

#### Actuary:

John Sydenham  
Aon Hewitt Limited  
25 Marsh Street  
Bristol BS1 4AQ

#### Investment Consultants:

AON Hewitt Limited (until 28.2.18)  
25 Marsh Street  
Bristol BS1 4AQ

Redington Limited (appointed 1.3.18)  
Floor 6.  
One Angel Court  
London EC2R 7HJ

#### Independent Auditor:

Crowe U.K. LLP (formerly known as Crowe Clark Whitehill  
LLP)  
Aquis House  
49-51 Blagrove Street  
Reading RG1 1PL

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES AND ADVISERS (continued)

**Legal Advisers:**

Herbert Smith Freehills LLP  
Exchange House  
Primrose Street  
London EC2A 2HS

**Investment Committee:**

Janet Thomson (Chair, appointed 5.12.17)  
Steve Tyson  
Andrew Hutton (retired 5.12.17)  
David Jacob (Advisor appointed by Trustees)  
Peter Griffiths (retired 26.2.18)  
Ian Bailey  
Nicky Grace (appointed 26.2.18)

**Investment Managers:**

Schroder Investment Management Limited  
31 Gresham Street  
London  
EC2V 7QA

Partners Capital LLP  
5 Young Street  
London  
W8 5EH

BlackRock Investment Management (UK) Limited  
12 Throgmorton Avenue  
London  
EC2N 2DL

Invesco Perpetual Life Limited  
43-45 Portman Square  
London  
W1H 6LY

Winton Capital Management Limited (GB)  
27 Hammersmith Grove  
London  
W6 0NE

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES AND ADVISERS (continued)

**Investment Custodians:**

JPMorgan Chase Bank  
Bournemouth  
Dorset  
BH7 7DA

HSBC Private Bank (Luxembourg) S.A  
16, boulevard d'Avranches  
PO Box 733  
L-2017 Luxembourg

BNY Mellon  
One Piccadilly Gardens  
Manchester  
M1 1RN

BNY Mellon Trust Company (Ireland) Limited  
Guild House  
Guild Street  
IFSC  
Dublin 1

Citibank Europe plc  
1 North Wall Quay  
Dublin 1

**Bankers:**

Barclays Bank plc  
PO Box 47  
37 Milsom Street  
Bath BA1 1DW

**AVC Providers:**

Equitable Life Assurance Society  
Zurich Financial

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

### **TRUSTEES' REPORT**

#### **INTRODUCTION**

The Trustees of The National Trust Retirement and Death Benefits Scheme ("the Scheme") present their annual report together with the investment report, actuarial statements and accounts for the year ended 5 April 2018.

#### **TRUSTEES**

In accordance with the provisions of Schedule 36 of the Finance Act 2004, the Scheme became a registered scheme under Chapter 2 of part 4 of the Finance Act 2004 with effect from 6 April 2006, for the purpose of providing retirement and death benefits for members and their dependants. Previously, the Scheme was approved as tax exempt by HM Revenue and Customs. The Scheme is controlled and administered by Trustees in accordance with a governing Trust Deed and Rules.

The Trustees are responsible for the administration and investment policy of the Scheme and participate in training throughout the year. The Trustees meet at least four times a year to review the management of the Scheme as reported by the Secretary to the Trustees. This includes amongst other matters an investment review, review of the written agreements with its advisors and consideration of any future legislative changes.

The Trustees of the Scheme are appointed and may be removed in accordance with the governing documents. In accordance with the Pensions Act 2004 the National Trust put forward to members the proposal that there should be eight Trustees, of whom half would be appointed by the National Trust and half would be elected by a ballot of all members from a list nominated by the membership. Members approved these proposals, which came into effect on 1 April 2012.

#### **SCHEME AUDIT**

These financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

The financial statements summarise the net assets of the Scheme; they do not take account of future obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take into account such obligations is dealt with in the Report on Actuarial Liabilities on page 7.

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

### **TRUSTEES' REPORT (continued)**

#### **STATEMENT OF TRUSTEES' RESPONSIBILITIES**

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

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

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

The Trustees are also responsible for making available certain other information about the Scheme in the form of an Annual Report.

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

The Trustees are 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 Principal Employer and the Cessation Members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any Cessation Member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Principal Employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### REVIEW OF FINANCIAL DEVELOPMENT OF THE SCHEME

The fund account on page 22 shows that the value of the fund was £631m at 5 April 2018, a decrease of 1.8% compared with 6 April 2017.

As disclosed on page 7, the Scheme deficit at 5 April 2017 stood at £149.7m an increase of £33.4m since the last three-year valuation in 2014.

Following formal consultation with staff, the National Trust announced on 29 July 2015 that it would close the Scheme to future accrual on 31 March 2016. The salary link has been retained so cessation members will receive their pension based on final salary, even when leaving after 31 March 2016. There is no impact on existing pensioners or deferred members of the Scheme.

The National Trust has significantly increased its deficit recovery payments with effect from 1 April 2016. Furthermore, the Trustees have entered a Conditional Funding Agreement with the National Trust which provides additional protection to the interests of members of the Scheme. This arrangement provides for a single financial metric which would trigger a cash payment of £40m (or other assets of the same value if agreed by both parties) into the Scheme from the National Trust. The agreed financial metric which would trigger this payment is the ratio of total unrestricted assets of the National Trust (including specified off balance sheet assets) to the Scheme deficit falling below 4.0. This potential cash payment will gradually reduce over time but remained at £40m at 1 April 2018.

#### RECOVERY PLAN

Following the last three year valuation in 2017, to satisfy the requirements of Section 226 of the Pensions Act 2014, after consultation with the Scheme Actuary and with the National Trust the Trustees agreed a Recovery Plan on 5 December 2017.

Under the terms of this Recovery Plan, the National Trust have agreed to pay additional contributions as follows:

- From 1 April 2017 to 31 December 2026, £722,500 per month, increasing by the annual increase in CPI (as measured in previous September) plus 1% on 1 April 2018 and each anniversary thereafter.
- From 1 April 2018 to 31 December 2026 – an additional £306,667 per month, increasing by the annual increase in CPI (as measured in previous September) plus 1% on 1 April 2019 and each anniversary thereafter.

The National Trust may choose to pay these contributions annually in advance.

Under this Recovery Plan, if the assumptions are borne out in practice the funding shortfall will be eliminated by 31 December 2026.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

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

The most recent full actuarial valuation of the Scheme was carried out as at 5 April 2017. That showed that on that date:

The value of the Technical Provision was	£787.7 million
The value of the assets at that date was	£638.0 million.

The deficit at 5 April 2017 stood at £149.7m. As at 5 April 2018, the deficit stood at £131.6m. Details on the Trustees Recovery Plan can be found on page 6.

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

#### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method. Significant actuarial assumptions are shown below:

**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 0.5% per annum after retirement and 2.5% per annum before retirement.

**Future Retail Price Index (RPI) inflation:** term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

**Future Consumer Price Index (CPI) inflation:** term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 0.95% per annum.

**Pension increases:** derived from the term dependent rates for future RPI and CPI inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's Rules and the fact that inflation varies from year to year.

**Pay increases:** general pay increases of 0.75% per annum above the term dependent rates for the future CPI inflation.

**Mortality:** for the period in retirement, standard SAPS "S2" tables in line with the CMI 2016 core projections with a smoothing factor of 7.50% p.a and long term improvement rate of 1.50% p.a for men and women.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### MEMBERSHIP

All employees who were on a regular contract with the National Trust and who were aged between 21 and 60 were eligible to join the Scheme prior to it closing to new entrants from 1 June 2003. In 2010-11 the Scheme was re-opened to admit 8 new members due to a transfer of employment.

The change in membership of the Scheme during the year is given below:

#### \*Cessation Members

Cessation Members at 6 April 2017	934	
Members retiring	(36)	
Death in service	-	
Transfers out	(4)	
Members leaving prior to pensionable age	(36)	
Members retiring on full commutation basis	-	(76)
Cessation Members at 5 April 2018		<u>858</u>

#### Pensioners

Pensioners at 6 April 2017	2,532	
Members retiring	36	
Deferred pensioners reaching pensionable age	90	
New spouse and dependant pensions	17	143
Pensioner records closed	(2)	
Pensioners who died during the year	(70)	(72)
Pensioners at 5 April 2018		<u>2,603</u>

#### Deferred pensioners

Deferred pensioners at 6 April 2017	2,297	
Members leaving with deferred pensions during the year	36	
	<u>2,333</u>	
Deferred pensioners reaching pensionable age	(90)	
Deferred pensioners transferred out	(19)	
Deferred pensioners who have died	(3)	
Deferred pensioners records closed	(1)	
Deferred pensioners retiring on full commutation basis	(6)	(119)
Deferred pensioners at 5 April 2018		<u>2,214</u>

#### Total membership at 5 April 2018

5,675

\*Cessation Member means a person who was an active member of the Scheme when it closed to future accrual on 31 March 2016. These members retained a benefit link to their final salary.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### INVESTMENT MANAGEMENT ARRANGEMENTS

The Trustees determine their investment strategy after taking advice from the Scheme's Investment Consultants, Redington Limited (Aon Hewitt Limited until 28 February 2018) and have delegated the day-to-day management of the investments of the Scheme to Schroder Investment Management Limited ("Schroders"), Partners Capital LLP ("Partners Capital"), Blackrock Investment Management (UK) Limited ("Blackrock"), Invesco Perpetual Life Limited ("Invesco") and Winton Capital Management Limited GB ("Winton"). The Trustees have appointed an Investment Committee, consisting of Janet Thomson, Steve Tyson, Peter Griffiths (now retired), Andrew Hutton (now retired), Nicky Grace, Ian Bailey and David Jacob which reviews and oversees the activities of the Investment Managers and reports back to all of the Trustees on a regular basis. The Committee, which meets quarterly, considers in detail all investment matters and monitors compliance with the Statement of Investment Principles.

The fee payable to **Schroders** is calculated for the Return seeking assets under their management on the total value of the investment in the Life Diversified Growth Fund on a sliding scale basis. Schroders also receives an amount per annum based on the Present Value of the agreed Hedge Benchmark, the Target Credit Default Swap Indices Exposure and the aggregate value of the holdings in Swaps Funds.

**Partners Capital** charges an Advisory Fee based on the value of the assets advised. This fee covers the initial preparation of the target asset allocation, execution of all transactions agreed and ongoing investment advisory activities. In addition a Performance Fee is also calculated on the net returns from the assets advised. There is a separate fee for currency hedges placed based on the nominal value of the hedge.

Subject to a minimum fee, **Blackrock** charges its fees on a sliding scale basis which varies depending on which fund the investment is in.

**Invesco** charges its performance fee at a flat 70 basis points on the value of the fund.

**Winton** charges a 1% management fee plus 20% Absolute return performance fee.

Further details on the Investment Manager fee structures are available on request.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### STATEMENT OF INVESTMENT POLICY

The Trustees have prepared a Statement of Investment Principles, which is available on request.

##### (i) INVESTMENT OBJECTIVES

The Trustees aim to invest the assets of the Scheme prudently to ensure that the pension benefits promised to members can be provided as they fall due. In setting the investment strategy, the Trustees considered the impact of changes in both the value of the assets and the value placed on the liabilities on the Scheme's funding level. The investment strategy they have selected is designed to maintain an acceptable funding cost and to improve the funding level over the medium term, whilst controlling the risk of significant adverse movements in the funding level. The core of the investment strategy is a liability hedge addressing a proportion of the liability risks, whilst ensuring significant diversification of the return seeking assets. The combination is expected to maintain a prudent approach to meeting the Scheme's liabilities.

##### (ii) INVESTMENT STRATEGY

The following table sets out the initial broad investment strategy which was agreed in 2015. The long term investment strategy will be formally reviewed every 3 years.

<b>Asset Class</b>	<b>Weighting (%)</b>
Diversified return seeking assets	65.0
Gilts and liquid focussed assets supporting the liability hedge	35.0
<b>Total Fund</b>	<b>100.0</b>

The diversified return seeking assets comprise, inter alia, a portfolio of global equities, private equity, property, commodities, high yield and emerging market debt, infrastructure and absolute return strategies (including hedge funds). The exposures to these asset classes and strategies will be implemented via a mixture of underlying collective investment vehicles, index (or passive) investment and derivatives. The asset exposures and the selection of underlying investment managers will be based on specialist advice.

The remaining assets comprise a liability hedge designed to reduce funding level volatility from changes in interest rates and inflation. The liability hedge is implemented via a range of assets including physical assets, derivatives and pooled funds. Cash to support the management of derivative positions is held in a liquidity fund. From time to time, the manager will, in consultation with the Investment Committee and their advisors, take positions in certain instruments with an aim of enhancing returns on the cash and liability hedging holdings. The Trustees have delegated the management of the liquidity of the overall investment structure to the investment manager (Schroders) who will be responsible for ensuring that sufficient liquidity exists to support the liability hedge.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### STATEMENT OF INVESTMENT POLICY (continued)

The investment strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the funding level (allowing for discretionary pension increases), the actuarial valuation basis and the interest rate and inflation sensitivity of the projected liability cashflow profile. The investment strategy is based on the view that a well-diversified portfolio of return seeking assets combined with the liquid focussed assets supporting the liability hedge will outperform the discount rate used by the Actuary over the long term, thereby ensuring that pension benefits can be paid.

The investment strategy will be reviewed as required and at least every three years.

To develop the investment strategy the Trustees considered:

- The liability structure of the Scheme.
- The timeframe for investment
- A full range of asset classes and their suitability.
- The need for appropriate diversification
- The risks and rewards of a range of alternative asset allocations.
- The potential for risk management from delegating management of the asset mix of the return seeking assets through time to the investment managers.

#### (iii) DYNAMIC RISK MANAGEMENT

The Trustees are implementing a dynamic risk management strategy which consists of two parts. The first part, a De-risking Strategy, will reduce the proportion of return seeking assets in the Scheme's portfolio when the funding level increases to certain defined levels in order to increase the stability of the funding level. These defined levels are shown below:

Funding Level (%)	Growth Assets (%)	Matching Assets (%)
<90	65	35
90	60	40
95	55	45
100	50	50

The funding level is currently monitored by the Actuary on a quarterly basis. As the funding level moves closer to the 90% trigger more regular monitoring will become necessary.

When a trigger is hit a minimum of three Investment Committee members are required to approve a de-risking action. If, following rounds of de-risking, the funding level deteriorates by two funding level triggers, re-risking may be considered. The approval of a re-risking action requires a decision from the full Investment Committee and consultation with the Trust.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### STATEMENT OF INVESTMENT POLICY (continued)

The second part of the dynamic risk management strategy will increase the liability hedge coverage, up to the long-term goal of a 100% hedge, when market pricing becomes more attractive. Awareness points have been established to trigger discussions to increase the interest rate hedge as pricing becomes more attractive.

#### (iv) IMPLEMENTATION

Redington Limited have been selected as investment adviser to the Trustees. They are in the process of working with the Trustees to change the investment strategy, dynamic risk management framework and the performance benchmark for the Scheme.

Redington Limited are paid on a fixed fee basis for the majority of work they undertake, though additional fees may be agreed for services that are not included in the terms of the Letter of Engagement.

A summary of the investment structure and objectives for the Scheme's assets are as follows:

<b>Investment Manager</b>	<b>Objective</b>
Schroder Pensions Management Limited Diversified Growth Fund	To obtain a net return at least equivalent to UK inflation (RPI)+5% p.a over a market cycle with reduced volatility when compared to an equity portfolio.
A range of individual investment managers selected under a discretionary investment agreement with Partners Capital LLP.	To obtain a net return at least equivalent to UK inflation (RPI)+5% p.a over a market cycle with reduced volatility when compared to an equity portfolio.
Schroder Investment Management – Liability Hedge	To efficiently reduce the variability of the Scheme's funding level by taking exposure to a range of different instruments and pooled funds to reflect the interest rate and inflation sensitivity of a proportion of the Scheme's liabilities. To take positions in certain instruments with an aim of enhancing returns on the cash and liability hedging holdings in consultation with the Investment Committee and their advisors.
Winton Capital Management Limited – Futures Fund	To achieve long-term capital appreciation through compound growth.
BlackRock – Passive Global Equity Fund	To deliver a return approximately equal to the MSCI All Countries World Index (ACWI).
Invesco Perpetual – Global Targeted Returns Pension Fund	To outperform UK 3 month LIBOR by 5% p.a. gross of fees over a rolling 3 year period. Invesco aim to deliver this return target with less than half the volatility of global equities.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### STATEMENT OF INVESTMENT POLICY (continued)

The table below indicates the current target asset allocation (while funding level is less than 90%) and tolerance ranges for the Scheme. The Trustees considered the Scheme's covenant when developing the investment strategy.

Portfolio	Target Allocation %	Tolerance Ranges %
Schroder – Diversified Growth	25	20 – 30
Partners Capital – Diversified Growth	17	12 – 22
Winton – Futures Fund	6	4 – 8
BlackRock – Passive Funds	8.5	5 – 12
Invesco – Diversified Growth	8.5	5 – 12
Schroder – LDI Strategy*	35	30 – 40
Total	100	100

\*The liquid focussed assets supporting and implementing the liability hedge.

If the asset allocation deviates outside the tolerance ranges, monitored on a quarterly basis, then the Investment Committee will consider rebalancing the actual allocation back to the target allocation levels. The Scheme's ongoing cash-flow requirements together with de-risking disinvestments will also be considered when rebalancing the asset allocation.

The Trustees have delegated all day to day decisions about the investments that fall within the mandate to the investment managers through written contracts. These duties include:

- Selection of individual investments, underlying asset managers, collective investment schemes, pooled funds, passive exposures and derivatives.
- Funding, realisation and monitoring of the above investments.
- Where possible, taking into account socially responsible investment considerations.
- Where possible, exercise of voting and other rights attaching to individual investments.

#### (v) GOVERNANCE

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision.

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

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### STATEMENT OF INVESTMENT POLICY (continued)

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' Additional Voluntary Contributions (AVCs). When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The Trustees have established the following decision making structure:

<p><b>Trustees</b></p> <ul style="list-style-type: none"> <li>• Strategic direction including high level asset allocation</li> <li>• Investment Risk</li> <li>• Statement of Investment Principles (SIP)</li> <li>• Appoint Investment Committee</li> <li>• Setting parameters for the Investment Committee</li> <li>• Select direct investments (see below).</li> <li>• Consider recommendations from the Investment Committee</li> <li>• Monitor investment performance relative to the strategic goals of the Scheme</li> </ul>	<p><b>Investment Committee</b></p> <ul style="list-style-type: none"> <li>• Make recommendations to Trustees on:               <ul style="list-style-type: none"> <li>– Asset allocation</li> <li>– Investment management structure consistent with overall investment objectives</li> <li>– SIP, Myners compliance and other investment related compliance issues</li> <li>– Any other investment related issues</li> </ul> </li> <li>• Decide on appointment and removal of investment managers, custodians and investment advisers</li> <li>• Monitor investment advisers and fund managers</li> <li>• Decide on performance benchmarks and investment guidelines to be set for each manager</li> <li>• Within high level strategic asset allocation and constraints set by the Trustees, decide on tactical asset allocation.</li> <li>• Report to the Trustees on the work undertaken by the Investment Committee</li> </ul>
<p><b>Investment Advisers</b></p> <ul style="list-style-type: none"> <li>• Advise on the suitability of the overall investment strategy.</li> <li>• Advise on direct investments other than those invested in by Partners Capital.</li> <li>• Advise on the content of this statement.</li> </ul>	<p><b>Fund Managers</b></p> <ul style="list-style-type: none"> <li>• Operate within the terms of this statement and their written contracts.</li> <li>• Select individual investments with regard to their suitability and diversification.</li> <li>• Make recommendations on appropriate investment strategy.</li> </ul>

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### STATEMENT OF INVESTMENT POLICY (continued)

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

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

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

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

Appropriate arrangements are in place for custody of the investments, collective investments and pooled funds managed by the investment managers. The custodians provide safekeeping and settlement facilities for the Scheme's assets.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Employer over any changes to the SIP.

A SIP has been produced as required by Section 35 of the Pensions Act 1995, and is available on request.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### TRUSTEES' REPORT (continued)

#### 5 YEAR PERFORMANCE

The Scheme's total performance combining diversified return seeking assets and assets supporting the liability hedge, over the last five years is given below. The table shows the total returns achieved by the Scheme compared with the benchmark.

	The Scheme %	*Benchmark %
Over last year	0.6	8.3
Over last three years	7.2	7.7
Over last five years	8.1	7.2

\* Refers to annual change in the UK Retail Price Index at 31 March + 5%.

Over the year, a combination of strong economic growth and low interest rates resulted in global equities performing strongly, despite a period of negative performance and volatility since February 2018 with the MSCI AC World Index returning 10.1% over 12 months to 5 April 2018.

The Bank of England increased interest rates for the first time in a decade from 0.25% to 0.5% in November 2017, due to improving economic data. Long-term UK gilt yields followed an upward trend with 30-year gilt yields experiencing an increase of 0.1% over the period, although remaining at record lows.

The value of Sterling strengthened against the Dollar, with a 12.2% net gain achieved over the financial year. A combination of low interest rates and uncertainty around the outcome of Brexit have negatively impacted the Pound's performance against the Euro by 2.3% over the year.

Despite this largely favourable backdrop, the current year's Scheme performance has been held back by the underperformance of three investments for the following reasons;

1. Invesco took investment positions based on medium to long term investment ideas but these resulted in muted short term returns.
2. Schroders made positive returns across equities, fixed income and alternatives but were 2.5% down against a challenging benchmark.
3. Partners Capital significantly underperformed its benchmark with unhedged currency exposure detracting from returns, contributing a -4.5% return for the year. Portfolio returns from global equities were stable and positive to the end of 2017, but the first quarter of 2018 saw a return of volatility and uncertainty in developed market equities and negative global equity performance was instrumental in first quarter losses for the overall portfolio.

The Trustees continue to monitor investment performance closely using appropriate benchmarks as shown above.

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

### **TRUSTEES' REPORT (continued)**

#### **CUSTODY ARRANGEMENTS**

The independent custodians for each Fund Manager are shown within the Trustees and Advisors section of this report on page 3. These investments are held in a designated nominee accounts in the names of the Trustees of the Scheme. The Trustees receive monthly reports detailing the assets held by the custodians and the transactions in the Fund. These are monitored by the Secretary to the Trustees and any queries are followed up with the custodian on a timely basis.

#### **AVC INVESTMENTS**

The Trustees provide the facility for members to make Additional Voluntary Contributions (AVCs). The Trustees hold these contributions, which are invested separately from the main fund, in the form of managed funds and a group with-profits policy.

The total number of individual accounts by provider at 5 April 2018 was:

Equitable Life Assurance Society	12
Zurich Financial	174

Now that the Scheme is closed to future accrual it is not possible for members to obtain additional benefits, on a money purchase basis. Each member continues to receive an annual statement at the year-end confirming the current sum in their account in respect of contributions made before 1 April 2017.

#### **Tax and Contracting-Out Status of the Scheme**

The Scheme is approved as an "exempt approved scheme" under the terms of the Income and Corporation Taxes Act 1988 and to the Trustees' knowledge there is no reason why such approval should be prejudiced or withdrawn. The Scheme was contracted out of the State Earnings Related Pension Scheme/Second Tier State Pension until 31 March 2016 under a certificate issued by the Occupational Pensions Board.

#### **Cash Equivalent Transfer Values**

Cash equivalents paid during the Scheme year with respect to transfers have been calculated and verified in accordance with appropriate regulations and guidelines issued by the Institute of Actuaries. Allowance for discretionary pension increases are included in the calculation of cash equivalents.

#### **Scheme Advisers**

There are written agreements in place between the Trustees and each of the Scheme advisers listed on pages 1 to 3 of this report and also with the Principal Employer.

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

### **TRUSTEES' REPORT (continued)**

#### **Pension Increases**

On 1 January 2018 pensions in payment in excess of the Guaranteed Minimum Pension were increased by 3.0% (2017: 0.9%) on discretionary pensions earned prior to 1997, 3.9% (2017: 2.0%) on pensions earned post 1997 and 3.0% (2017: 2.0%) on pensions earned post 1 March 2007.

Increases to deferred pensions were in accordance with statutory provisions.

#### **Contacting the Trustees, The Pensions Advisory Service and the Pensions Ombudsman**

If Scheme members have any queries concerning their benefits they should contact the Secretary to the Trustees by writing to Judith Alborough at the address shown below:

Heelis  
Kemble Drive  
Swindon  
SN2 2NA

Email: [judith.alborough@nationaltrust.org.uk](mailto:judith.alborough@nationaltrust.org.uk)

#### **FURTHER INFORMATION**

Members are entitled to inspect copies of documents giving information about the Scheme. In some circumstances, copies of the documents can be provided free but a charge will be made for copies of the Trust Documents (Deed and Rules) and of the Actuary's Report.

The Secretary to the Trustees is Judith Alborough, who is also responsible for the day to day administration of the Scheme. Any queries about this Report, the Scheme generally, or members' own benefits should be addressed to her at Heelis, telephone 01793 817589 or email (as above).

Signed on behalf of the Trustees

Date

2018

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### **Independent Auditors' report to the Trustees of the National Trust Retirement and Death Benefits Scheme**

#### **Opinion**

We have audited the financial statements of the National Trust Retirement and Death Benefits Scheme for the year ended 5 April 2018 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### **Basis for opinion**

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

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

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

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have 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.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### **Independent Auditors' report to the Trustees of the National Trust Retirement and Death Benefits Scheme (continued)**

#### **Other information**

The Trustees are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditors report thereon. Our opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

#### **Responsibilities of Trustees**

As explained more fully in the statement of Trustees' responsibilities set out on page 5, the Trustees are responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine 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 Trustees are 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 Trustees either intend to wind up the Scheme 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

### **Independent Auditors' report to the Trustees of the National Trust Retirement and Death Benefits Scheme (continued)**

#### **Use of our report**

This report is made solely to the Scheme's Trustees, 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 Trustees 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 Trustees as a body, for our audit work, this report or the opinions we have formed.

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

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### FUND ACCOUNT

	NOTE	£'000	2018 £'000	£'000	2017 £'000
<b>CONTRIBUTIONS AND OTHER INCOME</b>					
Employer's contributions receivable	3	<b>9,390</b>		9,206	
Other income	4	-		93	
			<b>9,390</b>		9,299
<b>BENEFITS AND OTHER PAYMENTS</b>					
Benefits payable	5	<b>(20,800)</b>		(18,154)	
Payments to and on account of leavers	6	<b>(5,249)</b>		(2,827)	
Administrative expenses	7	<b>(874)</b>		(803)	
			<b>(26,923)</b>		(21,784)
<b>NET (WITHDRAWALS) FROM DEALINGS WITH MEMBERS</b>					
			<b>(17,533)</b>		(12,485)
<b>RETURNS ON INVESTMENTS</b>					
Investment income	8	<b>3,487</b>		4,115	
Increase in market value of investments	9	<b>4,070</b>		123,019	
Investment management expenses	10	<b>(1,503)</b>		(1,152)	
<b>NET RETURNS ON INVESTMENTS</b>					
			<b>6,054</b>		125,982
<b>NET (DECREASE) / INCREASE IN THE FUND</b>					
			<b>(11,479)</b>		113,497
<b>NET ASSETS BROUGHT FORWARD</b>					
			<b>642,474</b>		528,977
<b>NET ASSETS CARRIED FORWARD</b>					
			<b>630,995</b>		642,474

The notes on pages 25 to 39 form part of these financial statements.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### STATEMENT OF NET ASSETS (available for benefits)

	NOTE	2018 £'000	2017 £'000
<b>INVESTMENTS</b>	9		
<b>Assets - Return Seeking Strategy</b>			
Pooled Investment Vehicles		409,840	419,690
Derivatives – FX asset		464	1,370
Cash deposits		1,329	1,982
		<u>411,633</u>	<u>423,042</u>
<b>Liabilities - Return Seeking Strategy</b>			
Derivatives – FX liability		-	(17)
<b>Total Net Return Seeking Strategy Investments</b>		<u>411,633</u>	<u>423,025</u>
<b>Assets –Liability Matching Strategy</b>			
Pooled Investment Vehicles		4,277	230
Bonds		208,703	351,425
Derivatives		-	2,591
Cash deposits		696	5,328
Other investment balances		62,851	59,289
		<u>276,527</u>	<u>418,863</u>
<b>Liabilities - Liability Matching Strategy</b>			
Derivatives		(54)	(3)
Other investment balances		(62,301)	(204,501)
		<u>(62,355)</u>	<u>(204,504)</u>
<b>Total Net Liability Matching Investments</b>		<u>214,172</u>	<u>214,359</u>
<b>AVC Investments</b>		<u>4,162</u>	<u>4,482</u>
<b>TOTAL INVESTMENTS</b>		<u>629,967</u>	<u>641,866</u>
<b>CURRENT ASSETS</b>	11	<u>2,919</u>	<u>3,516</u>
<b>CURRENT LIABILITIES</b>	12	<u>(1,891)</u>	<u>(2,908)</u>
<b>NET CURRENT ASSETS</b>		<u>1,028</u>	<u>608</u>
<b>NET ASSETS AT 5 APRIL</b>		<u><u>630,995</u></u>	<u><u>642,474</u></u>

# **THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME**

## **ANNUAL REPORT AND ACCOUNTS**

FOR THE YEAR ENDED 5 APRIL 2018

### **STATEMENT OF NET ASSETS (continued)**

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 7 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustees on 2018.

Signed on behalf of the Trustees:

Trustee

Trustee

The notes on pages 25 to 39 form part of these financial statements.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 5 April 2018

#### 1 BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis and in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by The Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2015).

#### 2 ACCOUNTING POLICIES

The following principal accounting policies have been adopted in the preparation of the financial statements:

##### (a) Investments

Investments are included at fair value as explained below:

- i) Quoted securities in active markets are usually valued at the current bid prices at the reporting date.
- ii) Fixed interest securities are stated at their clean price, where applicable including the indexation element which is payable on maturity. Accrued interest is excluded from the market value of fixed income securities and is included in other investment balances.
- iii) Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager.
- iv) Swaps are valued based on the present value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
- v) Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- vi) Annuities are not material to the Scheme and have been excluded from the Statement of Net Assets.
- vii) With profit insurance policies are reported at the policy value provided by Equitable Life Assurance Society and Zurich Financial based on the cumulative reversionary bonuses declared and the current terminal bonus.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 2 ACCOUNTING POLICIES (continued)

viii) Under repurchase agreements, the Scheme continues to recognise and value the securities that are delivered as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back recognised as a payable amount.

##### **(b) Investment Income**

Income is recognised as explained below:

- i) Income from bonds is accounted for on an accruals basis. Accrued interest on bond income is excluded from the market value of the bond and included in income.
- ii) Income from cash and short term deposits is accounted for on an accruals basis.
- iii) Income from pooled investment vehicles is accounted for when declared by the fund manager. Other income from pooled investment vehicles is reinvested without the purchase of additional units, included in change in market value within the Fund account.
- iv) Receipts from annuity policies held by the trustee are accounted for as investment income on an accruals basis.
- v) Cash receipts and payments on swap contracts are included in investment income when they are due.
- vi) Investment income includes recoverable withholding tax. Irrecoverable withholding tax is shown as an expense.

##### **(c) Contributions**

- i) Employer deficit funded contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier and with the agreement of the employer and trustee.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 2 ACCOUNTING POLICIES (continued)

**(d) Benefits Payable**

Payments to members are recognised as follows:

- i) Pensions in payment are accounted for in the period to which they relate.
- ii) Benefits are accounted for in the period in which the member notifies the Trustees of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.
- iii) Individual transfers out of the Scheme are accounted for when the member liability is discharged which is normally when the transfer amount is paid or received.

**(e) Administrative Expenses**

- i) Expenses are accounted for on an accruals basis. The Scheme bears the cost of administering the Scheme.
- ii) Investment management expenses are accounted for on an accruals basis. Transaction costs are included in the cost of purchases and sales proceeds.

**(f) Other**

- i) 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 profit and losses on sales of investments during the year.
- ii) Balances denominated in foreign currencies are translated into Sterling at the rate ruling at the year end date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 3 EMPLOYER'S CONTRIBUTIONS RECEIVABLE

	<b>2018</b> £'000	2017 £'000
Employer – deficit funding	8,670	8,500
– administration expenses	<u>720</u>	<u>706</u>
	<b><u>9,390</u></b>	<b><u>9,206</u></b>

The Scheme closed for future accrual on 31 March 2016. Therefore, there are no normal employer contributions for the year ended 5 April 2018. The deficit funding contribution was paid monthly (£722,500) along with monthly contributions (£60,035) towards administration expenses.

The deficit contributions will increase to £9,014,200 per annum in April 2018, increasing by the annual increase in CPI plus 1% on 1 April each year thereafter until 31 December 2026.

#### 4 OTHER INCOME

	<b>2018</b> £'000	2017 £'000
Lump sum death benefits received	<u>-</u>	<u>93</u>
	<b><u>-</u></b>	<b><u>93</u></b>

#### 5 BENEFITS PAYABLE

	<b>2018</b> £'000	2017 £'000
On or during retirement:		
Pensions	16,006	15,188
Commutation and lump sum benefits	4,711	2,736
Death benefits:		
Death in service	56	196
Death in retirement / deferment	27	34
	<b><u>20,800</u></b>	<b><u>18,154</u></b>

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	<b>2018</b> £'000	2017 £'000
Individual transfers to other schemes	<u>5,249</u>	<u>2,827</u>

#### 7 ADMINISTRATIVE EXPENSES

	<b>2018</b> £'000	2017 £'000
Administration and processing expenses	274	284
Investment advice	220	215
Actuarial advice	263	122
Audit fees	31	26
Legal Fees	29	46
Levies	23	98
Covenant monitoring	26	-
Professional subscriptions and membership fees	8	12
Total administration expenses	<u>874</u>	<u>803</u>

The Trustees and the National Trust, as Principal Employer, have agreed that all the administration and management expenses of the Scheme should be borne by the Scheme. In 2016-17 the Trustees agreed with the Employer that 1% of the overhead costs would be borne by the Scheme. This amounted to £18,733 and has been included with administration and processing expenses.

#### 8 INVESTMENT INCOME

	<b>2018</b> £'000	2017 £'000
Income from bonds	2,726	3,506
Annuity income	38	32
Income from Pooled Investment Vehicles	547	793
Other income	26	173
Net interest on Swaps	150	(389)
Total investment income	<u>3,487</u>	<u>4,115</u>

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS

##### RECONCILIATION OF INVESTMENTS

	Value at 6.4.17	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market value	Value at 5.4.18
	£'000	£'000	£'000	£'000	£'000
Bonds	351,425	362,377	(505,554)	455	208,703
Pooled investment vehicles	419,920	71,422	(91,677)	14,452	414,117
Derivatives	3,940	260,624	(262,053)	(2,101)	410
AVC investments	4,482	-	(426)	106	4,162
	<u>779,767</u>	<u>694,423</u>	<u>(859,710)</u>	<u>12,912</u>	<u>627,392</u>
Cash deposits	7,310			(5,285)	2,025
Other investment balances	(145,211)			(3,557)	550
Total investments	<u>641,866</u>			<u>4,070</u>	<u>629,967</u>

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 and gains and losses on foreign currency investment.

The following investments exceed 5% of the value of the net assets of the Scheme:

	<b>2018</b> £'000	2017 £'000
Schroder – Index-linked & Treasury Gilts	207,521	192,317
Schroder – Diversified Growth Fund	155,619	161,190
Invesco Perpetual Global Targeted Return Fund	56,193	58,443
Aquila Life World Equity Fund	44,496	45,279
The Winton Fund Limited	41,019	39,778

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### FAIR VALUATION HIERARCHY ANALYSIS

The fair valuation of investments shown below has been determined using the following 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.

Fair Value Hierarchy As at 5 April 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	208,703	-	208,703
Pooled Investment vehicles	-	374,997	39,120	414,117
Derivatives	-	464	(54)	410
Cash & repurchase agreements	2,025	-	-	2,025
Subtotals	2,025	584,164	39,066	625,255
Other investment balances	466	(38)	122	550
AVC Investments	-	-	4,162	4,162
<b>TOTAL INVESTMENTS</b>	<b>2,491</b>	<b>584,126</b>	<b>43,350</b>	<b>629,967</b>

Fair Value Hierarchy As at 5 April 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds*	-	351,425	-	351,425
Pooled Investment vehicles	-	372,184	47,736	419,920
Derivatives	-	3,940	-	3,940
Cash & repurchase agreements investment balances	7,310	-	-	7,310
Subtotals	7,310	727,549	47,736	782,595
Other investment balances	800	(145,983)	(28)	(145,211)
AVC Investments	-	-	4,482	4,482
<b>TOTAL INVESTMENTS</b>	<b>8,110</b>	<b>581,566</b>	<b>52,190</b>	<b>641,866</b>

\* In line with industry guidance, the gilts that were included in level 1 in 2017 have been reanalysed to level 2 in 2018 to reflect the evaluated nature of 3<sup>rd</sup> party vendor data when pricing the investments.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### Pooled Investment Vehicles

These can be analysed following the Fund Manager analysis as follows:

	<b>2018</b>	2017
	£'000	£'000
Credit Funds	9,767	15,434
Equity Funds	113,386	115,571
Property Funds	4,837	5,546
Private Equity Funds (excluding property)	13,034	13,244
Absolute Return / Hedge Funds	113,197	108,705
Diversified Growth Funds	155,619	161,190
Cash	4,277	230
Total Pooled Investment Vehicles	<u><b>414,117</b></u>	<u>419,920</u>

The Absolute Return / Hedged Funds are investments in the following funds with Partners Capital, Winton and Invesco:

	<b>2018</b>	2017
	£'000	£'000
Partners Capital Harrier Fund (C) Ltd	4,731	5,085
Winton Fund Limited	41,019	39,778
Invesco Perpetual Global Targeted Return Fund	56,193	56,266
Sigma Risk Premia	930	-
Aeolus Property Catastrophe Fund	1,804	-
AQR	3,136	3,616
Aviva	2,455	998
Renaissance	2,929	2,962
Total	<u><b>113,197</b></u>	<u>108,705</u>

These funds include equities, bonds, derivatives and cash.

The Diversified Growth fund solely relates to investment in the Schroders Diversified Growth Fund. This investment includes equities, corporate and government bonds, high yield and emerging market debt, property, private equity and cash.

With the exception of the cash balance, all the investments shown with Pooled Investment Vehicles relate to the Scheme's return seeking strategy.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### Derivatives

##### Forward Foreign Exchange

Contracts	Settlement date	Currency bought '000	Currency sold '000	Asset £'000	Liability £'000
Forward	18/06/18	£4,187	€4,700	49	-
Forward	18/06/18	£45,725	\$63,800	415	-
				<b>464</b>	<b>-</b>
			2017:	1,370	(17)

##### Swaptions

The Scheme had outstanding swaptions at the year end as follows:

Nature	No of Contracts	Notional principal £000	Expires	Asset Value £000	Liability Value £000
Interest rate swap option		-		-	-
Total 2018		-		-	-
Total 2017		40,000		-	(3)

##### Swaps

Nature	Expiration	Notional £'000	Asset £'000	Liability £'000
Total return swap	0-10 Years	95,729	390	(603)
Total return swap	11-20 Years	90,376	669	(250)
Total return swap	21-30 Years	12,000	-	(228)
Total return swap	31-40 Years	9,955	90	-
		208,060	1,149	(1,081)
	2017:	43,953	2,563	-

The notional principal of the swaps is the amount used to determine the value of the swapped interest receipts and payments.

The asset value above includes accrued interest of £122k (2017: £28k)

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### Transaction Costs

The majority of transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. There were no direct transaction costs incurred during the year (2017: £nil). Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. In respect of Schroders, Blackrock, Winton and Invesco the amount of indirect costs is not separately provided to the Scheme. Partners Capital advise indirect transaction costs of £26,872 (2017: £8,731)

##### Collateral

All of the Partners Capital portfolio of £105,408,613 (2017: £91,581,959) is pledged as collateral for their currency hedging contracts. The purpose of these contracts is currency risk mitigation rather than speculation. Schroders have pledged £1,799,055 (2017: £5,083,355) in gilts as collateral on the swap position.

##### Other investment Balances

	<b>2018</b>	2017
	£'000	£'000
Repurchase agreements	(62,055)	(204,215)
Reverse repurchase agreements	62,055	58,444
Accrued income	550	560
	<u><b>550</b></u>	<u>(145,211)</u>

##### Repurchase and reverse repurchase agreements

At the year end, within other investment assets and liabilities, amounts payable under repurchase agreements amounted to £62,055,000 (2017: £204,215,000) and amounts receivable under reverse repurchase agreements amounted to £62,055,000 (2017: £58,444,000). At the year end £62,674,000 of bonds reported in Scheme assets are held by counterparties under repurchase agreements.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### AVC investments

	2018 £'000	2017 £'000
Equitable Life Assurance Society	69	67
Zurich Financial	4,093	4,415
	<u>4,162</u>	<u>4,482</u>

The Trustees hold assets invested separately from the main fund in the form of individual policies with Equitable Life and Zurich. These policies secure additional benefits on a money purchase basis for certain members electing to pay AVC-s.

##### Investment Risks

Information in relation to certain investment risks to which the Scheme is exposed at the end of the reporting period is explained in this note. These risks are 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 comprises currency risk, interest rate risk and other price risk.

- i) 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 risks.
- ii) 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.
- iii) 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 currency risk or interest rate 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 NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### Investment Risks (continued)

The Trustees determine their investment strategy after taking advice from the investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular review of the investment portfolio.

Details on the Scheme's investment strategy are noted under the statement on investment policy on pages 10 and 11 of this Annual Report. Further information on the Trustees approach to risk management, credit and market risk is set out below. This does not include annuity and with profits insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

##### Credit Risk

The Scheme is subject to direct credit risk because the Scheme directly invests in bonds, over the counter derivatives, repurchase agreements and has cash balances. These account for £211,138,000 (2017: £216,904,000) of investments. All directly held bonds are at least investment grade. The credit risk for the swap positions is reduced by the collateral arrangements noted on page 34.

The Scheme is also indirectly exposed to credit risks arising on the underlying investments in the above investments held in pooled investment vehicles and further analysis of these funds is provided on page 32. Bonds, cash, derivatives, absolute return and diversified growth funds account for £282,860,000 (2017: £285,559,000) of these pooled investment vehicles.

The direct credit risk arising from pooled investment vehicles is mitigated by their underlying assets being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of the managers amongst a number of pooled arrangements. The Trustees also carry out due diligence on new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

Pooled investment arrangements used by the Scheme comprise shares in limited liability partnerships of £28,424,000 (2017: £28,090,000), units in open ended investment funds of £384,296,000 (2017: £389,963,000) and exchange traded funds £1,397,000 (2017: £1,862,000)

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 9 INVESTMENTS (continued)

##### **Currency Risk**

The Scheme is indirectly subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustees manage currency risk by holding Forward Foreign Exchange contracts (see page 33 for forward exchange contracts). Furthermore, Partners Capital generally hedge 60% of the non-Sterling exposure to any currency in which its portfolio is more than 5% exposed.

At 5 April 2018, £239,583,000 (38.0%) of the funds were invested in overseas (2017: £224,940,000, 35.1%).

##### **Interest Rate Risk**

The Scheme is subject to interest rate risk because of the Scheme's investments in bonds, bond funds, swaps, repurchase agreements and cash. The Trustees have set a benchmark for total investment in bond funds, swaps, repurchase agreements and cash of 35% of the total investment portfolio as part of the liability matching strategy. Under this strategy, if interest rates fall, the value of liability driven investment will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability driven investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. As at 5 April 2018, £214,172,000 34% of investments were included in the liability matching portfolio (2017: £214,359,000 34%) hedging 61.5% of liabilities, including ongoing discretionary pension increases.

The Scheme is also indirectly exposed to interest rate risks arising on the underlying investments in pooled investment vehicles within the return seeking portfolio and further analysis of these funds is provided on page 32. Bonds, absolute return/hedge funds and diversified growth funds will attract interest rate risk where they invest in bonds and cash. These account for £278,583,000 (2017: £285,329,000) of the pooled investment vehicles.

##### **Other Price Risk**

Other price risk arises principally on relation to the Scheme's return seeking portfolio. The Trustees have set a target allocation of 65% of investments being held in return seeking investments although the asset allocation will fluctuate due to market movements. As at 5 April 2018, £411,633,000 66% of the portfolio was held in return seeking investments (2017: £423,025,000 66%).

Other price risk arises on the underlying assets within the Pooled Investment Vehicles including the Diversified Growth Fund, equity funds, property funds and absolute return funds because the funds invest in equities, private equity and property. The Scheme manages this exposure to price risk by constructing a diverse portfolio of investments across various markets. The value of these funds can be seen on page 32.

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS (continued)

#### 10 INVESTMENT MANAGEMENT EXPENSES

	<b>2018</b> £'000	2017 £'000
Investment Management Fees	1,453	1,071
Custody fees and other expenses	50	81
	<u><b>1,503</b></u>	<u><b>1,152</b></u>

#### 11 CURRENT ASSETS

	<b>2018</b> £'000	2017 £'000
Cash balances	2,912	3,509
Other debtors	7	7
	<u><b>2,919</b></u>	<u><b>3,516</b></u>

#### 12 CURRENT LIABILITIES

	<b>2018</b> £'000	2017 £'000
Unpaid benefits	66	20
Accrued expenses	417	374
Due to Employer	1,408	2,514
	<u><b>1,891</b></u>	<u><b>2,908</b></u>

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 5 April 2018 (continued)

#### 13 CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Scheme had the following fund commitments, totalling \$45,050,000 (£30,801,961) (2017: \$45,050,000 (£32,596,924)) and no contingent liabilities, at 5 April 2018 other than to pay future pension benefits.

<u>Fund</u>	<u>Total Commitment (\$)</u>	<u>Capital Called %</u>
Partners Capital Condor Fund V	6,000,000	65
Partners Capital Condor Fund VI	6,200,000	63
Partners Capital Condor Fund VII	7,000,000	68
Partners Capital Condor Fund VIII	4,000,000	40
Partners Capital Condor Fund IX	5,000,000	17
Partners Capital Condor Fund X	5,000,000	2
Partners Capital Phoenix Fund Ltd	3,350,000	81
Lone Star Fund VIII	2,000,000	90
Lone Star Fund IX	3,500,000	81
Partners Capital Peregrine Fund III Ltd	3,000,000	63

#### 14 EMPLOYER RELATED INVESTMENTS

No employer-related investments were held at any time during the year.

#### 15 RELATED PARTIES

The Member Nominated Trustees are members of the Scheme. No National Trust appointed Trustees are members of the Scheme.

The following Trustee related parties require disclosure:

- i) Andrew Hutton is a director of Schroder UK Growth Fund PLC;

As noted on page 1, Andrew Hutton retired as Scheme Trustee on 5 December 2017.

The balance due to the employer at year end was £1,407,883 (2017: £2,514,289).

# THE NATIONAL TRUST RETIREMENT AND DEATH BENEFITS SCHEME

## ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 5 APRIL 2018

### **Independent auditor's statement about contributions to the Trustees of The National Trust Retirement and Death Benefits Scheme.**

#### **Statement about contributions payable under the schedule of contributions**

We have examined the summary of contributions payable to The National Trust Retirement and Death Benefits Scheme, for the Scheme year ended 5 April 2018 which is set out on page 41.

In our opinion contributions for the scheme year ended 5 April 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 9 July 2015 which covers the period 6 April 2017 to 4 December 2017, the schedule of contributions certified by the Scheme Actuary on 5 December 2017, which covers the period 5 December 2017 to 2 April 2018 and the schedule of contributions certified by the Scheme actuary on 3 April 2018 which covers the period 3 April 2018 to 5 April 2018.

#### **Basis of opinion**

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the 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.

#### **Responsibilities of Trustees**

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

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

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

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

