

COMET PENSION SCHEME

Report and Financial Statements for the year ended 31 March 2019

Scheme Registration No: 10269876



Albion, Fishponds Road, Wokingham, Berkshire RG41 2QE

XPS Administration is a trading name of XPS Administration Limited
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB

Part of XPS Pensions Group

COMET PENSION SCHEME

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TRUSTEE AND ADVISERS

Trustee : Comet Trustee Company Limited

Trustee Directors : Ian Edwards – Chairman *
James Arnold
Helen Charlesworth *
Jon Herzberg
Frederic Jaillard
Victoria Milford

* *Member Nominated*

Secretary to the Trustee : Wayne Phelan
Punter Southall Governance Services (PSGS) (formerly PS Independent Trustees (PSIT))
Forbury Works
37-43 Blagrove Street
Reading
Berkshire RG1 1PZ

(Secretarial Services are provided by PSGS (formerly PS Secretarial services a division of PSIT))

Actuary : Steve Leake
XPS Pensions Limited
Tempus Court
Onslow Street
Guildford
Surrey GU1 4SS

Auditor : BDO LLP
31 Chertsey Street
Guildford
Surrey GU1 4HD

Legal Advisers : Eversheds-Sutherland Ltd
Eversheds House
70 Great Bridgewater Street
Manchester M1 5ES

Bankers : Bank of Scotland
600 Gorgie Road
Edinburgh EH11 3XP

Investment Managers : Legal & General Investment Management Ltd
River & Mercantile Asset Management
PIMCO Europe Ltd Global
Insight Investment Management
Threadneedle Investments
Aviva Investors

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TRUSTEE AND ADVISERS (continued)

Custodians :

Citibank
HSBC Global Investor Services
KAS Bank
Brown Brothers Harriman Trustee Services (Ireland) Ltd
State Street
Bank of New York Mellon SA / NV
Northern Trust

Consultants & Administrators :

XPS Administration Limited
Albion
Fishponds Road
Wokingham
Berkshire RG41 2QE

Investment Adviser :

River & Mercantile Solutions
One Aldermanbury Square
London EC2V 7HR

Principal Employer :

Darty Limited
4th Floor
Reading Bridge House
George Street
Reading
Berkshire RG1 8LS

AVC Providers :

The Prudential Assurance Company
Santander Corporate Banking
The Standard Life Assurance Company

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TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2019

The Trustee presents to the members its annual report and financial statements for the year ended 31 March 2019.

Scheme Information

The Comet Pension Scheme is governed by the Consolidated Trust Deed and Rules, dated 15 January 2015, including subsequent amendments.

The Scheme provides defined benefit pensions. The Scheme has been closed to new members since 1 April 2004 and to future service accrual since 30 September 2007.

Trustee Directors, with the exception of Member-Nominated Trustee Directors, are appointed and removed from office by the Principal Employer in accordance with the Trust Deed. They have the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents, and in the best interests of the members. Helen Charlesworth was voted in as the member nominated trustee as at the 29 March 2019. Victoria Milford has been nominated as the company nominated Trustee Director following re-election. She was formally appointed in a letter dated 13 February 2019.

The Pensions Act 2004 introduced new requirements with regard to Member-Nominated Trustees and requires that at least one-third of the Trustee Directors must be nominated by Scheme members.

During the year the Trustee met regularly to review the management of the Scheme and to monitor the performance of the investment managers, administrators and advisers.

Groupe Fnac SA declared its offer for Darty unconditional in all respects on 20 July 2016, and as a result the shares in Darty were de-listed from the London Stock Exchange.

Darty remains the Comet Pension Scheme's Principal Employer. The ultimate parent company of both Darty and the Scheme trustee company, Comet Trustee Company Limited, is now Groupe Fnac SA.

Membership

The number of members as at the year end was:	2019	2018
Deferred pensioners	3,033	3,143
Pensioners	1,865	1,801

Pension increases

All pensions in payment were increased in accordance with the Rules of the Scheme. Statutory increases are applied to GMP earned after 5 April 1988. The remainder of a member's pension in payment increases in line with the cost of living, up to a maximum of 5% (if accrued before 6 April 2005) or 2.5% (if accrued on or after this date). On 1 April 2018 and 2019 the increases applied were as follows:

	2019	2018
	%	%
GMP accrued after 5 April 1988	2.4	3.0
Pension above GMP accrued before 6 April 2005	2.7	4.1
Pension accrued after 5 April 2005	2.5	2.5

Deferred pensions in excess of the GMP are increased annually in line with the cost of living, up to a maximum of 5%.

There were no discretionary increases made during the year.

Transfer Values

Cash equivalents payable (transfer values to other approved pension arrangements) are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

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TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2019 (continued)

Benefit/Scheme Changes

There were no substantive changes to the Scheme or the benefits provided in the year to 31 March 2019.

Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£000's
Net assets at 31 March 2018	516,586
Net withdrawals from dealings with members	(13,167)
Net returns on investments	<u>27,367</u>
Net assets at 31 March 2019	<u>530,786</u>

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

Taxation Status

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

Myners Principles

The Myners Principles on the corporate governance of investments by pension funds cover the following areas: effective decision making; clear objectives; risk and liabilities; performance assessment; responsible ownership; and clear and objective reporting. Compliance with the principles is voluntary; however the Trustee, with the guidance of its professional advisers, is taking measures to ensure that the Scheme complies with these principles.

Socially responsible investments

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee's policy is that the extent to which, social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers.

Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Enquiries

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee c/o XPS Administration Limited, Albion, Fishponds Road, Wokingham, Berkshire RG41 2QE.

Email: cometadmin@xpsgroup.com.

Equalisation of guaranteed minimum pension benefits

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes.

Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps.

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The judgement did not address transfers out which will be subject to a second hearing expected sometime in 2020. The Scheme has not experienced significant historical transfers out and therefore the Trustee does not believe the outcome of this judgement will have a material impact on the Scheme.

Money & Pensions Service (MPS)

The MPS is a new service which has been introduced in 2019 combining pension guidance, money guidance and debt advice. These services are currently provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. As 2019 progresses an integrated service will be offered. If you have general requests for information or guidance concerning your pension arrangements please contact:

Money & Pensions Service
Holborn Centre
120 Holborn
London EC1 2TD

MPS Tel: 0115 965 9570
Email: contact@singlefinancialguidancebody.org.uk
www.moneyandpensionservice.org.uk

The Pensions Advisory Service
11 Belgrave Road
London SW1V 1RB

TPAS Tel: 0800 011 3797
Website: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

The Pensions Regulator (tPR)

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House
Trafalgar Place
Brighton BN1 4DW

Tel: 0345 600 0707
Email: customersupport@tpr.gov.uk
Website: www.thepensionsregulator.gov.uk

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The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10269876. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

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

Tel: 0800 731 0193

Website: www.gov.uk/find-lost-pension

Data Protection

For the purpose of administering the Scheme and paying benefits under it, the Trustee and Employer each have a legal obligation and a legitimate interest in processing data relating to members and beneficiaries who may benefit as a result of their membership of the Scheme. This may include passing such data to the Scheme's employer, prospective employers, administrators, auditors, investment managers, lawyers and medical advisers and any other such third parties as may be necessary for the operation of the Scheme. The Trustee and Employer are for these purposes Data Controllers under the Act.

The Trustee has undertaken work to ensure that the Scheme is compliant with the General Data Protection Regulations that came into force in May 2018. A Privacy Notice was issued to members in May and the Trustee approved a new Data Policy on 25 May 2018.

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2019

The Trustee has continued to manage the investments in accordance with the agreed investment strategy as set out in the Statement of Investment Principles. The Statement of Investment Principles is updated regularly and was last updated in June 2019. Each of the Scheme's investment managers (as detailed below) takes responsibility for the day to day decisions relating to each portfolio. The Trustee has taken steps to ensure the investment managers and advisers have the appropriate knowledge and experience.

Objectives

In assessing the success of the investment performance, the key measurement used is the performance of the assets relative to a proxy for the movement in liabilities - the Liability Related Objective (LRO).

Over this reporting year, the **qualitative** objectives for the Scheme were:

- i. To ensure that sufficient assets are available to pay out members' current and future benefits as and when they arise
- ii. To maximise the funding level on an ongoing basis. In particular, given the Scheme recently reached a 100% level on the Technical Provisions basis, the Trustee has now set a target of reaching 115% funding level to ensure greater security of paying member benefits.

In addition, the Trustee aims to minimise the risk of additional cash contribution requirements from the Principal Employer in meeting the balance of the costs in underwriting the Scheme benefits.

In terms of **monitoring** the investment arrangements, the above objectives were translated into the following **quantitative** measures, which are used as the main management tool:

- To achieve returns on the Scheme assets equal to the Liability Benchmark Objective over rolling 3 year periods. The Liability Related Objective is defined as Liability Benchmark Portfolio ("LBP") + 2.1% as at 31 March 2019.
- To aim to not breach a downside tolerance of the estimated change in liabilities less 4.4% p.a. on the Scheme assets in any 12-month period.

The LBP is the estimated change in the Scheme's liabilities, outside of the outperformance margin, which is added separately, and is calculated by discounting the Scheme's cash flows using interest rate swap and gilt curves. For this purpose, the estimated change in value in the liabilities is calculated based on the information provided by the Scheme Actuary over the period.

Investment Performance

During the year to 31 March 2019, the Scheme's investment strategy returned 5.7% underperforming the Liability Benchmark Objective by 1.6%. The year was characterised by most return seeking assets making positive gains overall but most managers failing to meet their targets due to large sell-offs in Q3. Whilst the total assets did underperform over the year, the defensive positioning of the assets meant that the funding level did not fall significantly. Over the longer-term period of 3 years the Scheme has outperformed its benchmark. Over the 3-year period the annualised return was 8.8% versus a target of 6.1%, positive steps taken to control asset and liability risk has contributed greatly to the Scheme's performance.

The following table illustrates the performance of the Scheme's investments over the 12 months and 3 years (or since inception if shorter) to 31 March 2019.

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INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2019 (continued)

The following table illustrates the performance of the Scheme's investments over the 12 months and 3 years (or since inception if shorter) to 31 March 2019.

Asset Class	Manager	12 months to 31 March 2019		3 years (per annum) to 31 March 2019	
		Fund	Benchmark ⁵	Fund	Benchmark
Off-Risk Assets ¹					
UK Gilts	River and Mercantile	6.2	6.2	9.6	9.6
On-Risk Assets					
UK structured equity (EDOS8)	River and Mercantile ²	4.8	5.8	4.4	5.6
Dynamic Asset Allocation	Threadneedle ³	1.8	5.9	0.9	6.2
Dynamic Asset Allocation	R&M	4.5	4.8	7.1	4.6
Dynamic Asset Allocation	Aviva ⁴	-1.8	5.8	-0.4	5.6
Active global bonds	PIMCO	4.0	3.7	5.3	5.8
Alternatives Mandate (discretionary)	River and Mercantile	-4.7	5.8	2.1	5.6
Buy and maintain credit	Insight ⁶	2.2	5.6	-	-
Total Fund Return (including swaps)	All	5.7	7.3	8.8	6.1

¹ Off-Risk Assets return includes a small contribution from the LGIM Cash fund. Note the performance numbers exclude the performance of the swaps. Instead the swap performance is included in the Total Fund Return.

² Return from 29 June 2017

³ Return from 14 Aug 2017

⁴ Return from 6 May 2016

⁵ The benchmark return is taken to be the return of the Liability Benchmark Objective

⁶ Insight has been held from May 2018

All performance numbers are net of fees except LGIM and R&M which are gross of fees.

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INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2019 (continued)

Market Review

The year ended 31 March 2019 gave investors a nervous, rollercoaster ride, with uncertainty the order of the day, although gains were experienced in most return-seeking asset classes over the period as a whole. An overall decrease in gilt and swap yields is likely to have increased the value of UK pension schemes' liabilities, however, and some schemes will have seen their funding levels drop.

The 12-month period was overshadowed by fears. There was a general nervousness about central banks withdrawing their support for the markets – the global transition from quantitative easing to quantitative tightening – with a specific fear of the US Federal Reserve stalling the US economy by raising interest rates too quickly or too far. Mixed in with this were fears of a global economic slowdown, with economic indicators trending downwards, and credit conditions tightening at a time when return-seeking asset prices were already looking expensive.

An acute eruption of these fears had engendered a significant sell-off in return-seeking assets generally, globally, in early 2018. But by the start of April, with economic growth still positive, investors felt the fall was overdone, and the markets began to make a fitful recovery. The US, in particular, was still being boosted by tax cuts, now manifested in rising corporate profits, and US equity began a rally that continued to the end of September, more than recovering its losses to set new all-time highs.

The mid-year US rally was not repeated in the eurozone or Japan, where an economic slowdown became real – the German and Japanese economies actually contracted in the third quarter of 2018.

The US dollar, which had spent the first three months of the year weakening in anticipation of rising US inflation, in April finally started to respond to high and rising US interest rates, and commenced a strengthening course that it sustained for the rest of the year.

This strengthening in the US dollar had a negative effect on emerging markets. Having gradually built up their US dollar-denominated debt, the strengthening dollar meant they now faced increasing difficulties financing it. Emerging market equity and debt embarked upon a downwards spiral that lasted until the end of October.

And by summer two new, interlinked fears were adding to investors' nervousness – a slowdown in China's economy and the prospect of a serious US/Sino trade war. The Chinese slowdown was at least in part the result of government attempts to regulate borrowing, and from mid-year it made attempts at reinvigoration – but many investors doubted the stimulus was sufficient. And the nascent Trump-led trade war against China steadily darkened in words and actions, and grew in scale, ultimately with tariffs threatened on hundreds of billions of dollars' worth of trade.

In early October, sparked by the year's second spike in US rates, these various fears combined to send developed market equity markets tumbling – again. And if US equity prices were expensive at the start of 2018, by the start of October they had become very expensive, and economic trends were looking even worse, underlined by a striking fall in the price of oil. The tumble lasted until Christmas.

The drop was so severe that, come the end of December, many investors felt prices had fallen too far, and began looking for bargains. Moreover, by early January the US Federal Reserve had started to change its mind on raising interest rates any further, in effect putting its programme on pause. And the Chinese government's attempts to re-stimulate its economy started to show signs of working, while progress was being made in US/Sino trade negotiations.

Equity markets responded with a strong rebound – although, by the end of March, they had still not quite made up the ground they had lost from October to December.

Separately, sterling and the UK gilts market were buffeted all year by uncertainty over Brexit, with sterling weakening against the dollar over the course of the 12-month period.

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INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2019 (continued)

Investment Strategy

As at 31 March 2019, the target allocation for the Scheme consists of 30% invested in "off-risk" assets (which includes a liability hedge) and 70% invested in growth assets (return generating assets i.e. those that are "on-risk").

The liability hedge is made up of a series of interest rate and inflation derivative based contracts together with a portfolio of government bonds (used as collateral for the contracts), with a view to closely match changes in value in the Scheme's liabilities. This liability hedge also allows for the liability exposures matched through the buy and maintain credit allocation that provides some interest rate exposure and is held within the growth assets.

The remaining 70% of the Scheme's assets are invested in a diversified portfolio of assets aimed at generating return whilst maintaining an acceptable level of risk in accordance with the Scheme objectives. Within this allocation the Trustee has invested into structured equity, which is the other hedging element of the investment strategy. The Equity Derivative Overlay Strategy ("EDOS8") is based on global equity markets and provides downside protection and diversified equity return profiles. The EDOS8 provides protection against falls in the global developed market equity from the point of investment and performs best in upward trending equity markets. The collateral supporting all of these structures is also used in the liability hedging design.

The Trustee monitors the performance of the liability hedge on a regular basis and the Scheme's manager independently checks the counterparty valuations daily.

As at 31 March 2019, the investment allocation strategy being followed by the Trustee was as tabled below.

Asset Class	%	Manager	Benchmark
On-risk assets	70.0		
Global structured equity including collateral (EDOS 8)	15.0	River and Mercantile	6.0% p.a. in excess of the compounded 6 month Sterling LIBOR return
Dynamic Asset Allocation	8.5	Aviva	3-month LIBOR + 5.0% p.a.
Dynamic Asset Allocation	6.0	Threadneedle	UK CPI EU Harmonised NSA +4.0% p.a.
Dynamic Asset Allocation	2.0	R&M	3-month LIBOR + 4.0% p.a.
Active global bonds	11.5	PIMCO	Composite of three credit indices (GBP Hedged)
Alternatives Mandate (discretionary)	12.0	River and Mercantile	3-month LIBOR + 5.0% p.a.
Buy & Maintain Credit	15.0	Insight	3-month LIBOR +1.0% p.a.
Off-risk assets	30.0		
UK Gilts	30.0	River and Mercantile	n/a
Total	100.0		

The Trustee recognises that with the movement of markets generally, and differing asset classes specifically, allowance must be given to permit the allocation to each part of the agreed strategy to operate around this core allocation. Investments are permitted to vary within a range of +/-5% of the core allocation. Should they fall outside their range at the end of the quarter then the Trustee will review the position and decide how to act.

The main change made to the investment allocation strategy over the course of the year by the Trustee was to fund the Buy & Maintain Credit allocation.

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INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2019 (continued)

Custody Arrangements

Most of the assets are held in pooled funds by the Investment Managers and so the Trustee has effectively delegated the custody of the investments of the Scheme to the Managers. For the Liability Hedge, Equity Structured Solutions and the discretionary alternatives mandate the Trustee has appointed KAS Bank.

Statement of Investment Principles

In accordance with the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles (SIP), which describes the key elements of the investment arrangements of the Scheme. Copies of the statement are available on the pension website, www.comet-pensions.co.uk. There have been no departures from the SIP in the year.

Investment Manager Fees

The investment management fees incurred by the Scheme are summarised below. Please note that the figures quoted here are estimates since extracting the precise fee from daily unit prices would be a time-consuming exercise:

	Fees	% of Total Assets
Year ending 31 March 2013	£1,154,000	0.3%
Year ending 31 March 2014	£1,316,000	0.4%
Year ending 31 March 2015	£1,466,000	0.3%
Year ending 31 March 2016	£1,868,000	0.4%
Year ending 31 March 2017	£2,013,000	0.4%
Year ending 31 March 2018	£2,322,000	0.5%
Year ending 31 March 2019	£1,991,000	0.4%

Fees are exclusive of any VAT that may be payable.

Employer Related Investments

There were no employer related investments during the year.

The Trustee's report, investment report, report on actuarial liabilities and Statement of the Trustee's responsibilities were approved by the Trustee.

For and on behalf of the Trustee

Ian Edwards

Trustee

4 / 10 / 2019

Date

REPORT ON ACTUARIAL LIABILITIES

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

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2016 and annual updates were produced as at 31 March 2017 and 31 March 2018. On these dates the positions were as follows:

	2018 £'m	2017 £'m	2016 £'m
The value of the technical provisions was	£510.8	£539.8	£481.2
The value of the assets (excluding AVCs) was	£511.8	£524.5	£435.6
The value of the total assets was	£516.6	£529.3	£440.1

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). The valuation at 31 March 2019 is currently underway.

Method

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

Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to the market yields available on gilts and swaps curves at the valuation date plus an addition of 1.4% per annum at each duration. The proportion of gilts and swaps exposures reflected in the interest rate curve are term dependent and based on the interest rate exposures of the Scheme's liability hedging portfolio as at 31 March 2016 (updated at each 31 March for subsequent annual updates).

Future Retail Price inflation: term dependent rates derived from the market yields available on gilts and swaps inflation curves at the valuation date. The proportion of gilts and swaps inflation exposures reflected in the inflation curve are term dependent and based on the inflation exposures of the Scheme's liability hedging portfolio as at 31 March 2016 (updated at each 31 March for subsequent annual updates).

Pension increases: derived from the term dependent rates for future retail price inflation and consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules using the Black-Scholes stochastic model with inflation volatility of 1.5% per annum at each term.

Mortality: for the period in retirement, standard tables S2PMA with a scaling factor of 108% for male members; and S2PFA with a scaling factor of 100% for female members. Future projections are in line with the CMI_2015 model applied from 2007 with a long term rate of improvement of 1.25% per annum.

Cash commutation: at retirement, members commute 85% of the maximum permitted tax free cash lump sum (assuming commutation factors that are equivalent to 77% of cost neutral factors based on the assumptions used to determine the technical provisions as at 31 March 2016). For subsequent annual updates, it is assumed that at retirement, members commute 85% of the maximum permitted tax free cash lump sum on terms available at the date of the update.

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ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Actuary's certification of schedule of contributions

Name of scheme: Comet Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2016 to be met by the end of the period specified in the recovery plan effective from 31 July 2017.

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 effective from 31 July 2017.

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

Signature: Steve Leake

Date: 31 July 2017

Name: Steve Leake

Qualification: Fellow of the Institute and Faculty of Actuaries

Punter Southall
Tempus Court
Onslow Street
Guildford
Surrey
GU1 4SS

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STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the financial reporting standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require 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 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 Regulations 3 and 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) -Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

In discharging these responsibilities, the Trustee is 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 continue as a going concern.

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

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

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

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INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF COMET PENSION SCHEME

Opinion

We have audited the financial statements of Comet Pension Scheme ('the Scheme') for the year ended 31 March 2019 which comprise the Fund Account, Statement of Net Assets and 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* and the Statement of Recommended Practice – *Financial Reports of Pension Schemes* (revised November 2014) (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 31 March 2019, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information. 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, including the Trustee's Report, Investment Report, Report on Actuarial Liabilities and Actuarial Certificates and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

COMET PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF COMET PENSION SCHEME (continued)

Responsibilities of Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 15, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they show 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 intends 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 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, 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 it 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 Scheme's Trustee, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

BDO LLP

Statutory Auditor
Guildford
United Kingdom

Date 14 October 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

COMET PENSION SCHEME

FUND ACCOUNT

For the year ended 31 March 2019

	Note	2019 £'000s	2018 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions	3	4,457	5,647
Total contributions		4,457	5,647
Benefits paid or payable	4	10,095	10,057
Payments to and on account of leavers	5	7,069	8,382
Administrative expenses	6	460	151
		17,624	18,590
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		(13,167)	(12,943)
RETURNS ON INVESTMENTS			
Investment income	7	8,814	5,662
Change in market value of investments	9	19,302	(4,074)
Investment management expenses	8	(749)	(1,381)
NET RETURNS ON INVESTMENTS		27,367	207
NET INCREASE / (DECREASE) IN THE FUND FOR THE YEAR		14,200	(12,736)
OPENING NET ASSETS AT 1 APRIL		516,586	529,322
CLOSING NET ASSETS AT 31 MARCH		530,786	516,586

The notes on pages 20 to 30 form part of these financial statements.

COMET PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 31 March 2019

	Note	2019 £'000s	2018 £'000s
INVESTMENT ASSETS			
Bonds	9	241,017	232,596
Pooled investment vehicles	10	257,515	219,494
Derivatives	11	49,611	48,548
AVC investments	12	4,282	4,779
Cash deposits		3,145	8,976
Other investment balances	13	443	502
		<u>556,013</u>	<u>514,895</u>
INVESTMENT LIABILITIES			
Derivatives	11	<u>(28,675)</u>	<u>(40,440)</u>
TOTAL NET INVESTMENTS		527,338	474,455
CURRENT ASSETS	17	3,751	42,835
CURRENT LIABILITIES	18	<u>(303)</u>	<u>(704)</u>
CLOSING NET ASSETS AT 31 MARCH		<u><u>530,786</u></u>	<u><u>516,586</u></u>

The notes on pages 20 to 30 form part of these financial statements.

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

These financial statements were approved by the Trustee on 4.1.0/2019 (date)

Signed on behalf of the Trustee

Ian Edwards

Victoria Milford

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions 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) Financial Reports of Pension Schemes.

2. ACCOUNTING POLICIES

(a) *Accounting Convention*

The financial statements are prepared on an accruals basis.

(b) *Contributions*

Employer deficit funding contributions are recognised on the due dates in accordance with the Schedule of Contributions or in the absence of a formal agreement on a receipts basis.

Employer other contributions are accounted for in accordance with the agreement under which they are paid.

(c) *Payments to Members*

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

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

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

(d) *Expenses*

The administration expenses are met by the Principal Employer. Investment fees and expenses are accounted for on an accruals basis.

(e) *Investment Income*

Income from bonds and other interest receivable is taken into account on an accruals basis.

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

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

(f) *Investments*

Investments are included at fair value as follows.

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

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.

Options are valued at fair value using pricing models and relevant market data at the year end date.

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.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

2. ACCOUNTING POLICIES (continued)

(g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the year end.

(h) Currency

The Scheme's functional and presentation currency is Pound Sterling (GBP).

3. CONTRIBUTIONS	2019 £'000s	2018 £'000s
Employer contributions		
Deficit funding	4,000	5,500
Other	457	147
	<u>4,457</u>	<u>5,647</u>

Deficit funding contributions are now payable at a rate of £4,000,000 per annum from 1 July 2017 until 31 December 2021. The extra £1,500,000 in the prior year was because three months' payments of the previous Schedule of Contributions were paid until 30 June 2017 at an extra £500,000 per month.

Other contributions relate to PPF levy and other professional fees paid by the Scheme and reimbursed by the employer.

4. BENEFITS PAID OR PAYABLE	2019 £'000s	2018 £'000s
Pensions	8,013	7,465
Commutation of pensions and lump sum retirement benefits	2,030	2,596
CEP's	-	(6)
Lump sum death benefits	52	2
	<u>10,095</u>	<u>10,057</u>

5. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2019 £'000s	2018 £'000s
Individual transfers out to other schemes	<u>7,069</u>	<u>8,382</u>

6. ADMINISTRATIVE EXPENSES	2019 £'000s	2018 £'000s
PPF levy	457	147
Miscellaneous expenses	3	4
	<u>460</u>	<u>151</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

7. INVESTMENT INCOME

	2019 £'000s	2018 £'000s
Income from bonds	1,889	2,194
Income from pooled investment vehicles	6,672	3,255
Interest on cash deposits	253	213
	<u>8,814</u>	<u>5,662</u>

8. INVESTMENT MANAGEMENT EXPENSES

	2019 £'000s	2018 £'000s
Investment fees - management & custody	<u>749</u>	<u>1,381</u>

9. RECONCILIATION OF INVESTMENTS

	Value at 31.3.2018 £'000s	Purchases at cost & derivative payments £'000s	Sales proceeds & derivative receipts £'000s	Change in market value £'000s	Value at 31.3.2019 £'000s
Bonds	232,596	77,854	(79,894)	10,461	241,017
Pooled investment vehicles	219,494	116,944	(76,986)	(1,937)	257,515
Derivatives	8,108	9,321	(10,532)	14,039	20,936
AVC investments	<u>4,779</u>	<u>216</u>	<u>(541)</u>	<u>(172)</u>	<u>4,282</u>
	464,977	<u>204,119</u>	<u>(167,953)</u>	22,391	523,750
Cash deposits	8,976			(3,089)	1,712
Cash in transit	-			-	1,433
Other investment balances	<u>502</u>			-	<u>443</u>
	<u>474,455</u>			<u>19,302</u>	<u>527,338</u>

Transaction costs are included in the cost of purchases and deducted from sale proceeds.

Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. There were no direct transaction costs incurred during the year.

In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

10. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2019 £'000s	2018 £'000s
Equity funds	-	19,453
Bonds funds	72,693	93,518
Hedge funds	36,128	40,345
Diversified funds	129,740	53,858
Property funds	9,576	7,833
Cash funds	<u>9,378</u>	<u>4,487</u>
	<u>257,515</u>	<u>219,494</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

11. DERIVATIVES

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme as follows.

Options – the Trustee wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year the Scheme held a number of equity option contracts that protect it from falls in value in the FTSE 100.

Swaps – the Trustee's aim is to match as far as possible the fixed income portfolio and the Scheme's long-term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate and inflation swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

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 investments to the targeted level.

At the year end the Scheme held the following derivatives:

	2019 Asset £'000s	2019 Liability £'000s	2018 Asset £'000s	2018 Liability £'000s
Options	7,082	-	3,703	-
Swaps	42,235	28,675	43,277	40,410
Forward foreign exchange contracts	<u>294</u>	<u>-</u>	<u>1,568</u>	<u>30</u>
	<u>49,611</u>	<u>28,675</u>	<u>48,548</u>	<u>40,440</u>
	<u>20,936</u>		<u>8,108</u>	

Options

Underlying Investment	Expiration	Asset £'000s	Liability £'000s
UK exchange traded FTSE	29 June 2020	<u>7,082</u>	<u>-</u>

Swaps

Nature	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Interest rate swaps (OTC)	1 to 29 years	217,542	41,140	7,775
Inflation swaps (OTC)	1 to 25 years	177,757	<u>1,095</u>	<u>20,900</u>
			<u>42,235</u>	<u>28,675</u>

At the year end the Scheme held £22,853,752 (2018: £4,150,147) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

11. DERIVATIVES (continued)

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	25 April 2019	£973,087	€1,083,300	38	-
Forward OTC	25 April 2019	£84,287	¥11,680,000	3	-
Forward OTC	25 April 2019	\$12,591,800	£9,557,706	133	-
Forward OTC	25 April 2019	£14,705,598	\$18,955,000	120	-
				<u>294</u>	<u>-</u>

12. AVC INVESTMENTS

The Trustee holds assets invested separately from the main fund securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to the year-end confirming contributions paid and the value of their fund. The aggregate amounts of AVC investments are as follows:

	2019 £'000s	2018 £'000s
Standard Life	491	498
Santander	15	15
Prudential Assurance	<u>3,776</u>	<u>4,266</u>
	<u>4,282</u>	<u>4,779</u>

13. OTHER INVESTMENT BALANCES

	2019 £'000s	2018 £'000s
Dividends and interest receivable	<u>443</u>	<u>501</u>

14. FAIR VALUE DETERMINATION

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

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

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

	At 31 March 2019			
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Bonds	241,017	-	-	241,017
Pooled investment vehicles	-	257,515	-	257,515
Derivatives	-	20,936	-	20,936
AVC investments	-	-	4,282	4,282
Cash	3,145	-	-	3,145
Other investment balances	<u>443</u>	<u>-</u>	<u>-</u>	<u>443</u>
	<u>244,605</u>	<u>278,451</u>	<u>4,282</u>	<u>527,338</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

14. FAIR VALUE DETERMINATION (continued)

	At 31 March 2018			
	Level 1	Level 2	Level 3	Total
	£000's	£000's	£000's	£000's
Bonds	232,596	-	-	232,596
Pooled investment vehicles	-	219,494	-	219,494
Derivatives	-	8,108	-	8,108
AVC investments	-	-	4,779	4,779
Cash	8,976	-	-	8,976
Other investment balances	<u>502</u>	<u>-</u>	<u>-</u>	<u>502</u>
	<u>242,074</u>	<u>227,602</u>	<u>4,779</u>	<u>474,455</u>

15. INVESTMENT RISK DISCLOSURES

FRS 102 requires the disclosure of information in relation to certain investment risks. 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 comprises currency risk, interest rate risk and other price risk.

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

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.

(i) Investment strategy

The Trustee's long-term investment objective for the Scheme is to achieve returns on the Scheme assets equal to the Liability Related Objective over rolling 3-year periods. The Liability Related Objective is defined as Liability Benchmark Portfolio ("LBP") + 2.1% (net of fees). In addition to framing the investment objective, the Trustee are responsible for setting the split of assets between return-seeking assets (known as the Growth Assets) and liability-matching assets (known as the Liability Hedge).

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

15. INVESTMENT RISK DISCLOSURES (continued)

Based on consideration of the Scheme's liabilities and the desired investment objective, the Trustee has adopted a 70% Growth Assets (including cashflow matching assets that also provide some liability related exposure) and 30% Liability Hedge.

Liability Hedging Mandate

The Scheme has implemented a Liability Hedge, which consists of a portfolio of index-linked and fixed interest gilts held in the Matching Fund and a portfolio of swaps which together manage the interest rate and inflation risk inherent in the liabilities. As at 31 March 2019, the target for the Liability Hedge was to mitigate 100% of the Scheme's exposure to interest rate and inflation risk on its Technical Provisions liabilities.

(ii) Credit risk

The Scheme is subject to direct credit risk because the Scheme directly invests in UK government bonds (1), OTC derivatives (2) and has cash balances (3). The Scheme's Growth Assets are invested directly across a large number of different pooled funds which have various legal structures in various domiciles (e.g. open-ended investment companies, unit trusts, limited partnerships etc.). The Scheme is therefore directly exposed to credit risk in relation to the manager of the pooled investment vehicles ("PIVs") (4). The Scheme is indirectly exposed to credit risk in relation to the financial instruments held by the pooled investment vehicles and the other investment assets (5).

Mitigation of the different elements of credit risk numbered in parentheses is discussed below.

The following tables show a breakdown of the Scheme's direct and indirect credit exposure for the accounting years ended 31 March 2019 and 31 March 2018 respectively:

2019	Investment Grade	Total
Bonds	241,017	241,017
OTC Derivatives	20,936	20,936
Cash	1,712	1,712
PIVs	257,515	257,515
Total	521,180	551,180

Please note: the figures are subject to rounding. Clean values have been used where available.

2018	Investment Grade	Total
Bonds	232,596	232,596
OTC Derivatives	8,108	8,108
Cash	8,976	8,976
PIVs	219,494	219,494
Total	469,174	469,174

Please note: the figures are subject to rounding. Clean values have been used where available.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

15. INVESTMENT RISK DISCLOSURES (continued)

Mitigation of credit risk

- 1) Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is low. In particular, only UK government bonds are held directly.
- 2) Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps used as part of the Liability Hedge Overlay (LHO), and the forward foreign currency contracts which are used to hedge the currency risk on the Scheme's hedge fund investment is reduced by collateral arrangements and the appointment of multiple counterparty banks. All counterparties are at least investment grade.
- 3) Cash is held within financial institutions which are at least investment grade credit rated.
- 4) Credit risk in relation to PIVs held directly by the Scheme (direct credit risk) is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.
- 5) The Scheme also invests in investment grade credit, high yield and emerging market debt in their pooled funds managed by a number of third-party investment managers. The Trustee manages the associated indirect credit risk by using (and regularly governing) experienced active investment managers that diversify the portfolio to minimise the impact of default by any one issuer.

In all above instances, "investment grade" is defined as being rated at least BBB- by Standard & Poor's or Baa3 by Moody's.

(iii) Currency Risk

The Scheme has direct foreign exchange risk where it invests in overseas securities via a pooled investment vehicle whose units are priced in non-sterling. However, the Scheme is also exposed indirectly to foreign exchange risk as the investments underlying some of the pooled funds are subject to foreign exchange risk. The Trustee has elected to hedge currency risk on the majority of its assets. This was the position at the year-end.

The Trustee's policy for managing this risk is further detailed in the Statement of Investment Principles.

The Scheme's direct and indirect currency exposure at the current and previous year end is as follows:

Gross Exposure before Hedging	31 March 2019	31 March 2018
Direct		
Non-Sterling	1,930	(17)
Indirect		
Non-Sterling PIVs	145,528	187,025

Please note the PIV investments may include underlying exposure to sterling dominated investments.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

15. INVESTMENT RISK DISCLOSURES (continued)

(iv) Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, interest/inflation rate swaps, either as segregated investments (direct risk) or through pooled vehicles (indirect risk), and cash. Under the Scheme's investment strategy if interest rates fall the value of Liability Hedge investments will rise to help match the increase in liabilities arising from a fall in the discount rate. Similarly, if interest rates rise the Liability Hedge Overlay (LHO) & investments will fall in value as will liabilities because of an increase in the discount rate. Within the Growth Assets the Scheme also holds Bond PIVs, which can also help to match the changes in liabilities through its movements.

At the year end, the assets subject to interest rate risk comprised of:

£'000	2019	2018
Direct		
Bonds	241,017	232,596
Swaps	13,560	2,867
Indirect		
Bond PIVs	72,693	93,519
Cash PIVs	9,378	4,486

Please note clean values have been used where applicable.

(v) Other Price Risk

Other price risk arises principally in relation to the Scheme's Growth Assets portfolio which includes equities held in pooled vehicles, hedge funds and property.

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

The Trustee regards hedge funds as an asset class in their own right and do not monitor other price risk at the underlying investment level.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

15. INVESTMENT RISK DISCLOSURES (continued)

At the year end, the Scheme's exposure to investments subject to other price risk was:

£'000	2019	2018
Direct		
Equity Options	7,082	3,703
Bonds	241,017	232,596
Indirect		
Bond PIVs	72,693	93,518
Equity PIVs	-	19,453
Property PIVs	9,576	7,833
Alternatives PIVs	36,128	40,345
Multi Asset PIVs	129,740	53,858

Please note clean values have been used where applicable.

16. CONCENTRATION OF INVESTMENTS

Except for Government securities, the following investments represented over 5% of the net assets of the Scheme:

	2019		2018	
	£'000s	%	£'000s	%
PIMCO Diversified Income Fund	56,328	10.6	92,091	17.8
Insight 21-25 Class B	52,223	9.8	n/a	n/a
Aviva Multi-Strategy Target Return Fund	41,459	7.8	42,219	8.2

17. CURRENT ASSETS

	2019	2018
	£'000s	£'000s
Bank balance	2,983	42,502
Contributions receivable - employer	768	333
	<u>3,751</u>	<u>42,835</u>

All contributions receivable relate to the month of March 2019 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

In the current year, the payment for the Pension Regulator and PPF levy were made during the year (see Note 3) but were reimbursed to the Scheme after the year end, on 3 May 2019.

18. CURRENT LIABILITIES

	2019	2018
	£'000s	£'000s
Unpaid benefits	46	417
Accrued expenses	182	211
Tax payable	75	76
	<u>303</u>	<u>704</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2019

19. RELATED PARTIES

Benefit payments to Trustee Directors, I R M Edwards and J Herzberg, are included within pension payments. The amount of these benefits is calculated on the same basis as pensions to other members of the Scheme in accordance with the Trust Deed and Rules.

H Charlesworth and V Milford, Trustee Directors, are deferred members of the Scheme. The amount of their benefits, for which they accrue, is calculated on the same basis as other members of the Scheme in accordance with the Trust Deed and Rules.

The Chairman receives a fee from the Principal Employer and since October 2014 the Company has also paid fees to the other Trustee Directors. A total of £39,000 p.a. (2018: £39,000) is paid for their services.

COMET PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF COMET PENSION SCHEME

Statement about contributions

We have examined the summary of contributions to Comet Pension Scheme ('the Scheme') for the Scheme year ended 31 March 2019 to which this report is attached.

In our opinion, contributions for the year ended 31 March 2019 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 31 July 2017.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the 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 the Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 15, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active 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 preparation of a statement about contributions

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

Use of our Report

This statement is made solely to the Scheme's Trustee 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 audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement 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 for our audit work, for this statement, or for the opinions we have formed.

BDO LLP

BDO LLP

Statutory Auditor
Guildford
United Kingdom

Date *4 October 2019*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

COMET PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions were as follows:

	£'000s
Employer deficit funding contributions	<u>4,000</u>
Total contributions paid	<u>4,000</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedule of Contributions	4,000
Expenses covered by employer under the Schedule of Contributions	457
Total due under the Schedule of Contributions	<u><u>4,457</u></u>

This summary was approved by the Trustee on .. 4.10/2019 .. (date)

Signed on behalf of the Trustee

Ian Edwards