

COMET PENSION SCHEME

Report and Financial Statements for the year ended 31 March 2020

Scheme Registration No: 10269876



Phoenix House, 1 Station Hill, Reading RG1 1NB

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

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COMET PENSION SCHEME

TRUSTEE AND ADVISERS

Trustee :

Comet Trustee Company Limited

Trustee Directors :

Ian Edwards – Chairman *
James Arnold
Helen Charlesworth * (Resigned 31 December 2019)
Jon Herzberg
Frederic Jaillard
Nicholas Marsh * (Appointed 1 January 2020)
Victoria Milford

** Member Nominated*

Secretary to the Trustee :

Wayne Phelan
Punter Southall Governance Services (PSGS)
Forbury Works
37-43 Blagrove Street
Reading
Berkshire RG1 1PZ

(Secretarial Services are provided by PSGS)

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
The Mound
Edinburgh EH1 1YZ

Investment Managers :

Legal & General Investment Management Ltd
River & Mercantile Asset Management LLP
PIMCO Europe Ltd
Insight Investment Management Limited
Columbia Threadneedle Investments

COMET PENSION SCHEME

TRUSTEE AND ADVISERS (continued)

Custodians :

Citibank
HSBC Global Investor Services
CACEIS (Previously 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
Phoenix House
1 Station Hill
Reading RG1 1NB

Investment Advisers :

River & Mercantile Solutions
One Aldermanbury Square
London EC2V 7GF

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

COMET PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Trustee presents to the members its annual report and financial statements for the year ended 31 March 2020.

Scheme Information

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 re-elected as a Member-Nominated Trustee Director in March 2019. Helen subsequently resigned on 31 December 2019 and Nicholas Marsh, who was identified as an alternate Member-Nominated Trustee Director during the election process, was appointed on 1 January 2020.

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 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:	2020	2019
Deferred pensioners	2,888	3,033
Pensioners	1,966	1,865

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 2019 and 2020 the increases applied were as follows:

	2020	2019
	%	%
GMP accrued after 5 April 1988	1.7	2.4
Pension above GMP accrued before 6 April 2005	2.2	2.7
Pension accrued after 5 April 2005	2.2	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.

COMET PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

Benefit/Scheme Changes

There were no substantive changes to the Scheme or the benefits provided in the year to 31 March 2020.

Financial Development of the Scheme

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

	£'000s
Net assets at 31 March 2019	530,786
Net withdrawals from dealings with members	(12,573)
Net returns on investments	10,562
Net assets at 31 March 2020	<u>528,775</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.

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, Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Email: cometadmin@xpsgroup.com

Equalisation of guaranteed minimum pension benefits

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement 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 judgement 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.

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.

TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

Money and Pensions Service (MaPS)

The MaPS is a new service which was introduced in 2019 combining pension guidance, money guidance and debt advice. These services were previously provided by three separate Government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. The MaPS can be contacted at:

Money and Pensions Service
Holborn Centre
120 Holborn
London EC1N 2TD

MaPS Tel: 0115 965 9570
Email: contact@maps.org.uk
Website: www.moneyandpensionservice.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

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

TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

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.

Covid-19

As a result of the Covid-19 (Coronavirus) pandemic, there was a dramatic downturn in global markets in March 2020. The outbreak of Covid-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty. The effects of Covid-19 have and may continue to adversely affect the global economy, the economies of certain nations, and individual issuers, all of which may negatively impact the Scheme's investment return and the fair value of the Scheme investments.

Given the extreme volatility affecting all asset markets, and the extreme global economic uncertainty prevailing, it is not practicable to provide a quantitative estimate of the impact of the virus on the Scheme's assets at this time and no adjustments have been made. There has been no material impact on the Scheme's assets as at the year end.

The Trustee has designed and implemented an investment strategy which takes a necessarily long-term view, whilst also having built in resilience to withstand short term fluctuations. The Trustee continues to take proactive and considered steps, in conjunction with its advisers, to assess the situation and respond to it.

Monthly calls with the Company were set up and EY provide a covenant report to the Trustee at its quarterly meetings and more frequently if required. A specific report on the effect of Covid-19 was tabled by EY at the June 2020 Trustee meeting. Following release of the Group's half year results there has been a further telephone update with the Sponsor and EY will report again at the next Trustee meeting in October 2020.

The Trustee has a good relationship with the Company and information is shared on a regular basis, with a report given at each quarterly Trustee meeting. EY monitor and assess the Group's results as soon as they are announced. The Group's half year results have been released and are in line with expectations discussed during the lockdown period. Although it is too early to assess the longer-term impact of the pandemic on the Sponsor covenant, the Trustee has noted, on advice, that no further action is required other than the regular ongoing monitoring discussions that are in place.

The Group Financial Control Director is also a Trustee and the Company plans to continue to support the Scheme. The latest valuation was agreed in January 2020 and there are no deficit reduction contributions payable at the present time, as the Scheme is 100% funded on a technical provisions basis. The Trustees have continued to monitor funding levels and although this fell to c 97% in March 2020, it has since recovered to over 100%. On this basis the Trustee believe that the Scheme is a going concern.

XPS Administration have continued to work well, mainly from home, throughout the pandemic and have supplied the Trustee with an updated Business Continuity Plan in light of Covid-19. All routine administration activities relating to the payment of member benefits have been prioritised and met on time.

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Trustee has continued to manage the investments in accordance with the agreed investment strategy as set out in the Statement of Investment Principles. 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 Related Objective over rolling 3 year periods. The Liability Related Objective is defined as Liability Benchmark Portfolio ("LBP") + 2.1% as at 31 March 2020.
- 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.

Investment Performance

During the year to 31 March 2020, the Scheme's investment strategy returned 2.0% underperforming the Liability Benchmark Objective by 5.6%. Over the 3 year period the annualised return was 2.6% versus a target of 4.8%. The underperformance of the total assets for the 1-year and 3-year periods is driven mainly by the underperformance of Q1 2020 due to the large falls in equity markets during the quarter because of the Covid-19 pandemic. Whilst the total assets did underperform over the year, the defensive positioning of the assets meant that the funding level did not fall significantly.

COMET PENSION SCHEME

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2020 (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 2020.

Asset Class	Manager	12 months to 31 March 2020		3 years (p.a.) to 31 March 2020	
		Fund	Benchmark	Fund	Benchmark
Off-Risk Assets ¹					
UK Gilts	River and Mercantile	6.3	6.2	4.9	9.6
On-Risk Assets					
UK structured equity (EDOS8)	River and Mercantile ²	-6.5	5.8	0.3	5.8
UK structured equity (EDOS9)	River and Mercantile ³	-10.1	5.8	-10.1	5.8
Dynamic Asset Allocation	Threadneedle ⁴	-5.5	5.5	-1.6	6.0
Insurance Linked Securities	Leadenhall	1.7	4.8	3.1	3.2
Broad bonds	PIMCO	-2.7	-4.3	1.2	0.2
Opportunistic Mandate	River and Mercantile ⁵	-5.0	-5.2	-5.0	-5.2
Cashflow Matching Assets					
Buy and maintain credit	Insight ⁶	-1.0	-0.3	0.6	2.7
Total Fund Return (including swaps)	All	2.0	7.6	2.6	4.8

1. Off-Risk Assets return includes a small contribution from the LGIM Cash fund. Note the performance numbers excludes 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 17 July 2019
4. return from 14 Aug 2017
5. return from 1 July 2019
6. return from 3 May 2018

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

Market Review

Over the year to 31 March 2020 most return-seeking asset classes performed negatively with unprecedented volatility witnessed in Q1 2020. Global equity markets experienced large sell-offs as rising Covid-19 cases resulted in the shutdown of economies around the world. Volatility notwithstanding, sovereign bond and gold prices rose sharply accompanied with a surge in demand for the dollar.

The 12-month period was largely categorised by the Covid-19 induced end of the 10 year 'Bull-market'. However, the period started with a reversal in monetary policy by central banks, resulting in a global trend of rate cuts. The US/China trade talks oscillated between escalating and easing tensions. UK extended the Brexit deadline from March, to the end of October and then into 2020.

In the US, Q2 2019 economic data began to show downward trends which added a sense of gathering gloom to a global economy already suffering the consequences of a volatile trade war. The impact on consumer confidence was chilling. The revised down economic data subsequently supported central banks movements to cut rates and prop up economics with bond purchases in the second half of the year.

The rally carried on through to the end of September 2019, with increasingly supportive monetary policy outweighing a deceleration in the global economy. But it was not without reversals of its own, in May and August due to escalating tensions between US and Chinese governments.

Throughout the period there was further momentum towards the global trend of loose monetary policy. The Bank of England kept the base rate at 0.75%, but said it was giving serious consideration to cutting rates in light of continued Brexit-related uncertainty. The US Federal Reserve cut the Federal Funds target rate in July, September and October, while the European Central Bank resumed asset purchases as well as cutting its short-term rates, falling further into the negative territory, amid falling economic sentiment. The continued stance towards monetary easing resulted in positive returns for most return seeking asset classes.

The global trend of interest rate cuts and the flight by investors to safe haven assets resulted in an extreme decrease in gilt yields in September.

December reflected easing geopolitical tensions and increasing investor sentiment. The US and China announced they had reached 'phase one' of a trade deal and in the UK, the Conservative Party won a large majority, effectively ensuring the UK will leave the EU by the end of January 2020. Alongside this governments across developed economies have indicated they are willing to increase government expenditure to boost growth, boosting most global equity markets in local currency terms.

Equity and return-seeking bond markets shrugged off an early flaring of US/Iranian tensions and rose strongly in the first couple of weeks of January, led by US equities which hit another all-time high. The UK officially left the European Union on 31 January and now faces a year of trade talks. February began with positive economic data in both Europe and the US, as the S&P 500 set a new record high. President Trump was also acquitted from his impeachment trial, although this was widely expected.

The positive economic momentum was sent into reserve by the advent of the coronavirus outbreak. Covid-19 first emerged in the Chinese city of Wuhan and by mid-February it had taken centre stage. As it became apparent that the coronavirus had spread beyond China, countries began to impose travel restrictions and lockdown parts of their economies. Equities plummeted in the last week of February, as markets moved to price in the ominous economic downturn that would arise from the global lockdown.

March saw the epicentre of the virus move from China to Europe, as health systems struggled to cope with the dramatic increases in the number of infections. Large-scale restrictions in economies became commonplace, as the World Health Organisation declared the virus a global pandemic. Markets reacted strongly to this unexpected turn of events, with a combined supply and demand shock occurring simultaneously, bringing economic activity to a stand-still. Over the month investors fled from return-seeking asset classes, driving Government bond yields lower as the US 10-year bond yield reached record lows. This would mean higher liability values for the typical UK pension scheme, although this would have been offset to the extent they have liability hedging.

COMET PENSION SCHEME

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

Central banks and governments reacted with a monetary and fiscal response unprecedented in both its speed and size. These actions allowed equity markets to stabilise towards the end of the month, with most developed equities finishing the month down 10% to 15%.

The energy sector, which is an important component of the credit markets, was badly affected by turbulence in the oil markets, which were roiled by the extent of the global shutdown along with an ongoing price war between Russia and Saudi Arabia.

Sterling depreciated against the Euro, Yen and US Dollar over the course of the 12-month period.

Investment Strategy

As at 31 March 2020, the target allocation for the Scheme consists of 20% invested in "off-risk" assets (which includes a liability hedge), 20% invested in "cashflow matching" assets (assets that provide income to help meet the Scheme's benefit payments) and 60% 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.

The cashflow matching assets are invested in pooled funds which hold corporate bonds on a 'buy and maintain' basis and whose coupon and principal payments are tailored to meet the Scheme's cashflow profile. The interest rate exposure of the buy and maintain credit allocation is allowed for in the liability hedge.

The remaining 60% 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 Strategies ("EDOS8" and "EDOS9") are based on global equity markets and provide downside protection and diversified equity return profiles. The EDOS8 and EDOS9 provide protection against falls in the global developed market equity from the point of investment and perform 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 2020, the investment allocation strategy being followed by the Trustee was as tabled below.

Asset Class	%	Manager	Benchmark
On-risk assets	60.0		
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
Global structured equity including collateral (EDOS 9)	4.0	River and Mercantile	SONIA Total Return +7.6% p.a.
Dynamic Asset Allocation	8.0	Threadneedle	UK CPI EU Harmonised NSA +4.0% p.a.
Broad Bonds	14.0	PIMCO	PIMCO Diversified Income Benchmark
Insurance Linked Securities	4.0	Leadenhall	US 3 Month T-Bills +3.0%
Opportunistic Mandate	15.0	River and Mercantile	3-month LIBOR + 5.0% p.a.
Cashflow Matching Assets	20.0		
Buy & Maintain Credit	20.0	Insight	Weighted Average of Manager Benchmarks
Off-risk assets	20.0		
UK Gilts	20.0	River and Mercantile	n/a
Total	100.0		

COMET PENSION SCHEME

INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

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 changes made to the investment strategy over the course of the year by the Trustee were:

- Fully redeem Aviva DAA holding.
- Restructure the discretionary alternatives mandate to be 'opportunistic'.
- Allocate to a new equity derivative overlay structure (EDOS9).
- Fund a further allocation to cashflow matching credit from the 'off-risk' assets.

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 opportunistic mandate the Trustee has appointed CACEIS Bank (formerly KAS Bank).

Statement of Investment Principles

In accordance with the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles, 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.

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 2016	£1,868,000	0.4%
Year Ending 31 March 2017	£2,013,000	0.4%
Year Ending 31 March 2018	£2,322,000	0.4%
Year Ending 31 March 2019	£1,991,000	0.4%
Year Ending 31 March 2020	£1,821,000	0.3%

Fees are exclusive of any VAT that may be payable.

Employer Related Investments

There were no employer related investments during the year.

COMET PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES

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

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2019 and the position was as follows:

	2019 £m
The value of the technical provisions was	£520.5
The value of the assets (excluding AVCs) was	£526.5
The value of the total assets was	£530.8

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

Method

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

Significant actuarial assumptions

Discount interest rate: 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% p.a. 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 2019 (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 2019 (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% p.a. at each term.

Mortality: for the period in retirement, standard tables S3PMA with a scaling factor of 109% for male members; and S3PFA with a scaling factor of 106% for female members. Future projections are in line with the CMI_2018 model applied from 2013 with a core smoothing parameter of 7.0, a long-term rate of improvement of 1.5% p.a. and an initial addition of 0.5%.

Cash commutation: at retirement, members commute 85% of the maximum permitted tax-free cash lump sum on terms available at 31 March 2019. 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.

Transfer values: at retirement, 30% of members take a transfer value.

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Comet Pension Scheme Actuary's certification of schedule of contributions

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2019 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 31 January 2020.

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

Signature

Steve Leake

Date

31 January 2020

Name

Steve Leake

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

XPS Pensions Limited
Tempus Court
Onslow Street
Guildford
Surrey
GU1 4SS

Employer

XPS Pensions

COMET PENSION SCHEME

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 the liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulations 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including 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 is also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Approval

The Trustee's Report, which includes the Investment Report, the Report on Actuarial Liabilities and the Statement of Trustee's Responsibilities, was approved by the Trustee.

For and on behalf of the Trustee

James Arnold

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Trustee

29th September 2020

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Date

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 2020 which comprise the Fund Account, Statement of Net Assets (Available for benefits) 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 2020, 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.

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

30/09/2020

Date

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 2020

	Note	2020 £'000s	2019 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions		3,345	4,457
Total contributions	4	3,345	4,457
Benefits paid or payable	5	11,994	10,095
Payments to and on account of leavers	6	3,568	7,069
Administrative expenses	7	356	460
		15,918	17,624
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		(12,573)	(13,167)
RETURNS ON INVESTMENTS			
Investment income	8	9,808	8,814
Change in market value of investments	10	1,466	19,302
Investment management expenses	9	(712)	(749)
NET RETURNS ON INVESTMENTS		10,562	27,367
NET (DECREASE) / INCREASE IN THE FUND FOR THE YEAR		(2,011)	14,200
OPENING NET ASSETS		530,786	516,586
CLOSING NET ASSETS		528,775	530,786

The notes on pages 20 to 31 form part of these financial statements.

COMET PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 31 March 2020

	Note	2020 £'000s	2019 £'000s
INVESTMENT ASSETS			
Bonds	10	201,916	241,017
Pooled investment vehicles	11	277,447	257,515
Derivatives	12	80,103	49,611
AVC investments	13	4,193	4,282
Cash deposits		23,386	1,712
Cash in Transit		75	1,433
Other investment balances	14	414	443
		<u>587,534</u>	<u>556,013</u>
INVESTMENT LIABILITIES			
Derivatives	12	<u>(61,237)</u>	<u>(28,675)</u>
TOTAL NET INVESTMENTS		526,297	527,338
CURRENT ASSETS	18	2,952	3,751
CURRENT LIABILITIES	19	<u>(474)</u>	<u>(303)</u>
CLOSING NET ASSETS		<u><u>528,775</u></u>	<u><u>530,786</u></u>

The notes on pages 20 to 31 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 29th September 2020

Signed on behalf of the Trustee

James Arnold

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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 (2018) Financial Reports of Pension Schemes.

In June 2018, a revised SORP was issued which is applicable to accounting periods on or after 1 January 2019. The Trustees have adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has no material impact on the financial statements, although it has required certain addition to or amendments of disclosures in the financial statements.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is:

XPS Administration Limited
Phoenix House
1 Station Hill
Reading RG1 1NB

3. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

3. ACCOUNTING POLICIES (continued)

(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.

(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).

(i) **Critical Accounting**

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

4. CONTRIBUTIONS	2020 £'000s	2019 £'000s
Employer contributions		
Deficit funding	3,000	4,000
Other	345	457
	<u>3,345</u>	<u>4,457</u>

Deficit funding contributions were payable at a rate of £4,000,000 p.a. from 1 July 2017 until 31 December 2021. The valuation at 31 March 2019 revealed a surplus and deficit contributions stopped from January 2020.

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

5. BENEFITS PAID OR PAYABLE	2020 £'000s	2019 £'000s
Pensions	8,603	8,013
Commutation of pensions and lump sum retirement benefits	3,375	2,030
Lump sum death benefits	15	52
Refunds of contributions on death	1	-
	<u>11,994</u>	<u>10,095</u>

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2020 £'000s	2019 £'000s
Individual transfers out to other schemes	<u>3,568</u>	<u>7,069</u>

7. ADMINISTRATIVE EXPENSES	2020 £'000s	2019 £'000s
Actuarial fees	7	-
Other professional fees	1	-
PPF levy	345	457
Miscellaneous expenses	3	3
	<u>356</u>	<u>460</u>

8. INVESTMENT INCOME	2020 £'000s	2019 £'000s
Income from bonds	1,652	1,889
Income from pooled investment vehicles	8,130	6,672
Interest on cash deposits	26	253
	<u>9,808</u>	<u>8,814</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

9. INVESTMENT MANAGEMENT EXPENSES	2020 £'000s	2019 £'000s
Investment fees - management & custody	<u>712</u>	<u>749</u>

10. RECONCILIATION OF INVESTMENTS

	Value at 31.3.2019 £'000s	Purchases at cost and derivative payments £'000s	Sales proceeds and derivative receipts £'000s	Change in market value £'000s	Value at 31.3.2020 £'000s
Bonds	241,017	107,834	(156,304)	9,369	201,916
Pooled investment vehicles	257,515	120,186	(85,930)	(14,324)	277,447
Derivatives	20,936	3,079	(10,941)	5,792	18,866
AVC investments	<u>4,282</u>	<u>-</u>	<u>(449)</u>	<u>360</u>	<u>4,193</u>
	523,750	<u>231,099</u>	<u>(253,624)</u>	1,197	502,422
Cash deposits	1,712			269	23,386
Cash in transit	1,433			-	75
Other investment balances	<u>443</u>			<u>-</u>	<u>414</u>
	<u>527,338</u>			<u>1,466</u>	<u>526,297</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.

11. POOLED INVESTMENT VEHICLES

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

	2020 £'000s	2019 £'000s
Bonds funds	102,747	72,693
Hedge funds	22,464	36,128
Diversified funds	124,472	129,740
Property funds	9,734	9,576
Cash funds	<u>18,030</u>	<u>9,378</u>
	<u>277,447</u>	<u>257,515</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

12. 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 over the counter (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:

	2020 Asset £'000s	2020 Liability £'000s	2019 Asset £'000s	2019 Liability £'000s
Options	714	1,338	7,082	-
Swaps	79,389	59,611	42,235	28,675
Forward foreign exchange contracts	<u>-</u>	<u>288</u>	<u>294</u>	<u>-</u>
	<u>80,103</u>	<u>61,237</u>	<u>49,611</u>	<u>28,675</u>
	<u>18,866</u>		<u>20,936</u>	

Options

Underlying Investment	Expiration	Asset £'000s	Liability £'000s
UK exchange traded FTSE	29 June 2020	714	-
UK exchange traded FTSE	29 June 2020	<u>-</u>	<u>1,338</u>
		<u>714</u>	<u>1,338</u>

Swaps

Nature	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Interest rate swaps (OTC)	1 to 29 years	244,770	76,784	20,318
Inflation swaps (OTC)	1 to 23 years	186,497	2,231	36,756
Return swaps (OTC)	1 to 2 years	55,080	<u>374</u>	<u>2,537</u>
			<u>79,389</u>	<u>59,611</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

12. DERIVATIVES (continued)

At the year end the Scheme held £25,661,103 (2019: £22,853,752) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	24 April 2020	£4,112,544	€4,689,700	-	37
Forward OTC	24 April 2020	£400,022	¥55,245,200	-	7
Forward OTC	24 April 2020	£23,885,557	\$31,169,317	-	244
				<u>-</u>	<u>288</u>

13. 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 (AVCs) 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:

	2020 £'000s	2019 £'000s
Standard Life (with profits)	363	491
Santander (unit linked)	15	15
Prudential Assurance (with profits)	<u>3,815</u>	<u>3,776</u>
	<u>4,193</u>	<u>4,282</u>

14. OTHER INVESTMENT BALANCES

	2020 £'000s	2019 £'000s
Dividends and interest receivable	<u>414</u>	<u>443</u>

15. 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 2020			
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Bonds	201,916	-	-	201,916
Pooled investment vehicles	-	277,447	-	277,447
Derivatives	-	18,866	-	18,866
AVC investments	-	-	4,193	4,193
Cash	23,461	-	-	23,461
Other investment balances	<u>414</u>	<u>-</u>	<u>-</u>	<u>414</u>
	<u>225,791</u>	<u>296,313</u>	<u>4,193</u>	<u>526,297</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

15. FAIR VALUE DETERMINATION (continued)

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>

16. 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).

Based on consideration of the Scheme's liabilities and the desired investment objective, the Trustee has adopted a strategy of 60% Growth Assets, 20% Cashflow Matching Assets (that also provide some liability related exposure) and a 20% Liability Hedge.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

16. INVESTMENT RISK DISCLOSURES (continued)

(i) Investment strategy (continued)

Growth Assets: A diverse portfolio of assets that are expected, in the longer term, to exceed the growth in the value of the Scheme's liabilities. The objective for the Growth Assets is to achieve a return of at least 3.0% p.a. in excess of the return of a portfolio of gilts, after the deduction of fees, over rolling 3-year periods. During the year, the Growth Assets have been invested in a diversified portfolio of global equities, global government and corporate bonds, insurance linked securities, property, stressed credit and structured equity.

Cashflow Matching Assets: A portfolio of fixed income assets whose principal and income payments are used to meet the Scheme's outgoing payments. The objective for the Cashflow Matching Assets is to achieve a return of at least 1.5% p.a. in excess of the return of a portfolio of gilts, after the deduction of fees. During the year, the Cashflow Matching Assets have been invested in pooled funds which hold a diversified portfolio of global corporate bonds on a "buy and maintain" basis. The expected cashflow profile from the pooled funds has been shaped to help cover the Scheme's expected outgoings.

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 2020, 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.

Specific Risk Disclosures

The Trustee's policy regarding risk management is highlighted in the Statement of Investment Principles. The Scheme is subject to various types of risks including, but not limited to, credit risk and market risk, arising from the underlying investments in the underlying funds. Market risk is composed of foreign exchange ("FX"), interest rate and other price risk. Risks are classified as "Direct" if they relate to an investment held directly by the Scheme, or "Indirect" if they relate to an investment held by one of the pooled underlying funds.

(ii) Credit risk

The Scheme is subject to 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 and Cashflow Matching 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 (5).

£'000	2020	2019
ICVC	2,304	16,697
Limited Liability Company	19,730	9,751
Limited Partnership	430	1,097
Mutual Fund	67,107	59,561
OEIC	163,665	154,688
Unit Linked Life Insurance	2,360	68
Unit Trust	21,851	15,653
Total	277,447	257,515

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

16. INVESTMENT RISK DISCLOSURES (continued)

(ii) Credit risk (continued)

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

2020	Investment Grade	Non-Investment Grade	Unrated	Total
£'000				
Bonds	201,916	-	-	201,916
OTC Derivatives	18,866	-	-	18,866
Cash	23,453	-	-	23,453
PIVs	96,643	-	180,804	277,447
Total	340,878	-	180,804	521,682

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

2019	Investment Grade	Non-Investment Grade	Unrated	Total
£'000				
Bonds	241,017	-	-	241,017
OTC Derivatives	20,936	-	-	20,936
Cash	1,712	-	-	1,712
PIVs	257,515	-	-	257,515
Total	521,180	-	-	521,180

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

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, equity options in the Scheme's Structured Equity holdings, 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.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

16. INVESTMENT RISK DISCLOSURES (continued)

(iii) Currency risk (continued)

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 2020	31 March 2019
Direct		
Non-Sterling	1,692	1,930
Indirect		
Non-Sterling PIVs	254,823	145,528

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

(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 Hedging Assets will rise to help match the increase in liabilities arising from a fall in the discount rate. Similarly, if interest rates rise the Liability Hedging Assets will fall in value as will liabilities because of an increase in the discount rate. Within the Growth Assets and Cashflow Matching 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	2020	2019
Direct		
Bonds	201,916	241,017
Swaps	19,778	13,560
Indirect		
Bond PIV	102,747	72,693
Cash PIV	18,030	9,378

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

(v) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes, equities and bonds held in pooled vehicles, equity futures, structured equity and some alternatives. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

16. INVESTMENT RISK DISCLOSURES (continued)

(v) Other price risk (continued)

The following table shows a breakdown of the return-seeking asset portfolio for accounting years ended 31 March 2020 and 31 March 2019:

£'000	2020	2019
Direct		
Equity Options	(624)	7,082
Bonds	111,191	241,017
Indirect		
Bonds PIVs	102,747	72,693
Equity PIVs	-	-
Multi-Asset PIVs	60,918	129,740
Alternatives PIVs	28,569	36,128
Property PIVs	9,734	9,576

Please note the figures are subject to rounding.

17. CONCENTRATION OF INVESTMENTS

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

	2020		2019	
	£'000s	%	£'000s	%
PIMCO Diversified Income Fund	63,554	12.0	56,328	10.6
Insight 21-25 Class B	49,843	9.4	52,223	9.8
Insight 26-30 Class B	45,853	8.7	n/a	n/a
Threadneedle Dynamic Real Return	38,719	7.3	n/a	n/a
Aviva Multi-Strategy Target Return Fund	n/a	n/a	41,459	7.8

18. CURRENT ASSETS

	2020	2019
	£'000s	£'000s
Bank balance	2,921	2,983
Contributions receivable - employer	31	768
	<u>2,952</u>	<u>3,751</u>

19. CURRENT LIABILITIES

	2020	2019
	£'000s	£'000s
Unpaid benefits	218	46
Accrued expenses	166	182
Tax payable	90	75
	<u>474</u>	<u>303</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

20. 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.

N Marsh 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. (2019: £39,000) is paid for their services.

21. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that 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. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps in due course.

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.

Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

Statement about contributions

We have examined the summary of contributions to Comet Pension Scheme ('the Scheme') for the Scheme year ended 31 March 2020 to which this report is attached on page 33.

In our opinion, contributions for the year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 31 July 2017, 31 December 2019 and 31 January 2020.

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 Schedules 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 Schedules 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 Contributions 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 30/09/2020

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

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

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

	£'000s
Employer deficit funding contributions	<u>3,000</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedules of Contributions	3,000
Expenses covered by the employer under the Schedules of Contributions	<u>345</u>
Total due under the Schedules of Contributions	<u><u>3,345</u></u>

This page does not form part of the statutory financial statements.

This summary was approved by the Trustee on 29th September 2020.

Signed on behalf of the Trustee

James Arnold