

# **Royal Liver Assurance Limited Superannuation Fund**

**Annual Report and Financial Statements**

**for the year ended 31 December 2014**

**Scheme Registration Number: 10005559**

## **Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

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### **Trustee and advisers**

<b>Principal Employer</b>	Royal Liver Pension Trustee Services Limited
<b>Corporate Trustee</b>	R. L. Pensions Trustees Limited
<b>Trustee Directors</b>	K J Dobson (Chairman - Employer appointed director) E Bennett (Member nominated director) D Fraser (Member nominated director) K Woledge (Employer appointed director – resigned 29 September 2014) S Blackie (Employer appointed director) G Clapham (Employer nominated director – appointed 17 December 2014) The Law Debenture Pension Trust Corporation plc represented by Richard Main until 31 March 2014 and Andrew Parker from 1 April 2014
<b>Secretary to the Trustee</b>	Royal London Management Services Limited represented by Janet Murray until 30 June 2014 Royal London Management Services Limited represented by Michael Burt from 1 July 2014
<b>Scheme actuary</b>	M J Daniel of Towers Watson Limited
<b>Administrators</b>	The Royal London Mutual Insurance Society Limited
<b>Independent auditors</b>	PricewaterhouseCoopers LLP
<b>Legal advisers</b>	DLA Piper UK LLP Cannings Connolly Solicitor
<b>Investment consultant</b>	Mercer Limited
<b>Property surveyor</b>	CB Richard Ellis Limited
<b>Investment managers</b>	Royal London Asset Management Limited (novated to Royal London Asset Management 1 October 2014) Royal London Cash Management Limited Legal & General Assurance (Pensions Management) Limited Standard Life Investments Limited BlackRock Alternative Advisors
<b>Investment custodian</b>	HSBC Bank plc
<b>Additional Voluntary Contribution (AVC) provider</b>	Zurich Assurance Limited
<b>Bankers</b>	HSBC Bank plc

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### **Chairman's Statement**

I am pleased to present the Annual report and financial statements of the Royal Liver Assurance Limited Superannuation Fund ("the Scheme") for the year ended 31 December 2014. The Scheme is a distinct legal entity managed by the Trustee (R. L. Pensions Trustees Limited).

#### **Financial position**

During the course of 2014 the total value of the Scheme's assets (including AVCs) increased to £339.3 million as at 31 December 2014 from £293.0 million. The change in value was predominantly due to falls in interest rates which increased the value of the Scheme's bond portfolio. The Scheme's surplus assets over its liabilities increased to £32.1 million, representing a funding level of 111% (from a position of 109% last year). In total the Scheme's investment performance was 0.9% higher than the benchmark for the year.

The Scheme is supported by guarantees provided by The Royal London Mutual Insurance Society Limited (Royal London Group) the parent company of the Principal Employer and during 2014 the Trustee assessed that the covenant which Royal London Group provides remains strong. In this context, it was pleasing to note that Royal London Group reported another strong financial performance during 2014 with increased new business, profit and capital strength. The Standard and Poor's credit rating for Royal London Group remained at 'A (Stable)' since its upgrade in May 2013 reflecting, in particular, the weighting given to Royal London Group's financial strength.

At the end of the year, the transfer of the life business of Royal London (CIS) Limited into The Royal London Mutual Insurance Society Limited was completed, under Part VII of the Financial Services and Markets Act 2000. This was the last step in the integration of the former Co-operative Life & Savings businesses into Royal London Group. This has no direct financial impact on the Scheme but is expected to improve the strength of Royal London Group's covenant.

Whilst the Scheme ultimately looks to Royal London Group, the legal terms of the Royal Liver Assurance Limited transfer to Royal London Group in 2011 were that we should continue to rely on the ongoing strength and performance of the Royal Liver Sub-Fund, a closed With Profits fund that exists within Royal London Group. We also understand that the Royal Liver Sub Fund has experienced some improvements in its financial strength since July 2011. This of itself should be reassuring to our beneficiaries.

#### **Investment developments**

We have continued to work closely with the Scheme Actuary, investment advisers and investment managers to ensure that the Scheme's investment strategy remains appropriate. During 2014 we implemented a further reduction in the Scheme's exposure to more risky assets by disposing of some of the directly held property portfolio. The Scheme's benchmark allocation to "growth" assets is now 15% versus the 20% held at the beginning of 2014.

We have been working to ensure that we will be compliant with the European Market Infrastructure Regulations as they come into force. These Regulations are intended to support the effective management of the derivatives marketplace.

#### **Pension increases**

In 2014 pension increases in respect of accrual from 6 April 1997 to 5 April 2005 were awarded at a rate of 2.7% and at a rate of 2.5% for accrual after 6 April 2005. In line with the decision taken by the Royal Liver Board (April, 2009) to no longer pre-fund for discretionary increases, no discretionary increases were awarded over and above that rate. Scheme members will be aware that discretionary increases are granted at the joint discretion of the Trustee and Principal Employer. Under the Scheme Rules the Trustee may request or recommend discretionary increases to the Principal Employer but those increases can only be provided at the discretion of the Principal Employer.

The Trustee Directors continue to discuss with the Principal Employer the circumstances in which it may be possible to agree the payment of discretionary increases. However, whilst a number of risks continue to exist in the Scheme, (especially those risks arising from the possibility of ongoing and increasing longevity) the Trustee remains focussed on ensuring that the guaranteed benefits continue to be paid in full – an aim which is supported by the Scheme's strong funding level and Principal Employer covenant strength at the end of 2014.

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### **Chairman's Statement (continued)**

#### **Administration**

During the course of 2013 the Trustee Directors amended the Scheme Rules to allow members to transfer their 'AVCs' to another scheme, whilst retaining their main benefits in the Scheme. We hope that this additional degree of flexibility will be helpful for members whilst noting that members should always consider the implications for their retirement planning if they do take a transfer.

#### **Governance**

The Trustee Directors have continued to invest a significant amount of time in ensuring that we have effective Scheme Governance and risk management controls to ensure we can run the Scheme in an effective and efficient manner.

We also reviewed our practices against the Pensions Regulator Code of Practice for Defined Contribution ('DC') schemes. Although the Scheme offers predominantly defined benefit pension benefits, the Scheme does provide some historic and continuing defined contribution benefits via external provider Additional Voluntary Contribution policies. With the assistance of our advisers, the Trustee reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in Code in respect of these AVC arrangements, and I am pleased to report that we meet the requirements.

2014 also saw the Chancellor announce major changes to the pensions landscape and the flexibility with which individuals can draw their defined contribution pension benefits. Although the changes are mostly relevant to defined contribution benefits, we have been working to assess the impact on our defined benefits scheme and the defined contribution benefits we offer through external AVCs policies, ahead of their introduction in April 2015.

#### **Trustee Directors and Advisers**

I am pleased to welcome Gary Clapham to the Board as a new employer appointed Trustee Director, with effect from 17 December 2014. Gary was appointed by Royal London Group to fill the vacancy left by Kevin Woledge, following his resignation as a Trustee Director with effect from 29 September 2014, when he left the employment of Royal London Group.

I am also pleased to welcome Michael Burt, who joined as our new Scheme Secretary in July 2014. Michael replaces Janet Murray who has served as our secretary for a number of years. I would like to take this opportunity to thank both Janet and Kevin for the most valuable part they have played in the governance of the Scheme.

We have not made any changes to our advisers and providers this year, but have continued to our process of reviewing each of our advisers and providers on a rolling basis.

#### **The Year Ahead**

The Trustee will continue to work with its advisers to ensure that we are developing and maintaining robust governance and investment structures for the Scheme and that the latter in particular properly reflects the changing profile of the Scheme as more members reach retirement. Consideration of the implications of regulatory and legislative changes, and those which affect the Employer covenant (for instance Solvency II) will also be a key focus for us. In particular, we will be reviewing how the April 2015 pension flexibility changes affect how people draw their benefits and the impact on our scheme and for members.

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### **Chairman's Statement (continued)**

#### **Conclusion**

The continued improvement in the Scheme's funding position as revealed by the latest valuation is a pleasing indication of progress. However, we are all mindful that the Scheme continues to be at risk from a number of sources as investment markets and the wider economy remain comparatively volatile and the risk to the Scheme's funding level of increased longevity remains ever present. It is for these and other reasons that we shall continue to concentrate the majority of our efforts on the nurturing and further consolidation of any future emergent surplus in order to further secure the underlying benefits provided by the Scheme for current and future beneficiaries.

I would commend this Annual report and financial statements to all who have an interest in the affairs of the Scheme. On behalf of myself and all other Trustee Directors, I would like to take this opportunity to place on record our sincere appreciation for all the work and diligence undertaken by our colleagues in Royal London Group, together with our Advisors, with a view to continuing to safeguard the better interests of all the beneficiaries in the Scheme.



**Kevin Dobson**

**Chairman of R.L. Pensions Trustees Limited**

1 July 2015

## **Royal Liver Assurance Limited Superannuation Fund**

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### **Trustee's report**

#### **Introduction**

The Trustee Directors of the Royal Liver Assurance Limited Superannuation Fund ('the Scheme') present their annual report together with the investment report, actuarial certificates, compliance statement and financial statements for the year ended 31 December 2014.

The Scheme is established to provide retirement benefits to all eligible former employees of Royal Liver Assurance Limited, Royal Liver Pension Trustee Services Limited and other employers historically associated with the Scheme. The Scheme is a final salary pension scheme whereby benefits are payable to members on retirement or their dependants on a member's death before or after retirement in accordance with the Scheme Rules.

The Scheme was closed to new members and to future benefits accrual for existing members on 1 July 2011. All active members as at 30 June 2011 became deferred.

#### **Trustee**

The Scheme is governed by a definitive Trust Deed and Rules.

The Scheme is overseen by the Trustee Directors who are required to act in accordance with the Trust Deed and Rules and the Memorandum and Articles of Association of the Trustee company, within the framework of pension and trust law. The Trustee Directors are appointed and removed in accordance with the Articles of Association of the Trustee company. The Member Nominated Trustee Director arrangements are determined by the Trustee. There were four meetings of the Trustee during the year. Voting at Trustee meetings is by simple majority except in the event of an equality of votes when the Chairman has the casting vote.

The day-to-day administration of the Scheme is carried out by The Royal London Mutual Insurance Society Limited.

Any complaints should in the first instance be made in writing to the Staff Pensions Team at the address provided in the 'Further information' on page 35. If the complaint is not resolved to the member's satisfaction, they have a statutory right to raise the issue through the Internal Dispute Resolution Procedure, by submitting a formal application in writing to the Secretary to the Scheme at the contact address provided in the 'Further information' on page 35.

#### **Summary of contributions payable in the year**

There were no contributions payable to the Scheme during the year as the Scheme is closed to future benefits accrual.

Details of contribution rates are included in the Schedule of Contributions on page 14.

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### Trustee's report (continued)

#### Pension increases

Pensions in payment were increased above the Guaranteed Minimum Pension (GMP) on 1 April 2014 as follows:

Pension element	Increase basis	2014	2013
Pre 1988 Guaranteed Minimum Pension (Fixed GMP)	Statutory increase at nil	0.0%	0.0%
Pre 1988 Guaranteed Minimum Pension (Indexed GMP)	Statutory increase at CPI, maximum 3%	2.7%	2.2%
Pension accrued before 6 April 1997 in excess of GMP	Joint discretion of Trustee and Company	0.0%	0.0%
Pension accrued between 6 April 1997 and 5 April 2005	Statutory increase at CPI, maximum 5%	2.7%	2.2%
Pension accrued after 5 April 2005	Statutory increase at CPI, maximum 2.5%	2.5%	2.2%
Consumer Prices Index (CPI)	Increase in year to September	2.7%	2.2%

#### Transfer values

Cash equivalents paid during the Scheme year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and no allowance has been made for discretionary increases on benefits.

The Trustee Directors ceased to allow transfers into the Scheme with effect from 1 July 2011 as the Scheme was closed to new members.

#### Membership

Details of membership of the Scheme are given below:

	Deferred members	Pensioner members	Beneficiaries	Total
At 1 January 2014	1,695	1,728	469	3,892
Adjustments to prior year figures	(6)	5	(3)	(4)
<b>At 1 January 2014 revised</b>	<b>1,689</b>	<b>1,733</b>	<b>466</b>	<b>3,888</b>
Transfers out	(10)	-	-	(10)
Retirements	(31)	31	-	-
Deaths	(3)	(32)	(26)	(61)
New beneficiaries	-	-	20	20
Trivial commutations	-	(2)	-	(2)
<b>At 31 December 2014</b>	<b>1,645</b>	<b>1,730</b>	<b>460</b>	<b>3,835</b>

Following the closure of the Scheme to future benefits accrual on 1 July 2011, all active members as at 30 June 2011 became deferred.

Adjustments were made to the prior year figures to reflect an accurate position of the membership of the Scheme as at 1 January 2014 and largely arise due to late notifications.

Beneficiaries are those people receiving a benefit from the Scheme who are not themselves Scheme members i.e. those in receipt of a spouse's or dependant's pension.



## **Royal Liver Assurance Limited Superannuation Fund**

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### **Trustee's report (continued)**

#### **Review of financial development of the Scheme**

The financial statements have been prepared and audited in compliance with the regulations made under sections 41(1) and 41(6) of the Pensions Act 1995 (as updated by the Pensions Act 2004).

The net assets of the Scheme increased by £46.3 million over the year giving a Scheme value of £339.3 million at 31 December 2014 (2013: £293.0 million).

#### **Risk**

Any pension scheme is exposed to various risks. The Trustee Directors have undertaken to consider and regularly review the following key risks and associated controls, which are maintained in a risk register:

- The risk of deterioration in the ability of the Scheme's Principal Employer to provide continuing financial support to the Scheme. This risk is controlled through regular monitoring of Royal London Group's financial position, including rating agency reports.
- The risk of a deterioration in the Scheme's funding level. This risk is controlled through an investment strategy specific to the Scheme's liabilities and funding level.
- The risk that the investment returns from the assets will be below that expected by the Trustee Directors. This risk of underperformance is controlled by close monitoring of the investment performance and asset managers.
- Risks surrounding the security and safe custody of Scheme assets. This is controlled by ring-fencing the assets, ensuring there is clear asset distinction by the custodian, and by reviewing the custodian's internal controls.
- The risk of the Scheme being incorrectly operated or operated outside of regulatory parameters. This risk is controlled by appointing experienced Trustee Directors, and the use of Independent Trustees and Third party advisors where appropriate.

#### **Actuarial position**

A full actuarial valuation of the Scheme, as at 31 December 2012, was signed by the Scheme Actuary in September 2013. The results, measured on an ongoing basis, indicated that the Scheme's assets were 104% of the amount needed to cover the liabilities accrued to the valuation date, which equated to a surplus of £11.6 million.

The results of the full actuarial valuation as at 31 December 2009 showed a funding level of 102%, which equated to a surplus of £5.1 million.

The Scheme Actuary's certification of the Scheme's technical provisions and the latest schedule of contributions agreed following the 2012 valuation are on pages 13 to 15.

The most recent results of an interim actuarial valuation as at 31 December 2014 showed that the Scheme's assets were 111% (2013: 109%) of the amount required to cover the liabilities accrued to that date, which equated to a surplus of £32.1 million (2013: £23.0 million). The improvement in the funding level of the Scheme between 31 December 2012 and 31 December 2014 was due to improvements in equity markets and an increase in yields on government bonds.

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### **Trustee's report (continued)**

#### **Myners' code of best practice**

The Myners' report is a voluntary code of best practice for pension schemes covering principles required for effective governance. The Scheme was found to be substantially compliant when it was reviewed against the Myners' report in 2014, and the Trustee has continued to monitor compliance to ensure that these high standards are maintained.

#### **Myners' principles and Scheme compliance**

- **Effective decision-making**

Training for each of the Trustee Directors is arranged as required. Day to day investment management is carried out by each of the investment managers, with the Scheme's investment advisor Mercer Limited, providing support to the Trustee as necessary.

- **Clear objectives**

The investment objective has been set by reference to the Scheme's liabilities. Risk of underperformance was considered as part of the process.

- **Responsible ownership**

Having reviewed the investment managers' policies, the Trustee delegates responsibility for the exercise of voting rights to its investment managers. Any specific areas of concern are raised with the manager. In 2013, the Trustee reviewed the investment managers' policies on responsible ownership and satisfied itself on their approach.

- **Risk and liabilities**

The Trustee has developed appropriate investment benchmarks for its investment strategies in conjunction with its investment managers and consultants.

- **Performance assessment**

Investment managers' performance is subject to regular review.

- **Transparency and reporting**

A Statement of Investment Principles (SIP) is maintained and reviewed regularly, and is available to members on request. The Trustee reports to members on the performance of the Scheme's investments in its annual summary reports.

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### **Trustee's report (continued)**

#### **Continuation of the Scheme**

Although it has not expressed any intention to do so, the Principal Employer has the right under the Scheme Rules to discontinue its contributions (if any) at any time and to terminate the Scheme subject to the provisions set forth in the Trust Deed and Scheme Rules and the Pensions Act 1995 (as updated by the Pensions Act 2004). Whether all Scheme members receive, or continue to receive, their benefits should the Scheme terminate at some future time will depend on the sufficiency, at that time, of the Scheme's net assets to provide for the accumulated benefit obligations and may also depend on the financial condition of the Principal Employer. In the event of discontinuance, the current priority order for the payment of benefits from the Scheme, after deducting defined contribution AVC funds, expenses and debts to third parties, would be:

- Annuities secured before 6 April 1997
- PPF benefits
- AVCs (other than those included above)
- Other benefits

The liabilities would be assessed based on the negotiated cost of securing the benefits with an insurance company. The priority order may be revised if there are any changes in statute. Scheme members are protected by legislation which prevents solvent employers from failing to meet their pension obligations in the event of the discontinuance of the Scheme. The introduction of the PPF to provide support for the pension schemes of insolvent employers adds a further element of protection.

#### **Further information**

Further details of investment performance are included in the Investment report. Further disclosures required by legislation are included in the 'Compliance statement'.

**Signed for and on behalf of R. L. Pensions Trustees Limited by:**



Trustee Director



Trustee Director

1 July 2015

## Royal Liver Assurance Limited Superannuation Fund

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### Investment report

This investment report forms part of the Trustee's report.

#### Investment managers

Ultimate responsibility for deciding investment policy lies with the Trustee. The Trustee has appointed investment managers to manage the Scheme's investments on a day-to-day basis. The managers have full discretion to invest worldwide subject to the restrictions and investment policies laid down by the Trustee.

The investment managers are appropriately authorised under the Financial Services and Markets Act 2000.

#### Trustee's policy on voting rights and social, environmental and ethical factors

The Trustee has examined how rights, including voting rights, attached to investments should be exercised by considering and supporting the UK Stewardship Code (the Code) issued by the Financial Reporting Council (FRC). The Trustee decided that investment rights should be exercised by investment managers on its behalf in line with the investment managers' general policies on corporate governance.

The Trustee considers that it is necessary in all circumstances to act in the best financial interests of beneficiaries and, where this primary consideration is not prejudiced, the investment managers can take social, environmental and ethical issues into account.

#### Investment principles

The Trustee maintains a Statement of Investment Principles (SIP) as required by section 35 of the Pensions Act 1995 (as updated by the Pensions Act 2004). The statement also meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the statement is available on request from the contact address set out in the final section of this annual report and financial statements: 'Further information'.

Fund manager	Asset class	Actual holding %	Central benchmark allocation %	Control ranges %
Legal & General	Global Equity	10.8	11.0	7.5 – 20.0
Royal London Asset Management	Property	3.6	4.0	0 – 7.0
BlackRock Alternative Advisors	Fund of Hedge Funds	0.0	0.0	0 – 1.0
Standard Life	Diversified Growth	0.0	0.0	0 – 10.0
	Absolute Return	0.0	0.0	0 – 7.5
	Growth assets	14.4	15.0	7.5.0 – 22.5
Royal London Asset Management	Corporate bonds	29.0	32.5	25.0 – 40.0
Royal London Asset Management	Liability hedge portfolio	56.0	52.5	45.0 – 60.0
	Matching assets	85.0	85.0	70.5 – 92.5
Royal London Cash Management	Cash	0.6	0	0 – 5.0
	Total	100.0	100.0	

## Royal Liver Assurance Limited Superannuation Fund

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### Investment report (continued)

#### Employer related investments

The above table represents the allocation of assets held by the Investment Managers as at 31 December 2014. The table does not include AVC investments and other investment receivables. Asset allocations are monitored against the SIP at mid of bid and offer price.

The control ranges in the table on page 10 show the maximum variation from the central position that will be accepted by the Trustee. The Trustee monitors the asset allocation as at each calendar quarter end. If the control ranges have been exceeded, the Trustee will consider what rebalancing action should be taken.

Details of employer related transactions and investments are given in notes 12 and 13 to the financial statements.

#### Custodial arrangements

The Scheme's direct investment assets are held in the names of the nominees by the Scheme's investment custodian, HSBC bank plc. The custodian operates a system of internal controls to ensure the security of the Scheme's assets. The custody of assets in pooled investment vehicles is the responsibility of the manager of those arrangements.

#### Investment asset restructuring

The Trustee considers that the spread of investments both geographically and by investment category enables the Scheme to benefit from potentially higher rates of investment growth in different markets whilst also decreasing the effect that price fluctuations within a particular market may have on the Scheme. The proportion of the Scheme's assets invested in a particular market is determined by reference to the relative rate of return and the relative level of risk associated with that market.

The Trustee considers that a significant majority of the Scheme's investments are readily marketable. However, following the redemption of the Scheme's units in the BlackRock Fund of Hedge Fund in 2013, the Fund's Manager retained 10% of the proceeds and the fund is classified as a liquidating fund. The retained proceeds were deferred and are gradually being released upon sale of the underlying assets.

#### Review of investment performance

Details of the Scheme's investments are given in note 9 to the financial statements. An analysis of the Scheme's investments performance measured against the benchmarks as at 31 December 2014 is provided below.

The table below shows the performance of the Scheme over various periods relative to the appropriate benchmarks.

Percentage returns	Year ended 31 December 2014	Since inception to 31 December 2014
	% pa	% pa
Royal Liver Assurance Limited Superannuation Fund <sup>1</sup>	20.8	10.1
<i>Benchmark</i>	19.9	10.1

## Royal Liver Assurance Limited Superannuation Fund

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### Investment report (continued)

HSBC Bank plc calculated the performance measurement of the Scheme total return during the year. The Scheme's total return was 0.9% above (2013: 0.4% below) the benchmark return.

<sup>1</sup>The total Scheme return contained in this Investment report (the "Total Return") was prepared by HSBC Bank plc, HSBC Securities Services ("HSBC"). Neither HSBC nor its affiliates are responsible for the selection or ongoing monitoring of the advisors of, investments in or counterparties for transactions of the portfolio. Neither HSBC nor its affiliates or their respective directors, officers or employees shall be responsible or liable for the consequences of the use of the Total Return, any information or analysis contained therein, or any liabilities, costs, expenses, damages or losses (including any direct or indirect special, punitive or consequential losses, goodwill, loss of profit, loss of reputation, loss of opportunity or anticipated saving and legal costs and expenses) (whether in contract, tort (including negligence) or otherwise) arising from or in connection with any decision made or action or inaction of any person in reliance on the Total Return.

The Total Return is not intended to serve as analysis, advice or recommendation in relation to the acquisition or disposal of any securities or other investment, and must not be relied upon as such. The Total Return should not be used as a basis for investment decisions by any person (including existing investors or potential investors).

You should make decisions on the acquisition or disposal of any securities or other investment independently and seek expert advice as appropriate.

The following benchmarks have been in place with effect from June 2014.

Sector	Comparison Benchmark
Global Equity	FTSE All World Index (GBP Hedged <sup>1</sup> )
Property	IPD Property - UK
Absolute Return:	
Fund of Hedge Funds	3 month LIBOR
Diversified Growth	6 month LIBOR
Corporate Bonds	iBoxx Sterling Non-Gilt All Maturities Index
Liability Hedge Portfolio	Bespoke <sup>2</sup>
Cash	-

<sup>1</sup> GBP hedged, with the exception of advanced emerging markets

<sup>2</sup> Bespoke benchmark representing 90% of the liabilities valued using a gilt yield curve.

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**Actuarial certificates and Schedule of contributions**

**Certification of the calculation of technical provisions**

*Actuarial certification for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005*

Name of scheme **Royal Liver Assurance Limited Superannuation Fund**

Effective date of valuation **31 December 2012**

**Calculation of technical provisions**

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2012 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated September 2013.

**Mark Daniel**

**Scheme actuary**

**Fellow of the Institute of Actuaries**

**Towers Watson Limited**

**September 2013**

**Belvedere**

**12 Booth Street**

**Manchester**

**M2 4AW**

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### **Actuarial certificates and Schedule of contributions (continued)**

#### **Contributions payable to the Scheme**

As further accrual of benefits ceased on 30 June 2011, no further contributions are payable under the currently in-force Schedule of Contributions below.

#### **Schedule of Contributions**

**Name of Principal Employer:** Royal Liver Pension Trustee Services Limited

**Period covered by schedule:** from the date of certification of this schedule until September 2018.

This schedule of contributions has been prepared by the Trustee of the Royal Liver Assurance Limited Superannuation Fund (the "Scheme") after obtaining the advice of the Scheme Actuary, Mark Daniel FIA.

There are no regular contributions required by the Principal Employer (or any future principal employer); however, it is possible that it may be required to make payments to the Scheme in the future.

- Additional contributions as may be required under the Trust Deed and Rules in specific circumstances, for example to cover augmentations. The amounts and due dates of such contributions shall be agreed between the Principal Employer (or any future principal employer) and the Trustee.
- Such other contributions as may from time to time be agreed by the Trustee and the Principal Employer (or any future principal employer).

An allowance for the expected expenses (including investment management costs) and PPF levies for the Scheme is included in the Scheme's technical provisions. As such, there is no requirement for any ongoing contributions to be made to the Scheme to cover expenses and PPF levies.



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**Actuarial certificates and Schedule of contributions (continued)**

**Actuary's certification of the schedule of contributions**

*Actuarial certificate given for the purposes of section 58 of the Pensions Act 1995 (Certificate of Schedule of Contributions)*

**Name of scheme:** Royal Liver Assurance Limited Superannuation Fund

**Adequacy of rates of contributions**

I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are adequate to ensure the Scheme will remain fully funded in relation to its statutory funding objective for the period covered by this schedule.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated September 2013.

**Mark Daniel**

**Scheme actuary**

**Fellow of the Institute of Actuaries**

**Towers Watson Limited**

**26 September 2013**

**Note: -**

**Belvedere**

**12 Booth Street**

**Manchester**

**M2 4AW**

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 wound up.

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### **Independent Auditors' report to the Trustee of the Royal Liver Assurance Limited Superannuation Fund**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Royal Liver Assurance Limited Superannuation Fund's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2014, 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 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

##### **What we have audited**

Royal Liver Assurance Limited Superannuation Fund's financial statements comprise:

- the net assets statement as at 31 December 2014;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Trustee has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the Trustees**

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

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### **Independent Auditors' report to the Trustee of the Royal Liver Assurance Limited Superannuation Fund (continued)**

#### **Report on the financial statements (continued)**

##### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Trustees; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Trustee's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Manchester**

**1 July 2015**

## **Royal Liver Assurance Limited Superannuation Fund**

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for the year ended 31 December 2014

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### **Independent Auditors' Statement about Contributions to the Trustee of the Royal Liver Assurance Limited Superannuation Fund**

#### **Statement about contributions**

##### **Our opinion**

In our opinion, the contributions required by the schedule of contributions for the Scheme year ended 31 December 2014 as reported in Royal Liver Assurance Limited Superannuation Fund's summary of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the Scheme actuary on 26 September 2013.

##### **What we have examined**

Royal Liver Assurance Limited Superannuation Fund's summary of contributions for the Scheme year ended 31 December 2014 is set out on page 5.

#### **Responsibilities for the statement about contributions**

##### **Our responsibilities and those of the Trustees**

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

##### **What an examination of the summary of contributions involves**

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 in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

We test and examine information, using sampling and other techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Manchester**

**1 July 2015**

## **Royal Liver Assurance Limited Superannuation Fund**

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for the year ended 31 December 2014

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### **Statement of Trustee's responsibilities**

#### **Trustee's responsibilities in respect of the financial statements**

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, 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 the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee is responsible for supervising the preparation of the financial statements and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

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

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

#### **Trustee's responsibilities in respect of contributions**

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are 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 adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme 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 to members.

**Royal Liver Assurance Limited Superannuation Fund**

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for the year ended 31 December 2014

**Fund account**

	<i>Notes</i>	<b>2014</b>	2013
		<b>£'000</b>	£'000
<b>Contributions and other income</b>			
Other income	3	2	12
		<u>2</u>	<u>12</u>
<b>Benefits and other payments</b>			
Benefits	4	10,245	9,853
Payments to and on account of leavers	5	527	689
Administrative expenses	6	605	657
		<u>11,377</u>	<u>11,199</u>
<b>Net withdrawals from dealings with members</b>		<u>11,375</u>	<u>11,187</u>
<b>Returns on investments</b>			
Investment income	7	7,582	7,870
Change in market value of investments	9	50,825	3,103
Investment management expenses	8	(708)	(578)
		<u>57,699</u>	<u>10,395</u>
<b>Net increase/(decrease) in the Scheme</b>		<u>46,324</u>	<u>(792)</u>
<b>Opening net assets of the Scheme</b>		<u>292,963</u>	<u>293,755</u>
<b>Closing net assets of the Scheme</b>		<u><u>339,287</u></u>	<u><u>292,963</u></u>

The notes to the financial statements on pages 22-33 form part of these financial statements.

**Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

**Net assets statement**

	<i>Notes</i>	<b>2014</b>	2013
		<b>£'000</b>	£'000
<b>Investment assets</b>	9	<b>340,514</b>	294,028
<b>Investment liabilities</b>	9	<b>(2,574)</b>	(1,977)
<b>Net investment assets</b>		<b>337,940</b>	292,051
<b>Current assets</b>	10	<b>1,724</b>	1,277
<b>Current liabilities</b>	11	<b>(377)</b>	(365)
<b>Net assets of the Scheme at 31 December</b>		<b>339,287</b>	292,963

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such liabilities, is dealt with in the Trustee's report on page 7 and in the Actuarial certification of the calculation of technical provisions on page 13 of the Annual report, and these financial statements should be read in conjunction with them.

The notes to the financial statements on pages 22-33 form part of these financial statements.

**Signed for and on behalf of R.L. Pensions Trustees Limited by:**



**Trustee Director**



**Trustee Director**

**1 July 2015**

## **Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

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### **Notes to the financial statements**

#### **1. Basis of preparation**

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007).

#### **2. Accounting policies**

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

##### **Investment valuation**

Securities traded through the London Stock Exchange Trading Service (SETS) are valued based on the latest available SETS trading price. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable. Unquoted securities are valued by the investment manager at the year-end. Units in pooled investment vehicles are included at the closing bid price as advised by the investment manager.

Freehold and leasehold property is stated at open market value at the year end, as determined in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards by the Trustee on the basis of professional advice from CB Richard Ellis (Chartered Surveyors). No depreciation is provided on freehold buildings or long leasehold properties.

Transaction costs are included in the cost of purchases and deducted from sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions and stamp duty. In addition to this there are indirect transaction costs which are incurred through the bid – offer spread on pooled investments. The amount of indirect transaction costs is not separately provided to the Scheme.

##### **Investment income**

Income from equities is accounted for when stock is quoted ex-dividend. Interest on cash deposits and fixed interest securities is accounted for by reference to the period to which it relates. Investment income includes any reclaimable tax credits. Realised and unrealised capital gains and losses on investments are dealt with in the fund account in the year in which they arise.

Income generated by pooled investment vehicles is not distributed but is retained within pooled funds and is reflected in the market value of the units.

Rent on property is earned in accordance with the terms of the lease and is accounted for on an accruals basis.

##### **Contributions**

No contributions have been payable to the Scheme following the closure of the Scheme to further benefits accrual from 1 July 2011.

Other employer contributions such as deficit funding and augmentations are accounted for in accordance with the Schedule of Contributions or agreement under which they are being paid or in the absence of an agreement, on a receipts basis.



## **Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

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### **Notes to the financial statements (continued)**

#### **2. Accounting policies (continued)**

##### **Transfers to other schemes**

Transfer values represent the capital sums payable to the new pension schemes of members who have left the Scheme.

They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year-end and where the amount of the transfer can be determined with reasonable certainty.

##### **Benefits**

Members can choose whether to take benefits as a pension, a pension and a lump sum and, in certain circumstances, a lump sum. Pensions and lump sums are accounted for on an accruals basis from the later of retirement date and the date the option is exercised.

##### **Expenses**

Administrative expenses and investment management expenses are accounted for by reference to the period to which they relate.

##### **Foreign currency conversion**

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Gains and losses arising on conversion are dealt with as part of realised and unrealised investment gains and losses.

##### **Derivatives**

Derivative contracts are valued at fair value which for derivative contract assets is at bid prices and for derivative contract liabilities is at offer prices.

The fair value of swaps is calculated using pricing models based on the market price of comparable instruments at the year end date, if they are publicly traded. Interest is accrued monthly on a basis consistent with the terms of the contract. The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gains and losses on open contracts. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets).

**Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

**Notes to the financial statements (continued)****3. Other income**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
VAT refund	<b>2</b>	<b>12</b>
	<b>—</b>	<b>—</b>
	<b>2</b>	<b>12</b>
	<b>==</b>	<b>==</b>

The Scheme is registered as part of the VAT group for the Royal London Group and occasionally receives refunds from HM Revenue & Customs for VAT claimed following review of input and output VAT.

**4. Benefits**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Pensions	<b>9,495</b>	<b>9,383</b>
Commutations and retirement lump sums	<b>741</b>	<b>462</b>
Lump sum death benefits	<b>9</b>	<b>8</b>
	<b>—</b>	<b>—</b>
	<b>10,245</b>	<b>9,853</b>
	<b>==</b>	<b>==</b>

**5. Payments to and on account of leavers**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Individual transfers to other schemes	<b>527</b>	<b>689</b>
	<b>—</b>	<b>—</b>
	<b>527</b>	<b>689</b>
	<b>==</b>	<b>==</b>

**Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

**Notes to the financial statements (continued)****6. Administrative expenses**

	2014	2013
	£000	£000
Administration fees	211	191
Trusteeship fees	42	36
Actuarial fees	124	306
Levies paid to the Pensions Regulator	52	39
Audit fees	14	20
Legal fees	63	65
Consultancy fees	99	-
	<u>605</u>	<u>657</u>

**7. Investment income**

	2014	2013
	£000	£000
Income from fixed interest securities	6,583	6,422
Rents from property	956	1,444
Interest on cash deposits	11	4
Other investment income	32	-
	<u>7,582</u>	<u>7,870</u>

**8. Investment management expenses**

	2014	2013
	£000	£000
Administration and management	601	508
Custodian charges	13	22
Investment advisory	81	48
Investment performance fees	13	-
	<u>708</u>	<u>578</u>

# Royal Liver Assurance Limited Superannuation Fund

Annual report and financial statements

for the year ended 31 December 2014

## Notes to the financial statements (continued)

### 8 Investment management expenses (continued)

The fee rebates represent amounts received by the Scheme as reimbursement of the management fees reflected in the unit prices of the Standard Life Diversified Growth Fund.

### 9. Investments

		Value as at 1 Jan 2014	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Change in market value	Value as at 31 Dec 2014
	Notes	£000	£000	£000	£000	£000
Fixed interest securities	9 (iii)	120,179	29,993	(16,995)	19,095	152,272
Index-linked securities	9 (iv)	98,804	6,821	-	20,955	126,580
Derivatives	9 (viii)	(1,473)	300,370	(305,961)	7,245	181
Pooled investment vehicles	9 (vi)	48,770	-	(15,826)	3,523	36,467
Properties	9 (v)	17,530	-	(5,337)	(53)	12,140
AVC investments	9 (x)	2,878	-	(185)	60	2,753
		<u>286,688</u>	<u>337,184</u>	<u>(344,304)</u>	<u>50,825</u>	<u>330,393</u>
Cash and cash equivalents	9 (vii)	3,402			-	6,000
Investment income receivable	9 (ix)	2,229			-	2,046
Investment liabilities	9 (xi)	(268)			-	(499)
		<u>5,363</u>			<u>-</u>	<u>7,547</u>
<b>Net investment assets</b>		<u><b>292,051</b></u>			<u><b>50,825</b></u>	<u><b>337,940</b></u>

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

At the year end the Scheme held equities in the form of a pooled investment vehicle managed by Legal & General included in note 9(vi) that amounted to £36.2 million. As a single investment this is greater than 5% of the Scheme's net assets. No other single investment held at year end is greater than 5% of the Scheme's net assets.

## Royal Liver Assurance Limited Superannuation Fund

Annual report and financial statements

for the year ended 31 December 2014

### Notes to the financial statements (continued)

#### 9. Investments (continued)

##### (i) Collateral arrangements

The Scheme is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other investment assets. To mitigate this risk, a portion of the fair value of the derivatives held by the Scheme at any point in time is matched by cash and or stock collateral received from counterparty to the transaction.

The Scheme pays LIBOR on any cash collateral held and receives LIBOR on any cash collateral provided.

Cash collateral received by the Scheme as at 31 December 2014 was £0.35 million (2013: nil). The cash collateral is included within the 'cash and cash equivalents', with an offset liability included within the investment liabilities.

The Scheme undertook derivative transactions during the year which required stock collateral to be pledged to counter parties. The stock collateral pledged in respect of the derivatives is in the form of UK government bonds with a market value, as at 31 December 2014, of £0.66 million (2013: £1.5 million) and is included in the investment assets.

##### (ii) Transaction costs

Transaction costs relating to purchases of investments are added to the cost of investments and those relating to sales of investments are netted against proceeds of investments. These costs include fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to nil (2013: nil). In addition to these transaction costs, indirect costs are incurred through any bid-offer spread on investments within the pooled investment vehicles.

##### (iii) Fixed interest securities

	2014	2013
	£000	£000
UK quoted public sector bonds	57,534	42,953
UK quoted corporate bonds	94,738	51,781
Overseas quoted corporate bonds	-	25,445
	<u>152,272</u>	<u>120,179</u>

**Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

**Notes to the financial statements (continued)****9. Investments (continued)****(iv) Index-linked securities**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
UK quoted public sector bonds	<b>126,580</b>	98,804
	<b>126,580</b>	98,804

**(v) Properties**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Freehold	<b>12,140</b>	15,320
Leasehold	-	2,210
	<b>12,140</b>	17,530

The properties were valued at 31 December 2014 by CB Richard Ellis Limited (Chartered Surveyors), in accordance with the RICS Valuation Standards.

**(vi) Pooled investment vehicles**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Unitised insurance policies	<b>36,221</b>	48,227
Fund of hedge fund	<b>246</b>	543
	<b>36,467</b>	48,770

The underlying assets held in the unitised insurance policies are world equities managed by a company registered in the United Kingdom. The underlying assets held in the Fund of Hedge Fund consists of US Dollar denominated participating shares in an investment company registered in the Cayman Islands and are managed by a company registered in the United States.

## Royal Liver Assurance Limited Superannuation Fund

Annual report and financial statements

for the year ended 31 December 2014

### Notes to the financial statements (continued)

#### 9. Investments (continued)

##### (vii) Cash and cash equivalents

	2014	2013
	£000	£000
Cash held by investment managers	5,650	3,402
Cash collateral	350	-
	<u>6,000</u>	<u>3,402</u>

##### (viii) Derivatives

The Trustee allows the investment managers the discretion to use derivatives. These are financial instruments whose value is dependent on the value of an underlying index, currency, commodity or other asset. The Trustee understands that derivatives may only be used for hedging purposes and to enhance the efficient management of the investment portfolios where they provide the opportunities to achieve the overall portfolio objective more efficiently than would be the case through direct dealing in the underlying securities. For example, derivatives may be used to hedge the portfolio against adverse market movements, to manage cash flows into or out of the portfolio, to cover out of market exposure or to swap exposure between asset classes or sectors in an efficient manner.

Derivatives may not be used for speculative purposes. Furthermore, restrictions are in place with each investment manager to limit the overall extent of derivatives usage and exposure to certain types of derivatives. Derivative contracts are included in the Net Assets Statement at fair value. For exchange traded derivative contracts that are assets, fair value will be based on bid prices. For exchange traded derivative contracts that are liabilities, fair value will be based on offer prices.

There are four types of derivatives namely Swaps, Futures, Options and Forward foreign exchange contracts. During the year the Scheme used swaps.

##### Swaps

Swaps are over the counter contracts and fair value is the current value of future expected net cash flows arising from the swap, taking into account the time value of money. Fair value is normally calculated using discounted cash flow models and using market data at the reporting date. The Scheme participated in three types of swaps during the year, which are interest rate swaps, inflation swaps and total return swaps.

##### Interest rate swap

An interest rate swap is a contract under which interest payments at a fixed rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

## Royal Liver Assurance Limited Superannuation Fund

Annual report and financial statements

for the year ended 31 December 2014

### Notes to the financial statements (continued)

#### 9. Investments (continued)

##### (viii) Derivatives (continued)

###### Inflation swap

An inflation swap is a contract under which inflation-indexed payments are exchanged for fixed payments based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

###### Total Return Swaps

A total return swap is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. No exchange of principal takes place.

###### Notional principal

The notional amount (or notional principal amount or notional value) on a financial instrument is the nominal or face amount that is used to calculate payments made on that instrument. This amount generally does not change hands and is thus referred to as notional.

In a bond the buyer pays the principal amount at issue (start), then receives coupons (computed off this principal) over the life of the bond, then receives the principal back at maturity (end).

In a swap, no principal changes hands at inception (start) or expiry (end), and in the meantime, interest/other payments are computed based on a notional amount, which acts as if it were the principal amount of a bond, hence the term notional principal amount, abbreviated to notional.

The notional principal amount is essentially how much of the asset or bonds a person has. For example, if a premium bond was bought for £1 then the notional principal amount would be £1. Hence the notional principal amount is the quantity of the assets and bonds.

###### Swaps

Expiration	Nature of Swap	No of contracts	Notional principal £000	Assets £000	Liabilities £000	2014 Net £000
15 January 2015	Total return swap	2	5,623	-	(326)	(326)
03 March 2015	Total return swap	3	11,060	536	-	536
11 March 2015	Total return swap	3	30,895	-	(867)	(867)
14 April 2015	Total return swap	2	5,039	559	-	559
17 April 2015	Total return swap	2	6,940	450	-	450
06 May 2015	Total return swap	2	10,117	-	(542)	(542)
15 May 2015	Total return swap	4	20,219	711	-	711
14 November 2068	Inflation rate swap	1	1,000	-	(340)	(340)
				<b>2,256</b>	<b>(2,075)</b>	<b>181</b>



# Royal Liver Assurance Limited Superannuation Fund

Annual report and financial statements

for the year ended 31 December 2014

## Notes to the financial statements (continued)

### 9. Investments (continued)

(viii) Derivatives (continued)		No of contracts	Notional principal	Assets	Liabilities	2013 Net
Expiration	Nature of Swap		£000	£000	£000	£000
13 June 2014	Total return swap	3	14,076	-	(1,077)	(1,077)
16 June 2014	Total return swap	1	3,478	-	(188)	(188)
12 September 2014	Total return swap	3	30,404	179	-	179
17 November 2014	Total return swap	14	40,757	17	(411)	(394)
14 June 2062	Interest rate swap	1	2,500	23	(33)	(10)
14 November 2068	Inflation rate swap	1	3,500	17	-	17
				236	(1,709)	(1,473)

### (ix) Other investment balances

	2014	2013
	£000	£000
Investment income receivable	2,046	2,229

### (x) AVC investments

The Trustee holds assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those members who had previously elected to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year. The aggregate amounts of AVC investments are shown below:

	2014	2013
	£000	£000
Zurich Assurance Limited	2,753	2,878
	2,753	2,878

**Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

**Notes to the financial statements (continued)****9. Investments (continued)****(xi) Investment liabilities**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Collateral loans	<b>350</b>	-
Rent received in advance	<b>149</b>	268
	<b>499</b>	268

**10. Current assets**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Cash balances	<b>841</b>	561
Benefits paid in advance	<b>739</b>	716
Rents receivable	<b>144</b>	-
	<b>1,724</b>	1,277

Benefits paid in advance are pensioner benefits for January 2015 paid on 31 December 2014 in advance of the due date, 1 January 2015, due to the date falling on a bank holiday.

**11. Current liabilities**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Amounts due to employer	<b>41</b>	37
Tax on pensions payable	<b>10</b>	2
Accrued expenses	<b>291</b>	224
VAT payable	<b>35</b>	67
Other creditors	-	35
	<b>377</b>	365

Amounts due to employer represent the balance of amounts paid by the employer on behalf of the Scheme for expenses incurred by the Scheme.

## **Royal Liver Assurance Limited Superannuation Fund**

Annual report and financial statements

for the year ended 31 December 2014

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### **Notes to the financial statements (continued)**

#### **12. Related party transactions**

##### **i) The employer**

Royal Liver Pension Trustee Services Limited, the Principal Employer, is a subsidiary company of The Royal London Mutual Insurance Society Limited. The Royal London Mutual Insurance Society Limited has provided administrative services to the Scheme during the year. Costs incurred in providing these services which are recharged to the Scheme amounted to £172,348 (2013: £141,026) and are included in note 6.

##### **ii) The Investment Manager**

The Investment Managers and the basis of their fees are set out in the Investment Management Agreements. These fees are borne directly by the Scheme. The fees paid to the Investment Managers are included in note 8.

Royal London Asset Management Limited (RLAM) is a subsidiary company within the Royal London Group. RLAM is the investment manager of the corporate bond, LDI and property investments of the Scheme on an arm's length basis. They are remunerated in accordance with the terms of a normal commercial contract and fees for 2014 amounted to £415,300 (2013: £405,282) which are included in note 8. Fees amounting to £113,938 (2013: £70,653) were payable by the Scheme as at year-end and are included in note 11.

Royal London Cash Management Limited (RLCM) is a subsidiary company within the Royal London Group. RLCM is the investment manager of the cash investments of the Scheme on an arm's length basis. They are remunerated in accordance with the terms of a normal commercial contract and fees for 2014 amounted to £1,075 (2013: £1,038) which are included in note 8.

##### **iii) Trustee Directors**

Three Trustee Directors were in receipt of a pension from the Scheme.

One Trustee Director received director's fees amounting to £7,500 (2013: £7,500).

Three Trustee Directors (2013: two) claimed travel expenses of whom two also received a subsistence allowance for attendance at Trustee meetings amounting to £2,406 (2013: £1,809).

The Law Debenture Pension Trust Corporation plc is the corporate Trustee Director of the Scheme. They are paid a fee in respect of their trustee services. In 2014 this amounted to £30,920 (2013: £33,573). Fees amounting to £5,632 (2013: £10,279) were payable by the Scheme as at year-end and are included in note 11.

All of the above transactions were made in accordance with the Scheme Rules.

#### **13. Employer related investments**

There are no employer related investments held by the Scheme during the year or at the end of the year.

#### **14. Contingent liabilities and contractual commitments**

In the opinion of the Trustee, the Scheme has contingent liabilities or contractual commitments in the form of stock and cash collateral arrangements which are disclosed in note 9(i) in addition to the liability to pay future benefits to Scheme members and their dependants as at 31 December 2014 (31 December 2013 £nil).

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### **Compliance statement**

The purpose of this compliance statement is to disclose some additional information required by law.

#### **Tax and contracting-out status**

The Scheme is a Registered Scheme under the provisions of the Finance Act 2004. The Channel Islands and Isle of Man continue to be covered by the Exempt Approval granted by HMRC.

The Scheme is a self-administered Occupational Pension Scheme and is governed by its own Rules.

UK members are contracted out of the additional component of the State Second Pension Scheme.

The Trustee is not aware of any matters which might cause this status to be prejudiced or withdrawn.

#### **Changes in Benefits:**

All eligible pensions accrued on service after 5 April 1997 and all post 5 April 1988 GMPs were increased as required by legislation.

Deferred pensions were increased to the extent laid down in the Rules.

#### **Scheme advisors**

There are written agreements in place between either the previous Trustees or the Trustee and each of the Scheme advisers listed on page 1 of this report.

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### **Further information**

#### **The Registrar, TPAS, the Pensions Ombudsman and The Pensions Regulator**

In accordance with the Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013, members are advised that:

- information regarding the Scheme has been given to the Registrar of Occupational Pension Schemes;
- the Pensions Advisory Service (TPAS, formerly known as OPAS) of 11 Belgrave Road, London, SW1V 1RB is able to assist members and beneficiaries with difficulties which may arise;
- the Pensions Ombudsman of 11 Belgrave Road, London, SW1V 1RB may investigate and determine any complaint or dispute of fact or law which they have failed to resolve with the Trustee or the Scheme administrator, in relation to an occupational pension scheme.

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

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

The Auditor and Actuary have a statutory duty to make an immediate written report to The Pensions Regulator if they believe that legal duties concerned with the running of the Scheme are not being carried out.

#### **Internal disputes resolution procedure**

A disputes resolution procedure has been agreed by the Trustee to try to resolve any queries raised by beneficiaries or potential beneficiaries of the Scheme and details of this can be obtained by writing to the contact below.

#### **Contact for further information**

Any queries or complaints about the Scheme, including requests from individuals for information about their benefits, or for a copy of Scheme documentation, should be sent to the Trustee of the Royal Liver Assurance Limited Superannuation Fund at the following addresses.

Queries from members about their benefit entitlements:

c/o Staff Pensions Team

Royal London House

Alderley Road

Wilmslow

SK9 1PF

Email: [RLStaffpensions@royallondon.com](mailto:RLStaffpensions@royallondon.com)

Phone: 01625 604 960

All other queries, including complaints or requests for Scheme documentation:

c/o Royal London Company Secretary

Royal London Group

55 Gracechurch Street

London

EC3V 0RL

Email: [cosec@royallondon.com](mailto:cosec@royallondon.com)

Phone: 0207 506 6500