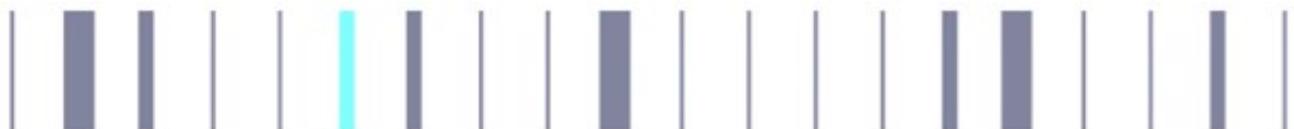




UPM-Kymmene UK Pension Scheme

Scheme Registration Number: 10007992

**Trustees' Annual Report and Financial Statements
For the Year Ended 31 March 2020**



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This report has been prepared by Capita Employee Solutions on behalf of the UPM-Kymmene UK Pension Scheme

Trustees and their Advisers

Trustees	Capital Cranfield Pension Trustees Limited – Chairman (represented by K Wesbroom) C Mitchell – Member Nominated G Hough – Member Nominated R Stevenson (<i>resigned 26 March 2020</i>) T Knox
Principal Employer	UPM-Kymmene (UK) Limited Meadowhead Road Irvine KA11 5AT
Scheme Administrators, Consultants and Secretary	Capita Employee Solutions 48 Finnieston Square Skypark 4 Glasgow G3 8ET
Auditor	KPMG LLP 319 St Vincent Street Glasgow G2 5AS
Scheme Actuary	P Moore Buck Consulting Forty Four Peter Street Manchester M2 5GP
Legal Advisers	Pinsent Masons LLP 141 Bothwell Street Glasgow G2 7EQ
Insurers: Death in Service Benefits	Legal & General Assurance Society Limited Legal & General House St Monica's Road Kingswood Tadworth KT20 6EU
Investment Manager	Cardano (<i>Appointed 1 April 2019</i>) 6 Bevis Marks London EC3A 7BA

Trustees and their Advisers

Investment Managers

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

J.P Morgan
25 Bank Street
Canary Wharf
London E14 5JP

BlackRock Investment Management (UK) Limited *(to 31 March 2020)*
40 Torphichen Street
Edinburgh EH3 8JB

Baillie Gifford Life Limited *(to 25 April 2019)*
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

Bluebay Asset Management *(to 18 December 2019)*
11-13 Boulevard de la Foire
L-1528
Luxembourg

Partners Group (UK) Ltd *(to 31 October 2019)*
14th Floor
110 Bishopsgate
London EC2N 4AY

M.M Warburg & CO (AG & Co.) KGaA *(to 29 May 2019)*
Ferdinandstraße 75
20095 Hamburg
Germany

Investec Asset Management *(to 25 April 2019)*
25 Basinghall Street
London EC2V 5HA

Trustees and their Advisers

AVC Providers

Utmost Life and Pensions Limited (*from 1 January 2020*)

Utmost House
6 Vale Avenue
Tunbridge Wells TN1 1RG

Equitable Life Assurance Society (*to 31 December 2019*)

Walton Street
Aylesbury
Bucks HP21 7QW

AVIVA
Colgate Business Centre
PO Box 520
Norwich NR3 1BH

Prudential
PO Box 2734
2nd Floor
Abbey Gardens
Reading RG1 3UG

Scottish Life Assurance
Group AVCs
St Andrew Square
Edinburgh EH12 1YE

Trustees' Report

The Trustees of UPM-Kymmene UK Pension Scheme (the 'Scheme') are pleased to present the annual report together with the audited financial statements for the year ended 31 March 2020. The Scheme is a hybrid arrangement incorporating a closed Defined Benefit section and an open Defined Contribution section and is administered by Capita Employee Solutions in accordance with the establishing documents and rules, solely for the benefit of its members and other beneficiaries.

Scheme Management

Trustees and Advisers

The Trustees who served during the year and their advisers are shown on pages 2 to 4.

The Trustees have appointed advisers to assist in the administration and governance of the Scheme. These advisers are listed on pages 2 to 4.

In accordance with the Trust Deed and Rules, the Principal Employer can appoint and remove Trustees but Member Nominated Trustees can either be elected or selected. Any Nominated Trustee will normally serve for a period of 5 years and can choose to retire from office at any time.

Trustee Meetings

The Trustees met formally 4 times during the year and further meetings were held as and when required.

Principal Employer

The Principal Employer of the Scheme is: UPM-Kymmene (UK) Limited (the Company).

Participating Employers

UPM Raflatac (UK) Limited and UPM Wood Materials (UK) Limited.

Scheme Changes

Cardano were appointed by the Trustees on 1 April 2019 as investment managers and advisers to run a fiduciary management mandate.

GMP Equalisation

On 26 October 2018 the High Court handed down a judgement involving the Lloyds Banking Group's defined pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and woman in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit schemes. The Trustee of the Scheme is considering the impact on the Scheme but is not currently in a position to obtain a reliable estimate of the backdated benefits and related interest and will recognise these in the Scheme accounts when it is in a position to do so.

Bulk Transfer Out of Defined Contribution Members

On 16 May 2020 the Trustees signed a Deed of Amendment and Closure which closed the Scheme to new members, re-joiners and future accrual of money purchase benefits from 31 May 2020. Subsequently on 7 August 2020 all of the members of the DC section of the Scheme were transferred into the Legal and General Master Trust.

Trustees' Report

Scheme Management

Scheme Membership

Details of the membership of the Scheme as at 31 March 2020 are given below:

Defined Benefit Section	Active Members 2020	Pensioners 2020	Members With Preserved Benefits 2020	Total 2020	Total 2019
Members at the start of the year	-	743	1,171	1,914	1,957
Prior year adjustments	-	2	(3)	(1)	(3)
Deaths	-	(15)	-	(15)	(6)
Retirements	-	37	(37)	-	-
Trivial Commutations	-	(1)	-	(1)	(1)
Transfers out	-	-	(20)	(20)	(36)
Unsuspended	-	1	-	1	-
New Spouse's pension	-	9	-	9	3
	-	776	1,111	1,887	1,914
Defined Contribution Section					
Members at the start of the year	725	-	711	1,436	1,430
Prior year adjustments	(6)	-	5	(1)	9
New entrants	28	-	-	28	48
Transfer out	(15)	-	(23)	(38)	(28)
Members who took FAD/UFPLS	-	-	(4)	(4)	(7)
Deferred from active	(42)	-	42	-	-
Deaths	(1)	-	(1)	(2)	-
Leaver without benefits	(1)	-	-	(1)	-
Retirements	(5)	-	(5)	(10)	(16)
	683	-	725	1,408	1,436
Total Membership at the end of the Year	683	776	1,836	3,295	3,350

Pensioners also include 27 annuitant pensioners and dependants (2019: 17) where pensions are paid from annuities held in the name of the Trustees.

These membership figures do not include any movements notified to the Administrator after the completion of the annual renewal.

Trustees' Report

Scheme Management

Benefit Review

During the year deferred benefits were increased in accordance with legislative requirements.

GMPs in payment which accrued after 5 April 1988 were increased in accordance with legislative requirements. Pensions in payment (in excess of GMPs in payment), accrued from 6 April 1997, were increased in accordance with the Trust Deed & Rules.

Section	Benefit splits	Rate of Increase	Date of Increase
Kymmene (inc. Execs)	Pre 06.04.1991	RPI max 3%	1 April
	Post 06.04.1991	RPI max 5%	1 April
	Post 01.07.1996	RPI max 8.5%	1 April
Wood	Pre 06.04.1997	5%	1 April
	Post 06.04.1997	RPI max 5%	1 April
Loparex, Caledonian EBS	Pre 06.04.1997	No increase	1 April
	Post 06.04.1997	RPI max 5%	1 April
Norfolk	All excess benefits	3%	1 April
Finnpap	All excess benefits	RPI max 8.5%	1 April
Walki Wisa	Pre 01.01.1988	RPI max 4%	1 January
	Post 01.01.1988 – 05.04.1997	3%	
	Post 06.04.1997	CPI max 5%	1 January
Shotton, Shotton Execs, Tillhill	All excess benefits	RPI Max 5%	1 January
Shotton Senior Execs, Tillhill Execs	All excess benefits	RPI max 8.5%	1 January

Review of the Financial Developments during the year as shown by the Audited Financial Statements

The Financial Statements on pages 30 to 54 show that the value of the Scheme's assets decreased by £0.4m to £537.8m as at 31 March 2020. The decrease was comprised of net deduction from dealings with members of £12.4m and a net increase in the returns on investments of £12.0m. UPM-Kymmene (UK) Limited is the sole contributor to the DB section of the scheme. The Principal Employer and the Participating Employers contribute to the DC section of the Scheme.

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

Further details of the financial developments of the Scheme may be found in the audited financial statements on pages 32 to 54.

Trustees' Report

Scheme Management

Review of the Scheme's financial prospects having regard to the actuarial valuation and statement

The last full actuarial valuation of the Scheme was performed by Mr P Moore of Buck Consultants Limited as at 1 April 2019. The actuarial valuation at 1 April 2019 revealed the Scheme to have a deficit on an ongoing basis of approximately £19m.

In respect of the shortfall in funding in accordance with the Recovery Plan dated 30 January 2020, the Company will pay contributions of £5,300,000 per annum for 4 years. The first such contribution is to be paid by 1 April 2019 and all subsequent payments up to 1 April 2023 to be paid by 1 April of the corresponding year.

A copy of the latest Actuarial Certification can be found on page 26 of this Report. In addition, the full report on the triennial valuation of the Scheme and the Schedule of Contributions is available for inspection.

The next valuation of the Scheme is due as at 1 April 2022.

Contributions

The Defined Benefit section is closed to future accrual and therefore no contributions are payable by the members. Employer Contributions are due as set out in the Recovery Plan drawn up following the actuarial valuation as at 1 April 2019.

Contributions are payable into the Defined Contribution section of the Scheme. The rates range from 3% to 5% from the members and 6% to 14% from the employer. Additionally, as a result of the employer using the Scheme to satisfy their Auto-Enrolment responsibilities for staff pension provision purposes, rates of 3% for members and 6% for employers are then payable until 30 June 2023.

Transfers

Members leaving service can normally transfer the value of their benefits under the Scheme to another Scheme that they join or to an insurance contract or personal pension.

The transfer value of a Scheme member's benefits includes no allowance for any discretionary benefits which might be awarded in the future.

The Scheme pays out the full amount of transfer values calculated on the existing transfer value basis in accordance with actuarial guidance.

Additional Voluntary Contributions (AVCs)

There is provision for members to pay Additional Voluntary Contributions (AVCs) in order to increase their benefits under the Scheme. Any new AVCs are paid via additional member contributions to the Defined Contribution section of the Scheme.

Some legacy AVC arrangements are invested in special insurance contracts where they benefit from the tax concessions available to pension arrangements.

Members can presently increase their contributions, at any time. Full details are available on request via the UPM-Kymmene UK payroll team manager.

Trustees' Report

Scheme Management

Expression of Wish Form

The Trustees wish to remind members that they can indicate to the Trustees the persons to whom they wish any lump sum benefits and pension benefits to be paid in the event of their death. The Trustees will then be able to take members' wishes into account, although they are not obliged to do so. Members are also urged to review their Expression of Wish Form should their circumstances change.

Expression of Wish Forms are obtained via the Hartlink webtool provided to all members. Any member who has not registered should do so immediately at: www.myupmpension.co.uk.

Further Information

Further information about the Scheme is available, on request, to members and prospective members, their dependants and other beneficiaries together with recognised trade unions. In particular the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustees' Statement of Investment Principles can be inspected.

Individual benefit statements are provided to active members annually. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests will not be free of charge if made more frequently than once a year. Since 2016, the Benefit Statements include an indicative, Cash Equivalent Transfer Value.

If members have any queries concerning the Scheme in general or their own pension position, or wish to obtain further information, they should contact Capita Employee Solutions or login to the Hartlink webtool where a copy of the Scheme booklet and additional information about their entitlement to benefits exists.

If members have any complaints in relation to the Scheme, they should in the first instance contact:

UPM-Kymmene UK Pension Scheme
Capita Employee Solutions
48 Finnieston Square
Skypark 4
Glasgow G3 8ET
Telephone: 0845 601 0607
E-mail: upmpensions@capita.co.uk

The applicable Data Protection Legislation covers information, which is held electronically, i.e. computer-based information and paper-based records held for individuals on the processing of sensitive personal data to which individuals must have given express consent. Sensitive information can include information on, for example, the health of a member.

Members' personal data will be used by the Scheme's advisers to administer the Scheme and the provision of death-in-service benefits and may be passed to other professional or advisers in order to maintain the death-in-service benefits provided by the Life Offices who underwrite this risk.

The Trustees, the Company and the Scheme's advisers each have legal obligation and a legitimate interest to process data relating to members for the purpose of administering and operating the Scheme, which includes passing on data to third parties, as mentioned above.

The Trustees, the Company and the Scheme Actuary are regarded as "Data Controllers", for the purposes of the applicable Data Protection Legislation, in relation to the process referred to above. The advisers appointed by the Trustees are "Data Processors".

Trustees' Report

Scheme Management

Summary of Contributions

Statement of Trustees' Responsibilities in respect of Contributions

The Scheme's Trustees are 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 Scheme's Trustees are also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedules.

Trustees' Summary of Contributions

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustees. It sets out the employer and member contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 15 May 2018 and 5 February 2020 in respect of the year ended 31 March 2020. The Scheme auditor reports on contributions payable under the Schedules in the Auditor's Statement about Contributions.

2020	DB	DC	Total
	£	£	£
Employers			
- Normal	-	6,349,449	6,349,449
- Deficit Funding	5,300,000	-	5,300,000
Members			-
- Normal	-	32,574	32,574
Contributions payable under the Schedules of Contributions (as reported on by the Scheme Auditor)	5,300,000	6,382,023	11,682,023

Reconciliation of contributions payable under the Schedules of Contributions to total contributions reported in the financial statements, reported in the accounts in respect of the Scheme year.

	DB	DC	Total
	£	£	£
Contributions payable under the Schedules of Contributions (as above in the Trustee's Summary)	5,300,000	6,382,023	11,682,023
Members' additional voluntary contributions	-	23,879	23,879
Total contributions reported in the financial statements	5,300,000	6,405,902	11,705,902

Trustees' Report

Investment Matters

Overview

In 2019, the Trustees appointed Cardano to become the fiduciary manager for the Scheme's DB investments.

In a fiduciary management model, the Trustees focus on setting high-level investment and risk objectives and deciding which types of investments are appropriate for the Scheme. The Trustees have agreed investment and risk objectives with Cardano as well as a set of investment guidelines specific to the Scheme. The responsibility for day-to-day investment decisions is then delegated by the Trustees to Cardano.

Since appointment Cardano has set up Cardano Solution Fund 18, which is a pooled investment vehicle, in which the Scheme is the sole investor. Over the course of the year investments have been transferred into Cardano Solution Fund 18.

As of 31 March 2020, one investment remains outside of Cardano Solution Fund 18; JPM Morgan's infrastructure mandate.

Investment managers

The names of those who have managed the Scheme's investments during the year are listed on page 3. The Trustees have delegated the day-to-day management of the DB investments to its appointed fiduciary manager, Cardano may appoint third party fund managers to manage a portion of the Scheme's assets as well, in which case, a written agreement with each manager sets out the terms on which the manager will act.

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

Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustees have prepared a Statement of Investment Principles setting out their policy on investments, which has been amended to include the Trustees' policy on Responsible Investment. Following the appointment of Cardano as fiduciary manager, the new investment strategy was in the process of being implemented at the start of the year. The SIP has subsequently been updated to reflect the new investment strategy and was signed off at the September 2019 Trustee meeting.

This updated SIP reflected:

- the Trustees' policy on financially material considerations, including how those considerations are taken into account in the selection, retention and realisation of investments
- the extent (if at all) non-financial matters are taken into account in the selection, retention and realisation of investments; and
- the Trustees' stewardship activities (for example, how they exercise voting rights and what engagement activities they undertake).
- the Trustees' policy on financially material considerations and the extent that non-financial matters are taken into account.

The Trustees, having received investment consulting advice and following liaison with their relevant Investment Managers, can also confirm that they updated their SIP, before 1 October 2020, to implement the principles set out in the new guidance between the scheme year end and 30 September 2020 as follows:

Trustees' Report

Investment Matters

- cover the expanded range of persons to be consulted and matters to be consulted upon when the trustees and their agents undertake stewardship activities (see third bullet point of 2019 changes);
- include the trustees' policy on how they arrange matters with the asset managers they use, either setting out their position on key matters or explaining the reasons why such detail is absent.

Any member may request a copy.

Departures from investment principles

To the best of its knowledge, the Trustees can report that there has not been any departure from the SIP by the Scheme's investment managers during the year ended 31 March 2020.

Custodial arrangement

The investment managers have appointed independent custodians to the assets underlying the funds they manage. The custodians are given in the table below:

Manager	Custodian
Cardano	State Street
JP Morgan	J.P Morgan Investor Services

Employer-related investments

In accordance with the Occupational Pension Schemes (Investment) Regulations 2005 and further amendment in 2010 the Scheme was not in breach of holding more than 5% of the market value of the Scheme's assets with the Principal Employers' equity capital as at 31 March 2020.

Asset allocation

Fund manager	Fund	Asset Allocation ¹ (£)	Asset Allocation (%)
Cardano	Cardano Solution Fund 18	386,738,420	97.0
JP Morgan ³	Infrastructure Investments Fund	11,950,186	3.0
	Total	398,688,606	100.0

1. This valuation does not include any money held in the Trustees' bank account.
2. Figures may not sum due to rounding.
3. JP Morgan value as at 31 March 2020 and allows for conversion from \$ to £.
4. The Scheme is invested in a single Cardano Solution Fund. The table on page 43 shows the allocation within the fund to return seeking and LDI assets.

Trustees' Report

Investment Matters

Asset allocation (continued)

The table below shows the split of the Scheme's DC assets as at 31 March 2020, excluding cash in the Trustees' bank account.

Fund manager	Fund	Asset Allocation (£)	Asset Allocation (%)
	Multi-Asset	528,275	0.48
	Global Equity Default	77,540,870	71.15
	Global Equity 70:30 Index	2,616,432	2.40
	Global Equity 50:50 Index	2,259,473	2.07
	North America Equity Index	1,125,415	1.03
	Europe (ex UK) Equity Index	223,535	0.21
	Japan Equity Index	157,775	0.14
	Asia Pacific (ex Japan) Equity Index	79,003	0.07
LGIM	World Emerging Markets Equity Index	192,402	0.18
	Ethical Global Equity Index	2,377,877	2.18
	Diversified	1,699,086	1.56
	Over 15 year Gilts Index	381,643	0.35
	AAA-AA-A Corporate Bond - All Stocks - Index	77,472	0.07
	Pre-Retirement	15,659,106	14.37
	Managed Property	273,128	0.25
	Global Real Estate Equity Index	143,688	0.13
	Cash	3,645,361	3.36
	Total	108,980,541	100.00

Trustees' Report

Investment Matters

Review of investment performance

The table below shows the performance of the Scheme's DB assets since inception of the new fiduciary management approach to 31 March 2020.

Manager	Since inception to 31 March 2020*
	%
Overall Scheme Return	7.8
Benchmark Return	9.7

**please note that the Scheme returns are for 11 months due to the inception date of the new approach being 30 April 2019. Longer periods will be shown as the track record builds up over time.*

Trustees' Report

Investment Matters

Review of investment performance (continued)

The table below shows the performance of the Scheme's DC assets over the one, three and five-year periods to 31 March 2020.

Manager	1 year %	3 years % p.a.	5 years % p.a.
LGIM Multi Asset Index	(5.56)	0.80	3.73
LGIM Global Equity 70:30 Index	(14.73)	(2.25)	2.52
LGIM Global Equity 50:50 Index	(12.33)	(1.39)	3.48
LGIM North American Equity Index	(2.95)	4.85	9.93
LGIM Europe (ex UK) Equity Index	(8.20)	(0.78)	3.56
LGIM Japan Equity Index	(2.32)	1.24	5.85
LGIM Asia Pacific Equity (ex Japan) Equity Index	(14.38)	(2.84)	3.35
LGIM World Emerging Market Equity Index	(13.64)	(1.85)	2.94
LGIM Ethical Global Equity Index	(3.71)	3.05	7.43
LGIM Global Real Estate Equity Index	(19.29)	(2.58)	2.54
LGIM Diversified	(5.73)	0.80	4.17
LGIM Over 15 Year Gilts Index	17.47	7.86	7.92
LGIM AAA-AA-A Bonds All Stocks Index	2.34	2.22	3.10
LGIM Pre-Retirement	5.96	3.86	4.87
LGIM Managed Property	(0.02)	3.38	4.48
LGIM Cash Fund	0.57	0.41	0.35
LGIM Default Global Equity	(12.97)	(0.50)	2.49

As at 31 March 2020, all of the Scheme's investments were considered to be marketable on a short-term basis albeit redemption of property holdings can be subject to queuing when market conditions deem it necessary.

Investment risk disclosures

Investment risks are disclosed in note 19 on pages 46 to 52.

Trustees' Report

Implementation Statement

Introduction

This implementation statement is a new addition to the Trustee Report and Accounts, required by new pensions regulations¹. The Trustees of the UPM-Kymmene UK Pension Scheme (the 'Scheme') have prepared this statement to provide stakeholders with a transparent and accurate review of how we have acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles during the accounting year.

This statement is intended to improve accountability, highlighting the proactive steps taken by us and our service providers to ensure members' assets are invested responsibly and for the long-term.

This statement includes details of:

- How we have complied with our stewardship and voting policies as set out in our Statement of Investment Principles ("SIP");
- Any changes we made to our stewardship and voting policies during the year; and
- Specifically, how our investment managers voted and engaged on our behalf

This statement has been prepared by the Trustees to cover the period 1 April 2019 to 31 March 2020 and relates to the Defined Benefit ("DB") Section only. The Defined Contribution ("DC") Section was transferred to a Master Trust and wound up before the signing of the 2019-20 accounts.

At the start of the accounting year, the Scheme moved to a new delegated investment strategy, disinvesting from the majority of its previously held investment managers. The transition to the new strategy, known as Fiduciary Management, was largely completed in April 2019. We have therefore focussed this statement solely on the new investment structure and report as though it had been in place for the whole year.

The statement is publicly available at myupmpension.co.uk

Executive Summary

The day to day management of the Scheme's assets is delegated to Cardano Risk Management Limited (the 'Fiduciary Manager'). In advance of the appointment, the Trustees took steps to ensure that the management of assets and the Fiduciary Manager's policies were aligned with the Trustees' own policies. The Trustees continue to monitor Cardano, as part of their regular interactions with them.

We monitor the voting and engagement activity of all of our investment managers, and, through our Fiduciary Manager, challenge their decisions.

We focus our efforts on those managers where voting and engagement is material and the policies of these "high focus" managers are summarised in this statement, along with some examples of the type of activity which takes place. Some of our managers don't own physical assets, such as equities or corporate bonds, and therefore stewardship is less likely to be relevant or significant ("low focus"). We are comfortable that our Fiduciary Manager has an appropriate approach for all investment managers, and we receive a summary of their assessments once a quarter.

To the best of our knowledge we have complied with our Stewardship Policy during the year.

Trustees' Report

Implementation Statement

Section 1 – Our Stewardship Policy

What is Stewardship?

“Stewardship” is the responsible allocation, management and oversight of capital to create long-term value for our members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising our right to vote on any shares we own and engaging with the management of any companies or properties in which we have a stake.

The Trustees do not hold any investments directly. All of the shares, bonds and other assets that we own are held through pooled vehicles that are managed by investment managers that have previously been appointed by us or from this year on, that our Fiduciary Manager appoints. The reason we do this is:

- It provides a broader range of investment opportunities than would be possible if we were to own the assets directly, particularly given our size;
- This can improve the overall diversification of our investments and help reduce risk;
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing overall governance burden both on the Trustees and the Sponsor.

In practice, therefore, we delegate to the investment managers voting and engagement. However, we remain responsible for setting our voting and engagement policies and ensuring that the investment managers that we or our Fiduciary Manager appoint act consistently with them.

What is our Stewardship Policy?

Our Stewardship Policy during the financial year was as follows:

“In relation to corporate governance and activism (including the way in which any rights attaching to investments, such as voting rights, are exercised) the Trustees support the policies set out in the Myners’ Report and Statement of Principles drawn up by the Institutional Shareholders’ Committee and expects relevant investment managers to comply with these principles where possible or explain why they have been unable to comply.”

Both codes referred to in our policy are quite outdated and since the end of the financial year, we have reviewed our Stewardship policy and have made some changes. The new policy refers to the Stewardship Code, as published by the Financial Reporting Council.

In terms of implementing our policy we considered investment managers’ compliance, in accordance with the latest code.

How have we implemented our Stewardship Policy?

The Trustees acknowledge that the investment strategy is achieved predominantly through derivative instruments, which provides limited opportunity to hold individual stocks and integrate ESG factors. This in turn impacts the implementation of the Trustees’ policy on voting and engagement.

Trustees' Report

Implementation Statement

How have we implemented our Stewardship Policy? (continued)

Our Fiduciary Manager continues to align with our Stewardship Policy and has been a signatory to the UN Principles of Responsible Investment since 2011. They are also a signatory to the UK Stewardship Code and have a Tier 1 rating from the Financial Reporting Council.

Several core beliefs help drive our Fiduciary Manager's approach to engagement. They believe in:

- Focused governance – spending most time on the most material issues
- Transparency – improved reporting allows better quality dialogue, risk awareness and higher engagement impact
- Engagement – through education and close, regular dialogue
- Integration – leads to consistency, clarity of messaging and improved dialogue leading to greater engagement impact

In addition to the derivative based investments, the Fiduciary Manager does implement part of the investment strategy through the use of third-party investment managers. We monitor any voting and engagement activity of our investment managers, and, through our Fiduciary Manager, challenge their activity. We categorise our managers according to how material voting and engagement is in their mandate. Some of our managers don't own very many assets such as equities or corporate bonds, and therefore voting or engagement is less likely to be relevant or significant.

We focus our efforts on any managers where voting and engagement is material. The stewardship policies of the "high focus" manager we invested in this year is summarised briefly below in their own words:

Manager	Asset Class	Stewardship Policy (in Manager's own words)
Wellington	Emerging Market Debt	The goal of our stewardship activities — engaging with companies and voting proxies on our clients' behalf — is to support decisions that we believe will maximize the long-term value of securities we hold in client portfolios. The mechanisms we use to implement our stewardship activities vary by asset class. Engagement applies to all our investments across equity and credit, in both private and public markets.

In addition, we held pooled funds through the following managers, but either there was no direct exposure to equities, the proportion of equities held was very low (less than 5%) and/or the holding period was very short, and we therefore focus less of these managers' voting and engagement. The "low focus" managers held were as follows:

- JP Morgan (liquidity fund)
- Lyxor SocGen (exchange traded fund)
- LGIM (liquidity, gilt and leveraged gilt funds)

Trustees’ Report

Implementation Statement

How have we implemented our Stewardship Policy? (continued)

The Scheme also invests in a series of Private Market and Real Estate investments. A critical means of value creation for many such strategies is ensuring that each business or asset has the best governance possible. For example, our Real Estate investments are via funds which own large properties. A crucial part of their ongoing management is evaluating how environmental factors (such as energy efficiency, waste disposal, water supply and carbon footprint) will impact. Social issues also play an important part, through factors such as health & safety standards, workers rights and diversity / inclusion standards. Engagement is, therefore, highly relevant in some cases and we include some examples in the relevant section of this report. The Private Market and Real Estate managers we invest in are:

- Arcmont (previously BlueBay, illiquid credit)
- Partners Group (illiquid credit)
- JP Morgan (infrastructure debt)
- BlackRock (property)
- LGIM (property)

Compliance with our Stewardship Policy

To the best of our knowledge we have complied with our Stewardship Policy.

Section 2 – How our managers have engaged in respect of the investments held

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship.

We summarise examples of engagement activity for managers we deem high focus in the tables below.

Public market investments

Manager	Engagement activity (in Manager’s words)
Wellington	<p>Israel Electric</p> <p>An example of the collaboration between Wellington’s Emerging Market Eastern European analyst and their ESG analyst counterpart with the management team is Israel Electric. Wellington were given feedback that their engagement on ESG was the first the company had done. Wellington’s primary goal was to better understand different aspects of their reorganization plan, the Structural Change. In order to meet their goals under the Paris Accord, Israel has opened the generation market up to independent power producers (IPP) who are expected to build about 6 GW of solar over the next decade. Israel Electric will play a diminished role in the generation space but retain its monopoly over transmission and distribution.</p> <p>There are a few key issues Wellington noted with this plan. First, solar farm construction is expected to be largely in the inland and southern parts of the country, which will require significant new transmission construction to bring power to population centres in the north. And secondly, they should monitor the expected level of demand for Israel Electric’s gas generation, as any step improvements in battery storage paired with solar could undercut gas generation on price. Israel Electric is required to install emissions reduction on the units that will be converted to dual fuel, which will allow them to burn coal - an important backstop for security purposes. Some key positive takeaways from the call include: an agreement with employees not to strike until 2025, no coal ash disposal challenges as we see with US utilities, a robust cyber program, and use of seawater and reclaimed water for coastal plants has meant no direct impact from the recent drought.</p> <p>Ultimately, Wellington’s Emerging Market analyst incorporated all the above inputs from the ESG analyst into the investment decision process and reached an overall positive view on Israel Electric.</p>

Trustees' Report

Implementation Statement

Private market / real estate investments

Manager (asset type)	Engagement activity (in Manager's words)
Partners Group (Illiquid Credit)	<p>Gong Cha</p> <p>One example is their engagement with Gong Cha, a global chain of specialty tea stores, in which they invested debt and an equity kicker in 2019 on behalf of their clients. Founded in Southern Taiwan, Gong Cha has grown to more than 1,000 outlets in 17 countries worldwide. Globally, consumers are rallying against the proliferation of single-use plastics, and governments are responding through regulation. A large portion of Gong Cha's revenue is derived from Korea, where the Ministry of Environment has made a commitment to curb single-use plastic consumption. Japan, another important growth market for Gong Cha, unveiled in 2018 its Resource Circulation Policy for Plastics, which aims to reduce 25% of single-use plastic waste by 2030 and reuse or recycle 100% of plastic waste by 2035.</p> <p>Both Partners Group and Gong Cha recognize the risks and opportunities these trends present, as Gong Cha's primary products rely heavily on plastic packaging. Partners Group ESG & Sustainability team therefore undertook a research project to understand global regulations, consumer preferences and Food & Beverage competitor initiatives, and put together strategy recommendations for Gong Cha's management team with a range of more sustainable options. Partners' framework informs Gong Cha of potential paths towards reducing, replacing and/or recycling plastics, through design changes, sourcing alternatives, or consumer education efforts. Over 2020, they will continue working with Gong Cha, as well as other stakeholders, to contribute to global plastic solutions.</p>
JP Morgan (Infrastructure Debt)	<p>Increased Stakeholder and Community Engagement</p> <p>JP Morgan has worked closely with portfolio companies in defining key stakeholders (customers, employees, contractors, supply chain, regulators, government officials and community groups) and implementing policies and programs to proactively build relationships, provide transparent communication and updates and increase social impact on each community – essentially the social license to operate.</p> <p>Specifically, as it relates to communities in which an asset provides essential services, it is also critical to be involved through volunteering and philanthropic initiatives, community funding, providing local employment and increasing education opportunities. As a result of this, across the portfolio, companies have increased community engagement by volunteering, contributing to philanthropic initiatives, providing education to local schools and internships and job opportunities in the local economy.</p> <p>For example; a U.S.-based company provided each employee with 20 hours of Volunteer Time-Off ("VTO"), which resulted in 2,000 VTO hours in 2019 (twice as much as the previous year) and provided positive outcomes for the community and increased employee engagement. In addition, a European renewables company provides community funding each year to areas in which they operate and the community decides on which projects and initiatives are most needed which could be improvements to a park, making a building wheelchair accessible or providing supplies and technology to local schools. JP Morgan continues to focus on the value of the "S" and measuring stakeholder engagement, employee engagement and culture initiatives.</p>

Trustees' Report

Implementation Statement

Private market / real estate investments (continued)

<p>BlackRock (Property)</p>	<p>Birmingham Business Park (BBP)</p> <p>Sustainability campaigns including Sustainability Tenant Engagement Programmes have been implemented at a number of assets within the BlackRock UK Property Fund portfolio. An example of where such a campaign has been successfully launched is Birmingham Business Park (BBP), which aims to engage with tenants on a range of sustainability topics; from energy efficiency and carbon reduction, to sustainable transport and travel, waste management and recycling, wildlife conservation, and health and well-being.</p> <p>Companies on the Park have embraced the sustainability and environmental strategies to work collectively opposed to individually resulting in the following:</p> <ul style="list-style-type: none"> a) Lift sharing across businesses b) Wider community engagement, actively supporting local charities including Age UK c) Improved communication between businesses and employees from different companies d) Sustainability initiatives being shared between companies, driven by businesses and employees e) Greater awareness for employees with quantified and qualified outcomes f) A wide and diverse range of initiatives to appeal to an extended audience g) Combining sustainability initiatives with health and wellbeing from cycling, walking and yoga to gardening
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Section 3 – How our shares were voted

How our high focus managers voted

Wellington, our only “high focus”, liquid asset manager, manages an emerging market bond portfolio on our behalf and have confirmed they had no opportunities to vote on any holdings over the year.

Use of proxy voting services

As per the comments above, given the nature of our strategy, there were also no managers who used proxy voting services in the running of their mandates for us.

Trustees' Report

Compliance Matters

The Registrar, TPAs, the Pensions Ombudsman and Pensions Regulator

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

- Information regarding the Scheme has been given to the Pension Tracing Service The Pension Service 9, Mail Handling Unit A, Wolverhampton, WV98 1LU.

Telephone: 0800 731 0193

- The Pensions Advisory Service (TPAS) is available to assist members and beneficiaries of the Plan on pension matters. TPAS may be contacted at Money and Pension Service, 120 Holborn, London, EC1N 2TD.

Telephone: 0800 011 3797

Email: contact@singlefinancialguidancebody.org.uk

Website address: <https://singlefinancialguidancebody.org.uk>

- The Pensions Ombudsman of 1st Floor, 10 South Colonnade, Canary Wharf, London E14 4PU will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or administrators of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

Telephone: 0800 917 4487

Early resolution email: helpline@pensions-ombudsman.org.uk

Email: enquiries@pensions-ombudsman.org.uk

In addition to the above the Pensions Regulator (TPR) of Napier House, Trafalgar Terrace, Brighton BN1 4DW regulates company pension schemes and enforces the law as it relates to them. It has wide ranging powers which include the power to:

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

The Scheme's professional advisers 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.

Trustees' Report

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, assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 1 April 2019. This showed that on that date:

	2019	2016
The value of the Technical Provisions was:	£430 million	£429 million
The value of the assets at that date was:	£411 million	£336 million

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

RPI Inflation: The RPI Inflation assumption will be derived based on the Bank of England 40-year spot inflation yield curve, weighted using projected Scheme benefit payments to derive a single weighted average inflation rate. An inflation risk premium is then deducted (which was 0.2% p.a as at 1 April 2019).

CPI Inflation: the assumed CPI inflation rate will be calculated as RPI inflation less an appropriate deduction reflecting the assumed long term difference between RPI and CPI (which was 1.00% p.a as at 1 April 2019), but subject to an overall minimum of 2.00% p.a.

Discount rate: Calculated as Expected Return on Gilts plus 0.90% p.a. The Expected Return on Gilts is derived based on the Bank of England 40 year fixed interest gilts spot yield curve, weighted using projected Scheme benefit payments to derive a single weighted average rate.

Pre-retirement mortality: This is assumed to be in accordance with the mortality tables AMC00 for male members, and AFC00 for female members. The tables have been projected from 2000 onwards by reference to each member's year of birth using CMI 2018 [1.75% p.a] long term improvement rates.

Post-retirement mortality: This is assumed to be in accordance with the mortality tables S2PMA multiplied by 80% for male members, and S2PFA multiplied by 88% for female members. The tables have been projected from 2016 onwards by reference to each member's year of birth using the CMI 2018 [1.75% p.a] long term improvement rates.

New entrants: no allowance has been made for new entrants

Retirement: no allowance for any deferred members retiring prior to Normal Retirement Date (NRD) except for members who are able to take unreduced benefits at ages earlier than their NRD without consent being required, with such members being assumed to retire at the earliest age at which these conditions apply.

Trustees' Report

Report on Actuarial Liabilities

Age difference of spouse: males are assumed to be three years older than females. No explicit allowance is made in respect of civil partnerships.

Percentage married at Death: 80% (males), 70% (females)

Expenses: no allowance has been made for Scheme expenses, as these expenses (other than investment management charges) are paid in addition by the company.

Cash commutation: 50% of members are assumed to take the maximum amount of cash allowed based on current Scheme cash commutation factors.

Transfer Values: no allowance has been made for members exercising their right to take a transfer value from the Scheme.

Statement of Trustees' responsibilities for the financial statements

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

- (i) 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustees' annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustees also have certain responsibilities in respect of contributions which are set out in the statement of Trustees' responsibilities accompanying the Trustees' summary of contributions.

The Trustees are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

Trustees' Report

Contact for Further Information

Capita Employee Solutions
48 Finnieston Square
Skypark 4
Glasgow G3 8ET
Tel: 0845 601 0607

Email: upmpensions@capita.co.uk

Approval of the Annual Report and Financial Statements

This Trustee Report was approved by the Trustees of the UPM-Kymmene Pension Scheme on 29.10.20 and signed on its behalf by:

KRWesbrou

Trustee Director

Date: 29-10-20

Barry W Mitchell

Trustee Director

Date: 30/10/2020

Actuary's Certification of Schedule of Contributions

UPM-Kymmene UK Pension Scheme (the "Scheme")

Adequacy of rate of contributions

1. I hereby 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 1 April 2019 to be met by the end of the period specified in the Recovery Plan dated 3 February 2020.

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 3 February 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:



Date:

5 February 2020

Name:

Paul Moore

Qualification

Scheme Actuary,
Fellow of the Institute and
Faculty of Actuaries

Address:

Forty-Four Peter Street
Manchester
M2 5GP

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Independent Auditor's Statement about Contributions to the Trustees of the UPM-Kymmene UK Pension Scheme

Statement about Contributions

We have examined the Summary of Contributions payable under the Schedules of Contributions to the UPM-Kymmene UK Pension Scheme in respect of the Scheme year ended 31 March 2020 which is set out on page 10.

In our opinion contributions for the Scheme 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 from 1 April 2019 to 4 February 2020 at least in accordance with the Schedule of Contributions certified by the actuary on 15 May 2018 and subsequently at least in accordance with the Schedule of Contributions certified by the actuary on 5 February 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.

Respective responsibilities of Trustees and Auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 10 the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedules 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 Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body, for our work, for this statement, or for the opinions we have formed.



Julie Radcliffe

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

319 St Vincent Street

Glasgow G2 5AS

Date: 30 October 2020

Independent Auditor's Report to the Trustees of the UPM-Kymmene UK Pension Scheme

Opinion

We have audited the financial statements of the UPM-Kymmene UK Pension Scheme ("the Scheme") for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Assets (available for Benefits) and related notes, including the accounting policies in note 5.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme 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 Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial reporting Standard applicable in the UK and republic of Ireland; and
- contain the information specified in 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Trustees are responsible for the other information, which comprises the Trustees' Report (including the Report on Actuarial Liabilities and the Summary of Contributions) and the Actuarial Certification of the Schedules of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Independent Auditor's Report to the Trustees of the UPM-Kymmene UK Pension Scheme

Other information (continued)

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustees' responsibilities

As explained more fully in their statement set out on page 24, the Scheme's Trustees are responsible for: Supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body, for our audit work, for this report, or for the opinions we have formed.



Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow G2 5AS

Date: 30 October 2020

Fund Account

For the year ended 31 March 2020

	Note	Defined benefit section 2020 £	Defined contribution section 2020 £	Total 2020 £	Total 2019 £
Contributions and benefits					
Employer contributions		5,300,000	6,349,449	11,649,449	13,106,483
Employee contributions		-	56,453	56,453	84,055
Total contributions	6	5,300,000	6,405,902	11,705,902	13,190,538
Transfers in	7	-	78,861	78,861	234,857
Other income	8	300	-	300	2,800
		5,300,300	6,484,763	11,785,063	13,428,195
Benefits paid or payable	9	(10,948,439)	(1,332,534)	(12,280,973)	(12,044,744)
Payment to and on account of leavers	10	(6,997,654)	(4,895,756)	(11,893,410)	(11,653,073)
Administration expenses	11	(16,887)	(117)	(17,004)	(101,061)
		(17,962,980)	(6,228,407)	(24,191,387)	(23,798,878)
Net withdrawals / additions from dealings with Members		(12,662,680)	256,356	(12,406,324)	(10,370,683)
Returns on investments					
Investment income	12	4,792,932	1,983	4,794,915	4,477,153
Change in market value of investments	13	19,509,377	(11,599,262)	7,910,115	33,320,785
Investment management expenses	14	(534,605)	(128,002)	(662,607)	(836,648)
Net returns on investments		23,767,704	(11,725,281)	12,042,423	36,961,290
Net increase/(decrease) in the fund during the year		11,105,024	(11,468,925)	(363,901)	26,590,607
Transfer between sections		984,127	(984,127)	-	-
Net assets of the Scheme at start of year		415,664,220	122,509,371	538,173,591	511,582,984
Net assets of the Scheme at end of year		427,753,371	110,056,319	537,809,690	538,173,591

The accompanying notes on pages 32 to 54 form an integral part of these financial statements.

Statement of Net Assets (available for Benefits)

As at 31 March 2020

	Note	Defined benefit section 2020 £	Defined contribution section 2020 £	Total 2020 £	Total 2019 £
Investment assets:	13				
Pooled investment vehicles	14	398,688,606	108,980,541	507,669,147	504,726,470
Insurance policies	13	22,463,882	-	22,463,882	27,094,809
AVC investments	17	1,078,057	-	1,078,057	1,169,054
Other investment balances	13	-	-	-	470,724
Cash in transit	13	-	-	-	132,930
Total net investments		422,230,545	108,980,541	531,211,086	533,593,987
Current assets	20	6,061,602	1,275,863	7,337,465	5,323,600
Current liabilities	21	(538,776)	(200,085)	(738,861)	(743,996)
Net assets of the Scheme at end of year		427,753,371	110,056,319	537,809,690	538,173,591

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on pages 23 to 24 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 32 to 54 form an integral part of these financial statements.

These financial statements were approved by the Trustees and were signed on their behalf by:

KR Wesbroom

Trustee Director

Loring W Mitchell

Trustee Director

Date: 29.10.20

Notes to the Financial Statements

1. General information

The Scheme is a hybrid arrangement incorporating a closed Defined Benefit section and an open Defined Contribution section, and is administered by Capita Employee Solutions in accordance with the establishing documents and rules, solely for the benefit of its members and other beneficiaries.

2. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (Revised 2018).

This is the first set of financial statements in which Scheme's Trustees have adopted the amendments to FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 incremental Improvements and Clarification issued December 2017, and the SORP (revised 2018).

The financial statements are prepared on a going concern basis, which the Trustees believe to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months.

In reaching this conclusion, the Trustees considered the impact of the COVID 19 outbreak and have taken into account the plausible downside assumptions of the Principal employer, UPM-Kymmene (UK) Limited, to gain comfort that it will be able to meet liabilities to the Scheme. In particular the Trustees have considered the latest available financial statements of the Principal Employer for the year ended 31 December 2019.

This assessment, together with income and capital growth from its assets, gives the Trustees confidence to prepare the financial statements on a going concern basis.

3. Identification of the financial statements

The Scheme is established as a trust under English law. The registered address of the Scheme is Meadowhead Road, Irvine, KA11 5AT.

Notes to the Financial Statements

4. Comparative disclosures for the Fund Account and Statement of Net Assets

	Note	Defined Benefit Section 2019 £	Defined Contribution Section 2019 £	Total 2019 £
Contributions and benefits				
Employer contributions		7,000,000	6,106,483	13,106,483
Employee contributions		-	84,055	84,055
Total contributions	6	7,000,000	6,190,538	13,190,538
Transfers in	7	-	234,857	234,857
Other income	8	-	2,800	2,800
		7,000,000	6,428,195	13,428,195
Benefits paid or payable	9	(10,808,507)	(1,236,237)	(12,044,744)
Payments to and on account of leavers	10	(9,387,530)	(2,265,543)	(11,653,073)
Administrative expenses	11	(91)	(100,970)	(101,061)
		(20,196,128)	(3,602,750)	(23,798,878)
Net withdrawals / additions from dealings with members		(13,196,128)	2,825,445	(10,370,683)
Returns on investments				
Investment income	12	4,476,096	1,057	4,477,153
Change in market value of investments	13	27,025,440	6,295,345	33,320,785
Investment management expenses	14	(713,437)	(123,211)	(836,648)
Net returns on investments		30,788,099	6,173,191	36,961,290
Net increase in the fund during the year		17,591,971	8,998,636	26,590,607
Transfer between sections		354,794	(354,794)	-
Net assets of the Scheme at 01 April 2018		397,717,455	113,865,529	511,582,984
Net assets of the Scheme at 31 March 2019		415,664,220	122,509,371	538,173,591

Notes to the Financial Statement

4. Comparative disclosures for the Fund Account and Statement of Net Assets (continued)

	Note	Defined Benefit Section 2019 £	Defined Contribution Section 2019 £	Total 2019 £
Investment assets:	13			
Pooled investment vehicles	14	383,765,190	120,961,280	504,726,470
Insurance policies - annuities	13	27,094,809	-	27,094,809
AVC investments	17	1,169,054	-	1,169,054
Other investment balances	13	470,724	-	470,724
Cash in transit	13	-	132,930	132,930
Total investments		412,499,777	121,094,210	533,593,987
Current assets	20	3,728,576	1,595,024	5,323,600
Current liabilities	21	(564,133)	(179,863)	(743,996)
Net assets of the Scheme at 31 March 2019		415,664,220	122,509,371	538,173,591

5. Accounting policies

The principal accounting policies of the Scheme are as follows

Contributions

Employee contributions, including AVCs, are accounted for by the Trustees when they are deducted from pay by the Employer, except for the first contribution due where the employee has been auto-enrolled by the Employer in which case it is accounted for when received by the Scheme. As a result of the Employer using the Scheme to satisfy their Auto-Enrolment responsibilities for staff pension provision purposes.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedules of Contributions in force during the year.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedules of Contributions or on receipt if earlier with the agreement of the Employer and Trustee.

Payments to members

Benefits are accounted for in the period in which the member notifies the Trustees of his decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

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

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

Notes to the Financial Statements

5. Accounting policies (continued)

Expenses

Expenses are accounted for on an accruals basis.

Investment income

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

Income from pooled investment vehicles is accounted for when declared by the fund manager. Where investment income arising from the underlying investments of the pooled investment vehicles is rolled up and re-invested in the total of the investment vehicles, this is reflected in the unit price and reported within change in market value.

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

Investments

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

Investments are included at fair value as described below:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager.

Annuities have been valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date. The Trustees hold annuity policies with Prudential, Aviva, Legal & General and Friends Life and the asset value can be found in note 11.

With profit insurance policies are reported at the policy value provided by the insurance company based on the cumulative reversionary bonuses declared and the current terminal bonus.

Presentation currency

The Scheme functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Notes to the Financial Statements

6. Contributions

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Employer contributions			
Normal contributions	-	6,349,449	6,349,449
Deficit funding contributions	5,300,000	-	5,300,000
	<u>5,300,000</u>	<u>6,349,449</u>	<u>11,649,449</u>
Employee contributions			
Normal contributions	-	32,574	32,574
Additional voluntary contributions	-	23,879	23,879
Total	<u>5,300,000</u>	<u>6,405,902</u>	<u>11,705,902</u>
	2019 £	2019 £	2019 £
Employer contributions			
Normal contributions	-	6,106,483	6,106,483
Deficit funding contributions	7,000,000	-	7,000,000
	<u>7,000,000</u>	<u>6,106,483</u>	<u>13,106,483</u>
Employee contributions			
Normal contributions	-	75,832	75,832
Additional voluntary contributions	-	8,223	8,223
Total	<u>7,000,000</u>	<u>6,190,538</u>	<u>13,190,538</u>

In accordance with the Schedule of Contributions implemented with effect from 30 January 2020, £5,300,000 of deficit funding contributions are to be paid annually until 1 April 2023. The first contribution is due to be paid by 1 April 2020 and was received on 25 March 2020.

Employer normal contributions include member contributions payable to the Scheme under salary sacrifice arrangements made available to members.

Notes to the Financial Statements

7. Transfers in

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Individual transfers in	-	78,861	78,861
	2019 £	2019 £	2019 £
Individual transfers in	-	234,857	234,857

8. Other income

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Compensation	300	-	300
	2019 £	2019 £	2019 £
Compensation	-	2,800	2,800

Notes to the Financial Statements

9. Benefits paid or payable

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Pension payments	8,562,510	-	8,562,510
Commutations and lump sum retirement benefits	2,312,721	609,563	2,922,284
Taxation on annual allowance	-	20,547	20,547
Purchase of annuities	73,208	239,412	312,620
Lump sum death benefits	-	463,012	463,012
	10,948,439	1,332,534	12,280,973
	2019 £	2019 £	2019 £
Pension payments	8,198,142	-	8,198,142
Commutations and lump sum retirement benefits	2,610,365	1,123,031	3,733,396
Purchase of annuities	-	113,206	113,206
	10,808,507	1,236,237	12,044,744

10. Payments to and on account of leavers

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Individual transfers out	6,981,347	4,895,756	11,877,103
Refunds to members leaving service	16,307	-	16,307
	6,997,654	4,895,756	11,893,410
	2019 £	2019 £	2019 £
Individual transfers out	9,387,530	2,265,543	11,653,073
Refunds to members leaving service	-	-	-
	9,387,530	2,265,543	11,653,073

Notes to the Financial Statements

11. Administrative expenses

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Bank charges	17	-	17
Sundry expenses	304	117	421
HMRC scheme reconciliation	16,566	-	16,566
	16,887	117	17,004
	2019 £	2019 £	2019 £
Bank charges	87	-	87
Sundry expenses	4	-	4
Admin fees	-	100,970	100,970
	91	100,970	101,061

All Trustee expenses including the PPF levy with the exception of the investment management charges are met directly by the company.

12. Investment income

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Income from pooled investment vehicles	3,069,128	-	3,069,128
Annuity income	1,720,864	-	1,720,864
Interest on cash deposits	2,940	1,983	4,923
	4,792,932	1,983	4,794,915
	2019 £	2019 £	2019 £
Income from pooled investment vehicles	2,594,605	-	2,594,605
Annuity income	1,880,156	-	1,880,156
Interest on cash deposits	1,335	1,057	2,392
	4,476,096	1,057	4,477,153

Notes to the Financial Statements

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

	Value at 1 April 2019 £	Purchases at cost £	Sales proceeds £	Change in market value £	Value at 31 March 2020 £
Defined Benefits Section					
Pooled investment vehicles	383,765,190	488,552,573	(497,688,821)	24,059,664	398,688,606
Insurance policies	27,094,809	-	-	(4,630,927)	22,463,882
AVC investments	1,169,054	67,557	(239,194)	80,640	1,078,057
Sub total	412,029,053	488,620,130	(497,928,015)	19,509,377	422,230,545
Accrued income	470,724				-
	<u>412,499,777</u>				<u>422,230,545</u>

Concentration of Investments

The following Pooled Investment Vehicles represent those which individually represent more than 5% of the net assets of the DB section.

Manager	Fund	Valuation £	Allocation %
Cardano	Cardano Solution Fund 18	386,738,420	90.4

Notes to the Financial Statements

13. Reconciliation of investments held at the beginning and end of the year (continued)

Defined Contributions Section	2020	2019
	Defined contribution section	Defined contribution section
Pooled Investment Vehicles	£	£
Value at 1 April	120,961,280	112,551,811
Purchases at cost	17,614,168	15,013,544
Sales proceeds	(17,995,645)	(12,899,420)
Change in market value	(11,599,262)	6,295,345
Value at 31 March	108,980,541	120,961,280
Cash in transit	-	132,930
	108,980,541	121,094,210
Designated to members	108,672,181	120,766,426
Trustees' unallocated account	308,360	327,784
	108,980,541	121,094,210

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

For the Defined Contribution Section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf the corresponding contributions were paid. Accordingly, the assets do not form a common pool of assets available for members generally. Members each receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

As shown in the above table as at 31 March 2020 the amount of DC invested assets designated to members was £108,672,181 (2019: £120,766,426). The amount of undesignated invested assets as at 31 March 2020 was £308,360 (2019: 327,784)

Concentration of Investments

The following Pooled Investment Vehicles represent those which individually represent more than 5% of the net assets of the DC section.

Manager	Fund	Valuation £	Allocation %
Legal & General	World ex UK Dev Equity	46,872,570	42.59
	UK Equity Index	23,254,479	21.34
	Pre-Retirement	15,659,106	14.23
	World Emerging Markets Equity Index	7,413,821	6.74

Notes to the Financial Statements

13. Reconciliation of investments held at the beginning and end of the year (continued)

Insurance policies

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Value of insured annuities	22,463,882	-	22,463,882
	2019 £	2019 £	2019 £
Value of insured annuities	27,094,809	-	27,094,809

The Insurance policies have been calculated by the Scheme Actuary using the latest Statement of Funding Principles signed 3 February 2020, updated for market conditions as at 1 April 2020.

14. Investment management expenses

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Investment manager fees	534,605	128,002	662,607
	2019 £	2019 £	2019 £
Investment manager fees	713,437	123,211	836,648

15. Taxation

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

Notes to the Financial Statements

16. Pooled investment vehicles

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

	2020 £	2019 £
Defined Benefit Section		
Multi Asset funds (Cardano Solution Fund 18)	386,738,420	-
Equity funds	-	96,999,185
Property funds	-	35,069,037
LDI funds	-	126,208,712
Cash funds	-	15,228,943
Diversified growth fund	-	47,325,967
Loan fund	-	26,194,731
Infrastructure fund	11,950,186	36,738,615
	398,688,606	383,765,190

The DB section of the Scheme is the sole investor in the Cardano Solution Fund 18. A breakdown of the underlying assets as at 31 March 2020 is included below:

	2020 £	2019 £
Global equity income fund	10,502,995	-
Listed and OTC derivative assets	9,321,387	-
OTC derivative liabilities	(5,660,625)	-
Senior loan fund	10,585,867	-
Infrastructure funds	13,478,851	-
Credit strategy fund	18,611,245	-
Emerging market debt fund	9,261,907	-
Property funds	35,123,906	-
Bond funds	129,184,984	-
Cash funds	156,327,903	-
	386,738,420	-

Notes to the Financial Statements

16. Pooled investment vehicles (continued)

The Schemes DC investments in pooled investment vehicles at the year end comprises

	2020 £	2019 £
Defined Contribution Section		
Equity funds	102,903,850	116,286,976
Bonds funds	459,115	266,749
Property funds	273,128	357,487
Cash funds	3,645,361	2,799,747
Diversified growth funds	1,699,087	1,250,321
	108,980,541	120,961,280

17. AVC investments

The Trustees hold assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held in their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

	2020 £	2019 £
Equitable Life	64,111	73,572
Prudential	792,713	826,408
Scottish Life	88,968	129,353
Friends Life	132,265	139,721
	1,078,057	1,169,054

Notes to the Financial Statements

18. 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 assess at the measurable date.
Level (2)	Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
Level (3)	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

As at 31 March 2020	Level (1) £	Level (2) £	Level (3) £	Total £
Defined Benefit Section				
Pooled investment vehicles	-	-	398,688,606	398,688,606
Insurance policies	-	-	22,463,882	22,463,882
AVC investments	-	1,078,057	-	1,078,057
	-	1,078,057	421,152,488	422,230,545
Defined Contribution Section				
Pooled investment vehicles	-	108,980,541	-	108,980,541
Total	-	110,058,598	421,152,488	531,211,086
As at 31 March 2019	Level (1) £	Level (2) £	Level (3) £	Total £
Defined Benefit Section				
Pooled investment vehicles	-	316,719,051	67,046,139	383,765,190
Insurance policies	-	-	27,094,809	27,094,809
AVC investments	-	1,169,054	-	1,169,054
Other investment balances	470,724	-	-	470,724
	470,724	317,888,105	94,140,948	412,499,777
Defined Contribution Section				
Pooled investment vehicles	-	120,961,280	-	120,961,280
Other investment balances	132,930	-	-	132,930
Total	603,654	438,849,385	94,140,948	533,593,987

Notes to the Financial Statements

19. Investment risk disclosures

Defined Benefit Section

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

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this 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 of 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 Trustees are responsible for determining the Scheme's investment strategy. The Trustees have set the investment strategy for the Scheme after taking advice from a professional investment adviser.

The Scheme has exposure to the above risks because of the investments it makes in following the investment strategy set out below. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreement in place with the Scheme's fiduciary manager and monitored by the Trustees by regular reviews of the investment portfolio. The investment objectives and risk limits of the Scheme are further detailed in the Statement of Investment Principles.

Further information on the Trustees' approach to risk management, credit and market risk is set out below.

Investment strategy

The Trustees have appointed Cardano Risk Management Limited ("Cardano") as its fiduciary manager, which encompasses the role of investment adviser and overarching investment manager for the Scheme. The Trustees work with Cardano to ensure that appropriate investment objectives have been set covering both risk and return.

Cardano is appropriately authorised under the Financial Services and Markets Act 2000.

Asset allocation

The Trustees have delegated responsibility for the asset allocation, the choice of underlying investment managers and derivative implementation to Cardano within a set of agreed investment guidelines. Cardano has an objective linked to the Scheme's funding level. Under this approach, the Trustees believe that the long-term return objectives can be achieved at substantially lower risk and volatility by adopting a much better diversified portfolio, managing asset allocation opportunistically and using derivatives to remove unwanted risks.

Notes to the Financial Statements

19. Investment risk disclosures (continued)

Cardano seeks to achieve the Trustees' objectives by investing the return seeking investments in a suitably diversified mix of assets including (but not limited to) the following types of investments:

- Equities
- Government bonds
- Credit
- Macro orientated strategies
- Multi strategy managers
- Cash
- Derivatives

Discretion has been provided to Cardano to manage both the Scheme's return-seeking investments and LDI assets within the Cardano Solution Fund 18, a sub-fund of the Cardano Common Contractual Fund.

Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustees has produced a Statement of Investment Principles.

The main priority of the Trustees when considering the investment policy is to provide sufficient assets to pay benefits as they fall due. To help achieve this, the Trustees have formulated an investment objective based on the level of return they wish to target and the level of risk they are comfortable bearing. The Trustees have developed a framework with Cardano which ensures that investments are spread across a range of asset classes. Spreading the investments in this way reduces the risk of a sharp fall in one market having a substantial impact on the funding ratio.

The current strategy for the investment portfolio is to hold:

- 30.0% in investments that are expected to provide a return to the total assets equal to the return of the liabilities. This is referred to as the Liability Driven Investments ("LDI") and comprises UK government bonds, gilt total return swaps, interest rate swaps and cash. The purpose of the LDI portfolio is to protect the Scheme's funding ratio from changes in interest rates and inflation expectations.
- 70.0% in return-seeking investments.

The Trustees review the allocation of assets on a regular basis. The Trustees have delegated responsibility for the day-to-day monitoring of the asset class weightings against their prescribed ranges to Cardano. If the asset class weightings breach their prescribed ranges, Cardano is responsible for rebalancing the assets back to their respective targets.

The Statement of Net Assets (available for benefits) disclose the value of return seeking assets as at 31 March 2020 as £262.5m and the value of risk reducing (LDI) investments as £136.2m.

Notes to the Financial Statements

19. Investment risk disclosures (continued)

Credit risk

The Scheme invests in a pooled investment vehicle and is therefore directly exposed to credit risk in relation to the holding in the pooled investment vehicle. The Scheme is indirectly exposed to credit risks arising on the underlying financial instruments held by the pooled investment vehicle.

Credit risk arising on derivatives depends on whether the derivatives are exchange traded or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to the risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements. The Scheme only invests in derivatives through its investments via pooled investment vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and diversification of investments amongst several pooled arrangements. The pooled investment vehicle holdings are unrated.

A summary of exposures to credit risk is given in the following table, whilst the notes above explain how this risk is managed and mitigated for the different classes of investment.

Investments exposed to credit risk	2020	Total £ million
Pooled investment vehicles		
Global equity fund		10.5
Bond funds (direct and indirect risk)		129.2
Senior loan fund		10.6
Property fund		35.1
Infrastructure fund		13.5
Credit strategy fund		18.6
Emerging market debt fund		9.2
Cash and other net investment assets		156.3
Derivatives		3.7
JP Morgan Infrastructure fund		12.0
		398.7

Please note:

1. That totals may not add up due to rounding of underlying asset totals
2. Assets breakdown shown for holdings in the Cardano Solution Fund 18

Notes to the Financial Statements

19. Investment risk disclosures (continued)

Currency risk

Direct currency risk arises from the investment in the JP Morgan Infrastructure Fund which is held in US\$.

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

Interest rate risk

The Scheme is subject to indirect interest rate risk because some of the Scheme's investments are held through pooled vehicles in bonds, gilt total return swaps, interest rate swaps, and cash. Indirect market risk arises if the underlying investments of the pooled investment vehicles are exposed to interest rate or other price risks.

If interest rates fall, the value of LDI investments will typically rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will typically fall in value, as will the actuarial liabilities because of an increase in the discount rate.

At the year end the LDI portfolio represented 34.2% of the total investment. This variance from the target asset allocation is deemed to be within an acceptable range and will vary depending on normal market movements.

Indirect other price risk

Indirect other price risk arises principally in relation to the Scheme's return seeking portfolio, held in a pooled investment vehicle, which includes investments in a diverse range of asset classes.

The Scheme has set a target asset allocation of 70.0% of investments being held in return seeking investments. The Trustees manage this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year end, the return seeking portfolio represented 65.8% of the total investment portfolio.

Notes to the Financial Statements

19. Investment risk disclosures (continued)

Defined Contributions Section

Credit Risk

Credit risk 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.

The Scheme invests solely in pooled investment vehicles. Through these it is directly exposed to credit risk in respect of the pooled fund units held and indirectly exposed to credit risks arising from the underlying assets held within the pooled funds.

Direct credit risk is mitigated either by the underlying assets of the pooled arrangements being ring-fenced from the assets of the investment manager or, in the case of insurance policies, by capital requirements and the Prudential Regulatory Authority's regulatory oversight. The table below sets out the types of pooled fund used within the Scheme.

Investment Manager	Fund name	Fund type
LGIM	Consensus Index	Unit linked insurance contract
	Global Equity Default	Unit linked insurance contract
	Global Equity 70:30 Index	Unit linked insurance contract
	Global Equity 50:50 Index	Unit linked insurance contract
	North America Equity Index	Unit linked insurance contract
	Europe (ex UK) Equity Index	Unit linked insurance contract
	Japan Equity Index	Unit linked insurance contract
	Asia Pacific (ex Japan) Equity Index	Unit linked insurance contract
	World Emerging Markets Equity Index	Unit linked insurance contract
	Ethical Global Equity Index	Unit linked insurance contract
	Diversified	Unit linked insurance contract
	Over 15-year Gilts Index	Unit linked insurance contract
	AAA-AA-A Corporate Bond - All Stocks - Index	Unit linked insurance contract
	Pre-Retirement	Unit linked insurance contract
	Managed Property	Unit linked insurance contract
	Global Real Estate Equity Index	Unit linked insurance contract
	Cash	Unit linked insurance contract

Notes to the Financial Statements

19. Investment risk disclosures (continued)

Credit Risk (continued)

In addition, investments are made only with suitably regulated investment managers. The Trustees carry out due diligence checks when appointing new investment managers to ensure the credit risk to which the Scheme will be exposed through the appointment is appropriate.

Credit risk arises primarily through the bond assets held and is mitigated by the use of suitably diversified pooled funds and by the majority of these investments being held in investment grade bonds. There will also be some credit risk through any stock lending carried out by the passive investment managers. The Trustees have considered the risk mitigation processes in place in respect of these, including the collateralisation arrangements and will monitor these periodically.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

Currency Risk

Currency risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate due to changes in foreign exchange rates.

All of the other pooled funds held are denominated in Sterling. However, it is subject to indirect currency risk as a number of the underlying investments held through its pooled fund arrangements are held in non-Sterling denominated securities.

Currency hedging is used within some of the overseas equity funds, however no overall currency overlay applies.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme is subject to indirect interest rate risk from the bond assets which it holds through pooled investment vehicles. These vehicles primarily use gilts, corporate bonds, swaps and repos to obtain interest rate exposure.

The key sources of interest rate risk are set out below:

Source of interest rate risk	Exposure at start of year	Exposure at end of year
	£	£
LGIM Over 15-year Gilts Index	227,963	381,643
LGIM AAA-AA-A Corporate Bond - All Stocks - Index	38,786	77,472
LGIM Pre-Retirement	12,544,162	15,659,106

There is also some indirect interest rate risk exposure within the Scheme's multi-asset funds.

Notes to the Financial Statements

19. Investment risk disclosures (continued)

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument 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 financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme is subject to other price risks (indirectly) in relation to the equities and other assets held through its pooled funds. This risk is managed through the Scheme's chosen investment strategy, by giving appropriate consideration to the size of the allocations to make to these types of investments

This risk is managed for the default option through the Scheme's chosen investment strategy. For self-select options members are made aware of the risks associated with each investment available and encouraged to consider these when determining their individual asset allocation.

It is also managed through using pooled funds which invest in a suitably diversified manner, or which, when combined into the overall portfolio, provide this suitable level of diversification.

The key sources of indirect other price risk are listed below.

Source of other price risk	Exposure at start of year	Exposure at end of year
	£	£
LGIM Multi-Asset Index	575,130	528,275
LGIM Global Equity Default	93,643,255	77,540,870
LGIM Global Equity 70:30 Index	2,862,628	2,616,432
LGIM Global Equity 50:50 Index	2,611,011	2,259,473
LGIM North America Equity Index	1,852,241	1,125,415
LGIM Europe (ex UK) Equity Index	269,187	223,535
LGIM Japan Equity Index	166,316	157,775
LGIM Asia Pacific (ex Japan) Equity Index	101,228	79,003
LGIM World Emerging Markets Equity Index	223,889	192,402
LGIM Ethical Global Equity Index	1,290,553	2,377,877
LGIM Managed Property	357,487	273,128
LGIM Global Real Estate Equity Index	147,376	143,688
LGIM Diversified	1,250,321	1,699,086

Notes to the Financial Statements

20. Current assets

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Sundry debtors	86,155	111,688	197,843
Prepaid pensions	541,860	-	541,860
Trustee bank account	5,433,587	682,334	6,115,921
Employer contributions due	-	478,058	478,058
Employee contributions due	-	3,783	3,783
	6,061,602	1,275,863	7,337,465

The DC cash balance allocated to members at 31 March 2020 was £405,448 (2019: 781,682).

All contributions due relate to the month of March 2020 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

	2019 £	2019 £	2019 £
Sundry debtors	177,834	44,143	221,977
Prepaid pensions	511,125	-	511,125
Trustee bank account	3,039,617	1,058,568	4,098,185
Employer contributions due	-	488,061	488,061
Employee contributions due	-	4,252	4,252
	3,728,576	1,595,024	5,323,600

21. Current liabilities

	2020 Defined benefit section £	2020 Defined contribution section £	2020 Total £
Accrued benefits	318,512	166,132	484,644
Sundry creditors	97,867	-	97,867
Investment manager fees	10,596	30,953	41,549
Transfer between sections	107,915	3,000	110,915
AVC's	3,886	-	3,886
	538,776	200,085	738,861
	2019 £	2019 £	2019 £
Accrued benefits	419,023	-	419,023
Sundry creditors	97,867	-	97,867
Investment manager fees	-	179,863	179,863
Transfer between sections	43,357	-	43,357
AVC's	3,886	-	3,886
	564,133	179,863	743,996

Notes to the Financial Statements

22. Self Investment

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995.

23. Related party transactions

Capital Cranfield Pension Trustees Limited, in their capacity as independent trustee, received a fee for their services, which is paid by the participating employer. For the year ended 31 March 2020 the fee was £37,933 (2019: £36,745). Within the Trustee board are four Trustees who are members of the Scheme: Tracy Knox, Craig Mitchell, Graham Hough and Ronnie Stevenson. At 31 March 2020 they were all active members in the DC section and their benefits are in line with the Trust Deed and Rules

24. Subsequent events

Covid-19

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a global health emergency on the 30th January 2020, has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Trustees are monitoring developments relating to COVID-19 and is coordinating its operational response based on existing business continuity plans and on guidance from global health organisations, UK government and general pandemic response best practice. The Trustees consider the continuing impact of COVID-19 to be a non-adjusting post balance sheet event. The Trustees have designed and implemented the Scheme's investment strategy taking a long-term view and has built in resilience to withstand short term fluctuations. Given the inherent uncertainties, it is not practicable at this time to provide a quantitative estimate of the impact of the virus.

Bulk Transfer Out of Defined Contribution Members

On 16 May 2020 the Trustees signed a Deed of Amendment and Closure which closed the Scheme to new members, re-joiners and future accrual of money purchase benefits from 31 May 2020. Subsequently, on 7 August 2020 all of the members of the DC section of the Scheme were transferred into the Legal and General Master Trust.