

**WATTS OF LYDNEY LIMITED
PENSION AND
ASSURANCE SCHEME
ANNUAL REPORT
FOR THE YEAR ENDED
29 FEBRUARY 2020**

PAUL CROWDY PARTNERSHIP LIMITED
Statutory Auditor & Chartered Accountants
Hollywood Estate
Hollywood Lane
Bristol
BS10 7TW

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

ANNUAL REPORT

YEAR ENDED 29 FEBRUARY 2020

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WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES AND THEIR ADVISERS

Principal Employer	Watts of Lydney Group Limited Althorpe House High Street Lydney Gloucestershire GL15 5DD
The Trustees	J C Thurston Mrs G Jones P H Brown
Scheme Consultants	Hughes Price Walker Limited
Actuary	R Hughes FIA
Independent Auditor	Paul Crowdy Partnership Limited
Investment Managers	Baillie Gifford & Co Limited Legal & General Assurance (Pensions Management) Limited
Bankers	National Westminster Bank Plc
Solicitors	Burges Salmon LLP

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT

YEAR ENDED 29 FEBRUARY 2020

The Trustees have pleasure in presenting their report and the audited financial statements of the Scheme for the year ended 29 February 2020.

NATURE OF THE SCHEME

The Scheme is a final salary scheme for all eligible employees of the Watts of Lydney group of companies and is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. The Trustees are not aware of any reason why the registered status may be prejudiced or withdrawn.

The Scheme is currently governed by a Definitive Trust Deed dated May 1983, as subsequently amended.

Members ceased to accrue future benefits with effect from 1 June 2006.

Life assurance benefits since 3 February 2010 are provided under a separate Trust known as the Watts Group Life Assurance Scheme.

The Trustees are continually reviewing the security of members' benefits due under the Trust Deed and have considered a range of options presented to them. They continue to make progress on transferring the Scheme to a stable insurance backed vehicle with a view to wind up as soon as is practicable.

PARTICIPATING COMPANIES

Watts of Lydney Group Limited
Watts Urethane Products Limited

MANAGEMENT OF THE SCHEME

The Trustees of the Scheme, other than the Member-nominated Trustee, may be appointed and removed by the Principal Employer, in accordance with the Scheme's Trust Deed. In accordance with The Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 2006 one Trustee has been elected as a Member-nominated Trustee. Mrs G Jones was elected as the Member-nominated Trustee for an indefinite period with effect from 6 August 2007. The Member-nominated Trustee appointment will cease on resignation or removal by all other Trustees. In the meantime, any eligible member wishing to become a Member-nominated Trustee should contact the Trustees at the address shown on page 9 of this Annual Report requesting appointment. This may cause a Member-nominated Trustee election process to be implemented.

One Trustees' meeting was held during the year. All Trustees have equal voting rights.

CHANGES TO THE SCHEME

There have been no changes to the scheme basis during the year.

FINANCIAL DEVELOPMENT OF THE SCHEME

The Fund Account and Statement of Net Assets (available for benefits) on pages 16 and 17 show that the value of the Scheme's net assets increased by £1,332,053 to £18,564,081 as at 29 February 2020. The increase comprised net withdrawals from dealings with members of £996,816 together with net returns on investments of £2,328,869.

The financial statements on pages 16 to 25 have been prepared and audited in accordance with regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

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

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

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

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

The Trustees are responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising, a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

MEMBERSHIP

The changes in membership during the year are as follows:

	Deferred members	Pensioners
As at 1 March 2019	27	131
Retirements	(6)	6
Deaths	-	(2)
Dependant	-	1
Full commutations	-	(20)
As at 29 February 2020	<u>21</u>	<u>116</u>

PENSION INCREASES

Once in payment, pensions are increased in accordance with the Scheme rules as follows:

- **For service before 6 April 1997**
An increase each year of 4%.
- **For service from 6 April 1997 to 28 February 2002**
Greater of the cumulative Limited Price Index increase since retirement date and 4% per annum compound, with a maximum of 5% per annum compound.
- **For service after 28 February 2002**
Price inflation with a maximum increase each year of 5%.

Deferred pensions are increased in accordance with statutory requirements.

TRANSFER VALUES

Transfers to other pension arrangements are calculated in accordance with regulations made under the Pension Schemes Act 1993. Discretionary benefits are not available in any transfer values paid.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

REPORT ON ACTUARIAL LIABILITIES

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

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 benefits to which members are entitled based on pensionable service to the valuation date. This is assessed every three years 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 prepared as at 28 February 2019. This showed that on that date:

	£'000
The value of the assets was:	17,232
The amount needed to provide benefits (Technical Provisions) was:	14,917
Surplus:	2,315
Funding level:	116%

The next full actuarial valuation is due to be carried out with an effective date no later than 28 February 2022.

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 used in the calculation of the Technical Provisions is the Defined Accrued Benefit Method.

Significant actuarial assumptions

Discount rate: the rate of investment return shall be based on the expected return on a portfolio of assets including growth assets and bonds with an allowance for expenses and a margin for prudence. The rate used for the 2019 valuation is 1.7% per annum, which is the annualised yield available on the FTSE Actuaries Gilt Index (15 years).

Price inflation - Retail Prices Index (RPI): this assumption shall be based on the rate implied by the difference in the yields available on fixed and index-linked gilts of appropriate duration. The rate used for the 2019 valuation is 3.4% per annum, which is based on the implied inflation spot rate produced by the Bank of England for a term appropriate to the Scheme's liabilities (12 years for the 2019 valuation).

Price inflation - Consumer Prices Index (CPI): this assumption shall be set relative to the assumption for inflation as measured by the RPI, based on the most recent market research available. The rate used for the 2019 valuation is 2.6% per annum, which is 0.8% below the assumption for inflation as measured by the RPI.

Revaluation of pensions in deferment: benefits revalue in deferment by the lower of 5% per annum compound and the change in inflation between the date of leaving and the date of retirement. The assumption for such future increases shall be equal to the assumption for CPI increases, but capped at 5% per annum. The rate used for the 2019 valuation is 2.6% per annum.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

Pension increases in payment: these assumptions shall be chosen having regard to the assumptions for price inflation. To allow for minimum/maximum increases in any year, an adjustment is made to the assumption for price inflation using mathematical modelling techniques. Pensions accrued up to 5 April 1997 increase by 4% per annum. Pensions accrued between 6 April 1997 and 28 February 2002 increase in line with price inflation as measured by the CPI, subject to a maximum of 5% in any year. This is subject to an overall underpin of 4% per annum compound since retirement. The rate used for the 2019 valuation is 4.0% per annum. Pensions accrued between 1 March 2002 and 31 May 2006 increase in line with price inflation as measured by the CPI, subject to a maximum of 5% in any year. The rate used for the 2019 valuation is 2.6% per annum.

Mortality: the rates of mortality assumed shall be based on recent reports and statistics issued by the Continuous Mortality Investigation relevant to the membership of the Scheme. Studies have shown that life expectancy is improving and so an allowance for improvements shall be made. The base tables used for the 2019 valuation are 100% of the S3PMA and S3PFA standard tables for males and females respectively. To make allowance for improvements in mortality rates, the 2019 valuation uses rates derived by projecting the base tables forward using the CMI 2019 core projections applicable to that member's year of birth, with a long-term rate of improvement of 1.5% per annum.

Retirements: members are assumed to retire at their Normal Retirement Age. Allowance shall be made for members with a Normal Retirement Age of 65 but who are entitled to receive part of their benefits unreduced from age 60.

Commutation: it is assumed that deferred members will take 75% of the maximum tax-free cash sum available under current HMRC limits, ignoring any rights members may have to higher cash sums under A-day legislation. The commutation factors used to convert pension into a lump sum benefit are those in force at the valuation date.

Marital status: for pensioners, it is assumed that 90% of members are married at the valuation date. For non-pensioners it is assumed that 90% of members are married at retirement, or on earlier death. Male members are assumed to be three years older than their wives and female members are assumed to be three years younger than their husbands.

Expenses: expenses paid by the Scheme are assumed to total £500,000.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

INVESTMENTS

The investment management arrangements are dealt with by the Scheme's investment managers named on page 1 of this Annual Report. The investment managers are responsible for selecting appropriate investments in accordance with the Trustees' Statement of Investment Principles and for managing the investment portfolio.

The performance of the investment managers is reviewed at the Trustees' meetings. The Scheme's investments are held in unitised funds in the name of the Trustees. The income generated by these funds is not normally distributed but re-invested within the funds and reflected in the unit prices of the funds.

The custody of the underlying assets of the managed funds in which the Scheme invests is the responsibility of the investment managers.

The Scheme's pooled investment vehicles, which are considered to be secure and readily marketable, are detailed in notes 8 and 11 to 14 to the financial statements.

STATEMENT OF INVESTMENT PRINCIPLES

The Trustees have prepared a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. A copy of the Statement is available to members on request from the Trustees at the address shown on page 9 of this Annual Report.

The Trustees cannot directly influence the managers' policies on social, environmental and ethical factors or on the exercise of investment rights where the Scheme holds assets in pooled funds. The Trustees do, however, monitor the investment managers' general policies on these matters.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

INVESTMENT PERFORMANCE

The overall return on investments for the year ended 29 February 2020 amounted to 14.2%. Baillie Gifford & Co Limited contributed a return of 6.8% and Legal & General Assurance (Pensions Management) Limited contributed a return of 17.8%.

The returns on the Scheme's investments (for funds held at the year end), together with the appropriate index returns, for the one, three and five year periods to 29 February 2020 are as follows:

	1 year %	3 years % p.a.	5 years % p.a.
Baillie Gifford & Co Limited:			
Diversified Growth Fund			
Fund	2.7	2.5	3.0
<i>Index</i>	4.3	4.1	4.0
Managed Fund			
Fund	10.6	8.2	9.3
<i>Index</i>	5.1	3.5	4.8
Legal & General Assurance (Pensions Management) Limited:			
Buy-out Aware Fixed Short Fund*			
Fund	13.0	–	–
<i>Index**</i>	<i>n/a</i>	–	–
Buy-out Aware Fixed Long Fund*			
Fund	21.9	–	–
<i>Index**</i>	<i>n/a</i>	–	–
Cash Fund			
Fund	0.7	0.5	0.5
<i>Index</i>	0.6	0.4	0.4

* Initial investment was made in November 2018 and therefore 3 and 5 year returns are not considered appropriate.

** There is no index for the buy-out aware funds.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

TRUSTEES' REPORT *(continued)*

YEAR ENDED 29 FEBRUARY 2020

CONTACT FOR FURTHER INFORMATION

Any enquiries about the Scheme, including members' entitlement to benefits, should be addressed to:

The Trustees of the Watts of Lydney Limited Pension and Assurance Scheme
care of: Mrs G Jones
Wages Department
Watts of Lydney Group Limited
Althorpe House
High Street
Lydney
Gloucestershire
GL15 5DD

E-mail: GretaJones@watts-group.co.uk

The Trustees' Report was approved by the Trustees on September 2020 and signed on their behalf by:

Trustee

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

SUMMARY OF CONTRIBUTIONS

YEAR ENDED 29 FEBRUARY 2020

During the year ended 29 February 2020, no contributions were payable to the Scheme by the Principal Employer under the Schedule of Contributions.

Approved by the Trustees on September 2020 and signed on their behalf by:

Trustee

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

YEAR ENDED 29 FEBRUARY 2020

OPINION

We have audited the financial statements of the Watts of Lydney Pension and Assurance Scheme for the year ended 29 February 2020 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- * show a true and fair view of the financial transactions of the Scheme during the year ended 29 February 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits which fall due after the end of the year;
- * have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- * contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

This audit report is continued on the next page.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME *(continued)*

YEAR ENDED 29 FEBRUARY 2020

OTHER INFORMATION

The Trustees are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

RESPONSIBILITIES OF THE TRUSTEES

As explained more fully in the Statement of Trustees' Responsibilities set out on page 3, the Scheme's Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

This audit report is continued on the next page.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME *(continued)*

YEAR ENDED 29 FEBRUARY 2020

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- * Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- * Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- * Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- * Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- * Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

USE OF OUR REPORT

This report is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

This audit report is continued on the next page.

**WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE
SCHEME**

**INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF WATTS OF
LYDNEY LIMITED PENSION AND ASSURANCE SCHEME *(continued)***

YEAR ENDED 29 FEBRUARY 2020

Paul Crowdy Partnership Limited
Statutory Auditor
Chartered Accountants
Hollywood Estate
Hollywood Lane
Bristol
BS10 7TW

Date:

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEES OF THE WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

YEAR ENDED 29 FEBRUARY 2020

We have examined the Summary of Contributions to the Watts of Lydney Limited Pension and Assurance Scheme for the scheme year ended 29 February 2020 which is set out on page 10.

STATEMENT ABOUT CONTRIBUTIONS PAYABLE UNDER THE SCHEDULE OF CONTRIBUTIONS

In our opinion contributions for the scheme year ended 29 February 2020 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 1 August 2018.

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, set out on page 10, have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

RESPECTIVE RESPONSIBILITIES OF THE TRUSTEES AND AUDITOR

As explained more fully in the Statement of Trustees' Responsibilities set out on page 3, the Scheme's Trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

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

USE OF OUR STATEMENT

This statement is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our 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 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 opinion we have formed.

Paul Crowdy Partnership Limited
Statutory Auditor
Chartered Accountants
Hollywood Estate
Hollywood Lane
Bristol
BS10 7TW

Date:

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

FUND ACCOUNT

YEAR ENDED 29 FEBRUARY 2020

	Note	2020 £	2019 £
CONTRIBUTIONS AND BENEFITS			
Benefits paid or payable	5	(905,092)	(593,482)
Administrative expenses	6	(91,724)	(59,491)
		<u>(996,816)</u>	<u>(652,973)</u>
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(996,816)</u>	<u>(652,973)</u>
RETURNS ON INVESTMENTS			
Investment income	7	–	1,939
Change in market value of investments	8	2,359,571	218,458
Investment management expenses	9	(30,702)	(17,812)
NET RETURNS ON INVESTMENTS		<u>2,328,869</u>	<u>202,585</u>
NET INCREASE/(DECREASE) IN THE FUND DURING THE YEAR		<u>1,332,053</u>	<u>(450,388)</u>
NET ASSETS OF THE SCHEME			
At start of the year		<u>17,232,028</u>	<u>17,682,416</u>
AT END OF FEBRUARY		<u><u>18,564,081</u></u>	<u><u>17,232,028</u></u>

The notes on pages 18 to 25 form part of these financial statements.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 29 FEBRUARY 2020

	Note	2020 £	2019 £
INVESTMENT ASSETS:	8		
Pooled investment vehicles	11	18,487,422	17,127,851
CURRENT ASSETS	15	131,203	160,403
CURRENT LIABILITIES	16	(54,544)	(56,226)
NET ASSETS OF THE SCHEME AT END OF FEBRUARY		<u>18,564,081</u>	<u>17,232,028</u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the report on actuarial liabilities on pages 5 and 6 of this Annual Report and these financial statements should be read in conjunction with that report.

These financial statements were approved by the Trustees on September 2020 and are signed on their behalf by:

Trustee

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 29 FEBRUARY 2020

1. GENERAL INFORMATION

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included on page 8 of this Annual Report.

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, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), and the guidance set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (revised June 2018) (the SORP).

3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below and on the next page. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Currency

The Scheme's functional and presentation currency is pounds sterling and rounded to the nearest pound sterling.

(b) Accruals basis

The financial statements have been prepared on an accruals basis.

(c) Contributions

Contributions are accounted for in accordance with the Schedule of Contributions. All other contributions are accounted for in accordance with any agreements for making such contributions, otherwise on a cash basis.

(d) Payments to, and on behalf of, members

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

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

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 received or paid.

(e) Administrative expenses

All administrative expenses of the Scheme up to 31 July 2018 were borne by the Principal Employer. Thereafter such expenses are borne by the Scheme out of any surplus in the Scheme calculated on a Technical Provisions basis.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 29 FEBRUARY 2020

3. ACCOUNTING POLICIES *(continued)*

(f) Investment income

Income earned by the pooled investment vehicle funds is not normally distributed but retained within the funds and reflected in the market value of the units. Where investment income from pooled investments is distributed it is accounted for when declared by the investment manager.

(g) Change in market value

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.

(h) Investment management expenses

Direct investment management expenses paid to Legal & General Assurance (Pensions Management) Limited are calculated on the basis of a fixed annual charge of £1,000 together with a percentage of the value of the weekly valuations of the Scheme's holdings in its funds. These are charged quarterly in arrears. In addition, all investment managers receive indirect remuneration which is reflected through the unit prices of each fund.

(i) Valuation of investments

Investments are included at fair value. Unitised pooled investment vehicles have been valued at the latest available bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment managers at the valuation date nearest the year end.

4. CONTRIBUTIONS

No deficit reduction contributions are scheduled to be paid through to 26 May 2025, subject to review at future actuarial valuations.

5. BENEFITS PAID OR PAYABLE

	2020 £	2019 £
Pensions	587,550	593,482
Commutation of pensions and lump sum retirement benefits	317,542	—
	<u>905,092</u>	<u>593,482</u>

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6. ADMINISTRATIVE EXPENSES

	2020	2019
	£	£
Administration and consultancy	37,337	27,782
Administration costs charged by Principal Employer	36,841	24,314
Trustee consultancy fees	4,020	2,345
Levies	1,731	–
Legal fees	6,500	–
Audit fee	5,150	5,050
Sundry expenses	145	–
	<u>91,724</u>	<u>59,491</u>

7. INVESTMENT INCOME

	2020	2019
	£	£
Income from pooled investment vehicles	<u>–</u>	<u>1,939</u>

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8. RECONCILIATION OF INVESTMENTS

	Value brought forward £	Purchases at cost £	Sales proceeds £	Change in market value £	Value carried forward £
Pooled investment vehicles	<u>17,127,851</u>	<u>–</u>	<u>(1,000,000)</u>	<u>2,359,571</u>	<u>18,487,422</u>

Indirect costs are incurred through the bid-offer spread on, or the single unit pricing structure of, investments within pooled investment vehicles and charges made within those vehicles. The amount of these indirect costs is not separately provided to the Scheme.

9. INVESTMENT MANAGEMENT EXPENSES

	2020 £	2019 £
Legal & General Assurance (Pensions Management) Limited	<u>30,702</u>	<u>17,812</u>

10. 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.

11. POOLED INVESTMENT VEHICLES

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

	2020 £	2019 £
Managed	2,471,776	3,178,256
Cash	3,398	3,374
Diversified growth	2,819,406	2,744,589
Liability driven	13,192,842	11,201,632
	<u>18,487,422</u>	<u>17,127,851</u>

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YEAR ENDED 29 FEBRUARY 2020

12. CONCENTRATION OF INVESTMENTS

The following investments represent more than 5% of the Scheme's net assets at either the current or previous year ends:

	2020 £	2020 %	2019 £	2019 %
Legal & General Assurance (Pensions Management) Limited				
- Buy-out Aware Fixed Long Fund	7,430,907	40.0	6,101,542	35.4
- Buy-out Aware Fixed Short Fund	5,761,935	31.0	5,100,090	29.6
Baillie Gifford & Co Limited				
- Diversified Growth Fund	2,819,406	15.2	2,744,589	15.9
- Managed Fund	<u>2,471,776</u>	<u>13.3</u>	<u>3,178,256</u>	<u>18.4</u>

13. FAIR VALUE HIERARCHY

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

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the assessment dates.

Level 2: Inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 29 February 2020	
	Level 2 £	Total £
Pooled investment vehicles	<u>18,487,422</u>	<u>18,487,422</u>
	At 28 February 2019	
	Level 2 £	Total £
Pooled investment vehicles	<u>17,127,851</u>	<u>17,127,851</u>

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14. INVESTMENT RISK DISCLOSURES

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial instrument 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 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 individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The SORP recommends these risk disclosures are made for all investments.

The Trustees determine their investment strategy after taking advice from the Scheme Consultants. The Scheme has exposure to these 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 agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

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

Investment strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with any future contributions, the benefits of the Scheme payable under the Definitive Trust Deed and Rules as they fall due.

The Trustees set the investment strategy for the Scheme taking into account considerations such as the strength of the employer covenant, the long term liabilities of the Scheme and the funding agreed with the Employer. The investment strategy is to select appropriate pooled funds of investment managers and is set out in the Statement of Investment Principles.

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YEAR ENDED 29 FEBRUARY 2020

14. INVESTMENT RISK DISCLOSURES *(continued)*

(i) Credit risk

The Scheme is subject to credit risk because the Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the 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 pooled managers, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled managers.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2020	2019
	£	£
Unit linked insurance contracts	13,196,240	11,205,006
Open ended investment companies	5,291,182	5,922,845
	<u>18,487,422</u>	<u>17,127,851</u>

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles and some of the underlying investments in the diversified growth and managed pooled investment vehicles. The pooled investment vehicles holding some of these investments at the year end amounted to 100% (2019 : 100%). This risk is mitigated where the investments are in funds which hold government bonds where the credit risk is minimal and in funds which hold corporate bonds which are rated at at least investment grade.

(ii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The pooled investment vehicles subject to some currency exposure at the year end amounted to 29% (2019 : 35%).

(iii) Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in gilts and bonds through pooled vehicles. The pooled investment vehicles subject to some interest rate exposure at the year end amounted to 100% (2019 : 100%).

(iv) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes diversified growth and managed funds held in pooled vehicles. The pooled investment vehicles subject to some other price exposure at the year end amounted to 29% (2019 : 35%).

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15. CURRENT ASSETS

	2020 £	2019 £
Cash balances	<u>131,203</u>	<u>160,403</u>

16. CURRENT LIABILITIES

	2020 £	2019 £
Unpaid benefits	10,141	–
Investment management expenses	5,261	4,587
Tax on pensions	9,162	9,491
Administrative expenses	<u>29,980</u>	<u>42,148</u>
	<u>54,544</u>	<u>56,226</u>

17. RELATED PARTY TRANSACTIONS

One Trustee and the spouse of a Trustee are in receipt of retirement benefits calculated in accordance with the rules of the Scheme.

The Trustees and the Principal Employer charge the Scheme for the provision of administration services of themselves and appointed personnel of the Principal Employer. The fees charged for the year are disclosed in note 6 to these financial statements. The unpaid fees at the year end, and included within administrative expenses in note 16 of these financial statements, were £nil (2019 : £9,316).

There have been no other material transactions with related parties which have not been disclosed in these financial statements.

18. SUBSEQUENT EVENTS

World markets are in turmoil due to the coronavirus pandemic. This is likely to have a significant effect on the value of investments. Investment funds containing equity type investments are likely to experience the greatest fall in value. For example, as at 25 September 2020, the value of the FTSE 100 was 11% lower than as at 29 February 2020.

WATTS OF LYDNEY LIMITED PENSION AND ASSURANCE SCHEME

APPENDIX

YEAR ENDED 29 FEBRUARY 2020

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