



THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME

ANNUAL REPORT

YEAR ENDED 31 DECEMBER 2020

SCHEME REGISTRATION NUMBER: 10005498

THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME

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THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
TRUSTEE AND ITS ADVISERS
FOR THE YEAR ENDED 31 DECEMBER 2020

Trustee

The Midcounties Co-operative Pension Trustee Ltd

Employer Nominated Trustee Directors

Stephen Allsopp (Chair appointed 11 December 2020)

Judith Feeney (Chair – retired 26 October 2020)

Patrick Gray (retired 26 October 2020)

Irene Kirkman (appointed 26 October 2020)

Fiona Ravenscroft

PTL – represented by Alison Bostock (appointed 1 November 2020)

Vivian Woodell (appointed 26 October 2020)

Member Nominated Trustee Directors

James English

Mari Frost (appointed 9 March 2020)

David Pinion (retired 9 March 2020)

Stephen Ridler

Dennis Young

Secretary to the Trustee

Helen Flint-Hill (appointed 12 February 2020)

Elaine Clarke (resigned 12 February 2020)

The Midcounties Co-operative Ltd

Co-operative House

Warwick Technology Park

Warwick

CV34 6DA

Principal Employer

The Midcounties Co-operative Ltd

Co-operative House

Warwick Technology Park

Warwick

CV34 6DA

Actuary

Damian McClure

Mercer Ltd

12 Booth Street

Manchester

M2 4AW

Administrator

Premier Pensions Management Ltd

AMP House

Dingwall Road

Croydon

CR0 2LX

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
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Auditor

RSM UK Audit LLP
Statutory Auditor
Temple Row
Birmingham
B2 5AF

Investment Managers

BNY Mellon Investment Management (appointed 15 December 2020)
160 Queen Victoria Street
London
EC4V 4LA

Brandywine Global Investment Management LLC (appointed 12 June 2020, terminated 11 December 2020)
1735 Market Street
Suite 1800
Philadelphia
PA 19103

Capstone Investment Advisors LLC (appointed 10 February 2020)
7 World Trade Center
30th Floor, 250 Greenwich Street
New York
NY 10007

Insight Investment Management (Global) Ltd
160 Queen Victoria Street
London
EC4V 4LA

JP Morgan Asset Management (Europe) S.a.r.l.
60 Victoria Embankment
London
EC4Y 0JP

Legal & General Assurance (Pensions Management) Ltd
One Coleman Street
London
C2R 5AA

Prudential M&G
PO Box 156
Dorey Court
Admiral Park
St Peter Port
Guernsey
GY1 4EU

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Investment Managers (continued)

Siguler Guff & Company LP
825 Third Avenue
New York
10022

State Street Global Advisors
20 Churchill Place
Canary Wharf
London
E14 5HJ

Towers Watson Investment Management Ltd
MidCity Place
1 High Holborn
London
WC1V 6TP

Wellington Management International Ltd
80 Victoria Street
Westminster
London
SW1E 5JL

Fiduciary Investment Manager

Willis Towers Watson Ltd
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Custodian

State Street Bank & Trust Company
20 Churchill Place
Canary Wharf
London
E14 5HJ

Additional Voluntary Contribution (AVC) Provider

Royal London Mutual Insurance Society Ltd
5th Floor
Churchgate House
56 Oxford Street
Manchester
M1 6EU

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Life Assurance Company

Royal London Group
5th Floor
Churchgate House
56 Oxford Street
Manchester
M1 6EU

Banker

Clydesdale Bank PLC (trading as Virgin Money)
48-50 Market Street
Manchester
M1 1PW

Legal Adviser

Eversheds Sutherland LLP
115 Colmore Row
Birmingham
West Midlands
B3 3AL

Employer Covenant Adviser

RSM Restructuring Advisory LLP
25 Farringdon Street
London
EC4A 4AB

Enquiries

The Midcounties Co-operative Pension Scheme
Premier Pensions Management Ltd
AMP House
Dingwall Road
Croydon
Surrey
CR0 2LX

Email: Midcounties.Co-operativePensionScheme@Premiercompanies.co.uk

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
TRUSTEE'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The Trustee of The Midcounties Co-operative Pension Scheme (the "Scheme") is pleased to present its report together with the financial statements for the year ended 31 December 2020. The Scheme was established on 1 October 1932 and is governed by a definitive trust deed dated 31 January 2011. The Scheme is a defined benefit scheme, and was closed to future accrual on 14 June 2014.

Management of the Scheme

A list of Trustee Directors is included on page 1.

There are currently five Employer Nominated Trustee Directors (including an independent Trustee Director – PTL represented by Alison Bostock) and four Member Nominated Trustee Directors. In accordance with the Occupational Pension Schemes (Member Nominated Trustees and Directors) Regulations 2006, members have the option to nominate and vote for Member Nominated Trustee Directors.

The four Member Nominated Trustee Directors are nominated by the members under the rules notified to the members of the Scheme to serve for a period of four years. They may be removed before the end of their four year term only by agreement of all the remaining Trustee Directors, although their appointment ceases if they cease to be members of the Scheme.

In accordance with the Trust Deed, the Principal Employer, The Midcounties Co-operative Ltd, has the power to appoint and remove the Trustee of the Scheme. The Employer Nominated Trustee Directors of the Scheme are appointed and removed in accordance with the Company's Articles of Association.

Governance and Risk Management

The Trustee has in place an activity plan which sets out its objectives in areas such as administration, investment and communication. This, together with a list of the main priorities and timetable for completion, helps the Trustee run the Scheme efficiently and serves as a useful reference document.

The Trustee has also focused on risk management and a risk register has been put in place, which sets out the key risks which the Scheme is subject to, along with the controls in place to mitigate them.

The Trustee has set up a Governance Committee to review the register on an annual basis.

Trustee Knowledge and Understanding

The Pensions Act 2004 requires the Trustee to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Scheme documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding, to assist the Trustee on this matter. The Trustee has agreed a training plan to enable it to meet these requirements.

Transfers

Transfer values paid during the year have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME

TRUSTEE'S REPORT

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Employer Covenant

The Trustee regularly reviews and updates the covenant assessment of the Employer by meeting with the Society on a regular basis at Trustee meetings and also taking advice from their Employer Covenant Adviser.

Furthermore, in accordance with the latest Schedule of Contributions certified by the Scheme Actuary on 27 March 2020, the Employer has confirmed that it will provide contingent security during the term of the recovery period as follows:

- A first charge over £10m worth of property assets that will remain in place until 1 September 2026.
- A first charge over an additional £12m worth of property assets that will remain in place until the Trustee and the Employer agree it is no longer required.

If it is agreed that a property is sold that is currently charged to the Scheme, the Trustee and the Employer have agreed that any proceeds from the sale of that property will be paid into the Scheme as soon as reasonably practicable (but in any event within 5 business days) following the Employer receiving proceeds of the sale. Further, the Trustee and Employer have agreed that any contributions received following the sale of a property will not be used to offset any deficit contributions otherwise payable.

Recent Developments

Coronavirus Pandemic

A coronavirus disease, COVID-19, began to spread globally in early 2020 and has been declared a pandemic by the World Health Organization. Its emergence and reactions to it have already had a profound effect on both the domestic and global economies and financial markets. The short and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain and will be determined by many factors, including the effectiveness of government and other health measures to contain and prevent the spread of the virus and the effectiveness of economic stimulus, emergency relief, and other government programs, initiatives and actions implemented or taken to mitigate the economic, financial and other disruptions caused by the COVID-19 pandemic.

The COVID-19 pandemic may impact the investment and operational risks to which the Scheme is exposed. The Trustee is working with the Scheme's important outsource providers to ensure continuity of services during the COVID-19 pandemic. All aspects of business as usual have continued to be successfully delivered with no interruption to services provided to the scheme membership and with the Scheme Administrator continuing to meet their Service Level Agreements. All payments from the Scheme have been made on time including pension payments to the Schemes retired members. The Scheme Administrator is confident that this level of service can continue to be provided throughout any further lockdown period. The Trustee has been carefully monitoring the Scheme investments during these very volatile times.

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Recent Developments (continued)

Coronavirus Pandemic (continued)

At this time, there remains considerable uncertainty as to how long the COVID-19 pandemic will last and as to the extent and duration of the economic, financial and other disruptions caused by the pandemic. Consequently, there remains considerable uncertainty relating to precisely how the COVID-19 pandemic will impact the investment and operational risks to which the Scheme is exposed and whether or to what extent any such impact will be temporary or lasting. These activities are subject to supervision and oversight by the Trustee.

The Trustee will continue to monitor the impact of COVID-19 on its financial position through the usual governance mechanisms, including the Trustee regular oversight. In the immediate future, it is working hard to continue to deliver member services during the COVID-19 pandemic.

The Trustee is responsible for making an assessment as to whether the 'going concern' basis is appropriate for preparing these financial statements. The Trustee has carefully assessed the long-term prospects of the Scheme taking into account its current position, the main risks faced and the measures in place to monitor and manage these risks. The Trustee anticipates that the Scheme will be able to continue to operate successfully.

Membership

Details of the membership of the Scheme as at 31 December is shown below:

	2020	2019
Deferreds		
Deferreds at the start of the year	2,412	2,504
Adjustments	(12)	(6)
Retirements	(58)	(61)
Trivial commutations	(7)	(6)
Deaths	(5)	(1)
Transfers out	(18)	(18)
Deferreds at the end of the year	2,312	2,412
Pensioners		
Pensioners at the start of the year	1,116	1,076
Adjustments	3	6
Retirements	58	61
Spouses and dependants	4	7
Trivial commutations	(1)	(4)
Deaths	(41)	(30)
Pensioners at the end of the year	1,139	1,116
Membership		
Membership at 31 December	3,451	3,528

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Membership (continued)

Deferred members at the year end included employed members totalling 269 (2019: 293) and non employed deferred members totalling 2,043 (2019: 2,119).

Employed deferred members are not contributing members but have continuing ancillary benefits.

Pensioners include individuals receiving a pension upon the death of their spouse. Where a pensioner had previously had 2 periods of service with the Employer, these are shown as 2 separate pensioner records in the table above.

These membership figures do not include movements notified to the Administrator after the completion of the annual renewal - such movements are shown within "Adjustments" the following year.

The Scheme receives income from two insurance policies held with Royal London in the name of the Trustee. These policies represented 51 pensioners (2019: 52) included within the above table at the year end.

Pension Increases

Pensions in payment were increased on 1 April 2020 as follows:

- GMP post 6 April 1988: 1.7% (2019: 2.4%)
- Pension accrued before 1 July 2006: 2.2% (2019: 2.7%)
- Pension accrued on or after 1 July 2006: 2.2% (2019: 2.5%)

Deferred pensions are increasing in the period up to retirement in accordance with legislation that affects UK approved pension plans generally, as required by the Trust Deed and Rules of the Scheme.

No discretionary pension increases were granted during the year.

Financial Development of the Scheme

The financial statements on pages 21 to 36 have been prepared and audited in accordance with the Regulations made under Sections 41 (1) and (6) of the Pensions Act 1995. They show that the value of the fund has increased from £242,467,723 at 31 December 2019 to £270,831,300 as at 31 December 2020.

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Report on Actuarial Liabilities

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

Actuarial Position of the Scheme

A summary of the funding position as at 31 December 2018, the date of the latest actuarial valuation of the Scheme, showed the following:

	£m
Value of liabilities:	(302.8)
Value of assets:	214.2
Funding deficit:	88.6
Funding level:	71%

If the Employer goes out of business or decides to stop contributing to the Scheme, the Scheme may be "wound up" and the Employer would be required to pay additional money to buy all members' benefits from an insurance company. The comparison of the Scheme's assets to the cost of buying the benefits from an insurance company is known as the "buy-out position". A pension scheme's buy-out position will often show a larger shortfall than the standard actuarial valuation as insurers are obliged to take a very cautious view of the future, and they also seek to make a profit.

The actuarial valuation at 31 December 2018 showed that the Scheme's assets would not have been sufficient to buy all members' benefits from an insurance company, as the "buy-out position" at that date was:

	£m
Value of liabilities:	(373.0)
Value of assets:	214.2
Funding deficit:	158.8
Funding level:	57%

This does not mean that the Employer is thinking of winding up the Scheme. The fact that there was a shortfall at the last valuation has not affected the pensions paid from the Scheme and all members who have retired have received the full amount of their pension.

It is worth remembering that a valuation is just a "snap shot" of the Scheme's funding position, and it can change considerably if there are sudden changes in share prices, gilt yields, or members live longer than expected.

Method

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

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Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions

The key assumptions used for calculating the technical provisions and future contribution requirement for the Scheme were:

Investment Return Pre-Retirement:	2.75% p.a.
Investment Return Post-Retirement:	2.25 % p.a.
RPI Price Inflation:	3.30 % p.a.
CPI Price Inflation:	2.80 % p.a.
Deferred Increases:	
LPI (5% maximum)	3.30 % p.a.
CARE (5% maximum)	3.10 % p.a.
CARE (2.5% maximum)	2.05 % p.a.
Pension Increases In Payment:	
RPI (5% maximum)	3.10 % p.a.
RPI (2.5% maximum)	2.05 % p.a.
Mortality:	<p>S3PMA for males and S3PFA_middle YoB tables with CMI 2018 projections, a smoothing factor of 7.5 and:</p> <ul style="list-style-type: none"> • 1.75% p.a. long term future improvements with a 98% weighting for male non-pensioners and 94% weighting for male pensioners • 1.5% p.a. long term future improvements with a 96% weighting for female non-pensioners and 94% weighting for female pensioners

Recovery Plan

As a result of the latest valuation, the Employer and Trustee agreed a Recovery Plan on 27 March 2020. This stated that the funding shortfall should be eliminated by deficit funding contributions of £7m per annum from 1 April 2020 to 31 January 2031 inclusive. The Employer has also agreed to continue its payment beyond the end of the recovery period and has agreed to pay £7m per annum between 1 February 2031 and 30 June 2033 inclusive. The contributions will normally be paid in four-weekly instalments, but the Trustee and Employer can agree for payments to be made earlier if appropriate.

The next full triennial valuation is due as at 31 December 2021.

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Investment Matters

Investment Objective and Strategy

All the main investments for the Scheme have been managed during the year by the Investment Managers and AVC Provider detailed on pages 2 and 3. There is a degree of delegation of responsibility for investment decisions. The investment strategy is agreed by the Trustee after taking appropriate advice. Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, the day-to-day management of the Scheme's asset portfolio, which includes full discretion for stock selection, is the responsibility of the Investment Managers.

The Trustee Board meet on a quarterly basis to review the Scheme's investment performance and the performance of the Investment Advisor. Willis Towers Watson Ltd ("WTW") have been appointed as Investment Adviser on a fiduciary basis. Within specified investment guidelines, WTW has the responsibility for the selection and monitoring of specialist investment managers.

The investment strategy makes use of two types of investments:

- A range of investments that provide a broad match to changes in liability values.
- A diversified range of return seeking assets.

As part of the mandate, WTW has responsibility for managing the ongoing strategy of the Scheme against a target set by the Trustee and within ranges set by the Trustee. The long term investment objective of the Scheme is to be 100% funded on a Gilts + 0.87% p.a. basis (the current Technical Provisions as agreed with the Scheme Actuary), achieved by targeting a net expected return on the portfolio of Gilts + 2.0% p.a. until 31st December 2020 and then de-risking by 0.1% p.a. until 2031. The Trustee will review this performance objective regularly and amend as appropriate.

The funds invested with L&G are held free from charge or lien except for the provisions of the floating charge and any liens in place by counterparties or custodians (that is normal practice within the industry). The floating charge was put in place for the benefit of all policyholders.

Statement of Investment Principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has produced a Statement of Investment Principles, dated September 2020: <https://www.midcounties.coop/legal/corporate-info/governance/>

The main priority of the Trustee when considering the investment policy is to make available investment funds, which serve to meet the varying investment needs and risk tolerances of the Scheme.

Custodial Arrangements

The Trustee has appointed State Street Bank & Trust Company as Custodian of the Scheme's assets and records of entitlements. The Custodian is responsible for the safekeeping of share certificates and other documentation relating to the listed investments. The custodial arrangements are the responsibility of the Trustee of the Scheme and are reviewed from time to time. The Trustee has no direct ownership of the underlying assets of any pooled fund in which the Scheme invests.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
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Investment Matters (continued)

Investment Management Expenses

The Investment Managers are remunerated based on the value of the funds under management.

Asset Allocation

The allocation of the Scheme's invested assets (excluding AVCs) at the year end is shown below:

	2020 £	2019 £
Liability Driven Investments (LDI)	76,669,552	55,736,926
Diversifying Strategies	45,719,104	49,659,086
Cash/Liquidity	26,050,142	44,281,953
Property	34,320,883	30,042,939
Bonds	35,692,212	26,414,785
Equities	35,221,827	20,935,818
Infrastructure	10,741,325	8,438,135
Private Equity	2,565,307	2,974,202
Downside Risk Hedge	1,356,304	2,064,959
	268,336,656	240,548,803

Performance

The performance of the Scheme's investments to 31 December 2020, which was broadly in line with the Benchmark, is shown below:

	1 Year %	3 Years % p.a.	5 Years % p.a.
Scheme	13.6	8.0	11.5
Benchmark	14.0	7.6	10.3

THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME

TRUSTEE'S REPORT

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Investment Matters (continued)

Environmental Social and Governance Considerations

The Trustee has delegated investment selection, deselection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustee in the FMA. Investments will be made by the Fiduciary Manager on behalf and in the name of the Trustee, either directly in pooled vehicles or by the appointment of third party investment managers to provide discretionary investment management services to the Trustee.

The Trustee considers the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that, the Scheme's investment portfolio, in aggregate, is consistent with the policies set out in the SIP, in particular those required under the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee expects the Fiduciary Manager to:

- check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies contained in this SIP;
- set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the Trustee's policies contained in this SIP.

In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

The Trustee and Fiduciary Manager are not involved in the investment managers day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to investment managers appointed by the Trustee where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.

The Trustee expects the Fiduciary Manager to assess the alignment of each Investment Managers' approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustee expects the Fiduciary Manager to engage with the Scheme's Investment Managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In addition, the Trustee expects the Fiduciary Manager to review the Investment Managers' approach to sustainable investment (including engagement) on a regular basis and engage with the Investment Managers to encourage further alignment as appropriate.

The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.

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Investment Matters (continued)

Environmental Social and Governance Considerations (continued)

The Fiduciary Manager encourages and expects the Scheme's Investment Managers to sign up to local or other applicable stewardship codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the Investment Managers. The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement.

The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial selection of an investment manager and on an ongoing basis. Investment managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long- term factors and engagement. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee expects the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

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Compliance Matters

The Pensions Regulator

The statutory body that regulates occupational pension schemes is the Pensions Regulator and can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Telephone: 0345 600 1011
Email: customersupport@tpr.gov.uk
Website: www.thepensionsregulator.gov.uk

The Pensions Tracing Service

A pension tracing service is carried out by the Department for Work and Pensions. This service can be contacted as follows:

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

Telephone: 0800 731 0193
Website: www.gov.uk/find-pension-contact-details

The Money and Pensions Service

For any general enquiries on their pensions, members can contact the Money and Pensions Service. A local adviser can usually be contacted through a Citizen's Advice Bureau. Alternatively the Service can be contacted at:

The Money and Pensions Service
120 Holborn
London
EC1N 2TD

Telephone: 0115 965 9570
Email: contact@maps.org.uk
Website: www.maps.org.uk

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Compliance Matters (continued)

Pensions Ombudsman

Any concerns connected with the Scheme should be referred to Premier Pensions Management Ltd, AMP House, Dingwall Road, Croydon, CR0 2LX as quickly as possible. Members and beneficiaries of pension schemes who have problems concerning their scheme which are not satisfied by the information or explanation given by the administrators or the trustees can consult with The Pensions Ombudsman. The address is:

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
E14 4PU

Telephone: 0800 917 4487
Email: helpline@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

Data Protection

The Trustee is registered as a Data Controller within the meaning of GDPR guidelines (formerly under the Data Protection Act 1998) to hold such information as is necessary for the management of the Scheme. Premier Pensions Management Ltd is registered as a Data Processor under GDPR guidelines (formerly under the Act).

Enquiries

Members can obtain information about their own pension benefits, copies of the Scheme's governing documentation or further information about the Scheme by contacting:

The Midcounties Co-operative Pension Scheme
Premier Pensions Management Ltd
AMP House
Dingwall Road
Croydon
Surrey
CR0 2LX

Email: Midcounties.Co-operativePensionScheme@Premiercompanies.co.uk

THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME
TRUSTEE'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is 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 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 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 Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

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

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

The Trustee's Report and Statement of Trustee's Responsibilities were approved by the Trustee and signed on its behalf by:

Trustee Director: 

Trustee Director: 

Date: 29th July 2021

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE
FOR THE YEAR ENDED 31 DECEMBER 2020

Opinion

We have audited the financial statements of The Midcounties Co-operative Pension Scheme for the year ended 31 December 2020 which comprise the Fund Account, Statement of Net Assets (available for benefits) and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including 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 31 December 2020, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial documents, we have concluded that the Scheme Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Scheme's Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Scheme's Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE
FOR THE YEAR ENDED 31 DECEMBER 2020

Other information (continued)

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 trustees

As explained more fully in the Trustee's responsibilities statement 4 and 5, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE
FOR THE YEAR ENDED 31 DECEMBER 2020

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Scheme operates in and how the Scheme is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The audit engagement team identified the risk of management override of controls and as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to 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 and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.



RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
Birmingham

Date: 29 July 2021

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
FUND ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £	2019 £
Contributions and Benefits			
Employer contributions	4	7,896,155	6,600,002
Other income	5	3,168	10,730
		<u>7,899,323</u>	<u>6,610,732</u>
Benefits paid or payable	6	(6,577,809)	(5,761,971)
Payments to and on account of leavers	7	(3,472,019)	(1,740,896)
Administrative expenses	8	(1,352,119)	(1,102,372)
		<u>(11,401,947)</u>	<u>(8,605,239)</u>
Net Withdrawals from Dealings with Members		<u>(3,502,624)</u>	<u>(1,994,507)</u>
Returns on Investments			
Investment management expenses	9	(836,652)	(675,311)
Investment income	10	8,672,364	20,347,046
Change in market value of investments	11	24,030,489	9,645,522
		<u>31,866,201</u>	<u>29,317,257</u>
Net Returns on Investments		<u>31,866,201</u>	<u>29,317,257</u>
Net Increase in the Fund		<u>28,363,577</u>	<u>27,322,750</u>
Net Assets at 1 January		<u>242,467,723</u>	<u>215,144,973</u>
Net Assets at 31 December		<u>270,831,300</u>	<u>242,467,723</u>

The notes on pages 23 to 36 form an integral part of these financial statements.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)
AS AT 31 DECEMBER 2020

	Note	2020 £	2019 £
Investments			
Pooled investment vehicles	12	268,336,656	240,548,803
AVC investments	13	857,232	862,269
Income receivable	11	180,000	195,000
		<u>269,373,888</u>	<u>241,606,072</u>
Current Assets	18	2,242,182	1,406,982
Current Liabilities	19	<u>(784,770)</u>	<u>(545,331)</u>
Net Assets at 31 December		<u>270,831,300</u>	<u>242,467,723</u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on pages 9 and 10 and the Actuarial Certificate on page 37 and these financial statements should be read in conjunction with them.

The notes on pages 23 to 36 form part of these financial statements.

The financial statements were approved by the Trustee and signed on its behalf by:

Trustee Director: 

Trustee Director: 

Date: 29th July 2021

THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION

The financial statements have been prepared, on a going concern basis, in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) – the Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council, and with the guidelines set out in the Statement of Recommended Practice Financial Reports of Pension Schemes (revised 2018) (the “SORP”).

In determining the appropriate basis of preparation of the financial statements, the Trustee is required to consider whether the Scheme can continue in existence for a period of at least 12 months from the date of the approval of the financial statements.

The Trustee believes the going concern basis to be appropriate as the Scheme has adequate liquid resources to meet pension and member benefit obligations in the normal course of operation for at least the next twelve months. In reaching this conclusion, the Trustee has also considered forecasts prepared by the Society through to January 2024 and the Society assessment of current and future trading which includes potential ongoing risks arising from the global pandemic, Covid-19. The Trustee is of the view that the scenarios outlined by the Society, which are deemed to represent a severe and plausible test on the Society’s ability to continue to adopt the going concern basis, confirm that the Society has adequate resources and will comply with its covenant requirements, to allow the Society to continue to meet its required contributions to the Scheme for the foreseeable future.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is registered as a trust under English law. The address for enquiries is included in the Trustee's Report.

3. ACCOUNTING POLICIES

The following principal accounting policies have been adopted in the preparation of the financial statements and have been applied consistently.

3.1 Contributions

Employer deficit funding and expenses contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions.

3.2 Other Income

All other income is accounted for on an accruals basis.

3.3 Payments to Members

- a) Pensions in payment are accounted for in the period to which they relate.
- b) Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retirement or leaving. Benefits taken are reported gross of any tax settled by the Scheme on behalf of the member.
- c) Individual transfers out are accounted for when member liability is discharged, which is normally when the transfer amount is paid.

3.4 Expenses

Both administrative and investment management expenses are accounted for on an accruals basis.

3.5 Investment Income

- a) Income from pooled investment vehicles is accounted for when declared by the fund manager and on a cash basis for LDI income.
- b) Income on pooled investment vehicles which do not distribute income is reflected within the unit price of the investment.
- c) Income from insurance policies and interest on cash deposits is accounted for on an accruals basis.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. ACCOUNTING POLICIES (continued)

3.6 Currency

- a) The Scheme's functional and presentational currency is Pounds Sterling (GBP).
- b) Assets and liabilities in foreign currencies are expressed in Sterling at the rates of exchange ruling at the year end.
- c) Foreign currency transactions are recorded in Sterling at the spot exchange rate at the date of the transaction.

3.7 Valuation of Investments

- a) Investments are included at fair value.
- b) Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager at the year end. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the investment manager at the year end.
- c) The AVC investments comprise policies of assurance. The market value of these policies has been taken as the surrender value of the policies at the year end, as advised by the AVC provider.
- d) The Trustee holds insurance policies that secure pensions payable to specified beneficiaries. These policies remain assets of the Trustee, but their capital value is not deemed material to disclose within the financial statements.

3.8 Change in Market Value of 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 any profits and losses realised on sales of investments during the year.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4. EMPLOYER CONTRIBUTIONS

	2020 £	2019 £
Deficit funding	6,923,078	6,000,000
Expenses	<u>973,077</u>	<u>600,002</u>
	<u>7,896,155</u>	<u>6,600,002</u>

Contributions were received in accordance with the Schedules of Contributions certified by the Scheme Actuary on 1 February 2017 and 27 March 2020, with the exception of those due for the Company pay date of 31 July 2020. These contributions of £623,077 were due to the Scheme by 19 August 2020 but were actually received on 17 September 2020.

In accordance with the Recovery Plan and Schedule of Contributions certified by the Scheme Actuary on 27 March 2020, the Employer will continue to pay deficit funding contributions to the Scheme after the year end, of £7m per annum until 31 January 2031 inclusive. The Employer has also agreed to continue its payment beyond the end of the recovery period and has agreed to pay £7m per annum between 1 February 2031 and 30 June 2033 inclusive. Contributions will be paid in four-weekly instalments, but the Trustee and Employer can agree for payments to be made earlier if appropriate. In addition, contributions of £450,000 are payable four-weekly to cover administration expenses. The Employer also meets the cost of the PPF levy. The Trustee estimates the PPF levy payable and the Society pays an amount into the Scheme equal to the estimate. Any difference between the estimate and the actual levy payable will be adjusted for in the following year.

5. OTHER INCOME

	2020 £	2019 £
Interest on cash held with the Scheme Administrator	2,748	8,630
Transfer calculation fees	<u>420</u>	<u>2,100</u>
	<u>3,168</u>	<u>10,730</u>

6. BENEFITS PAID OR PAYABLE

	2020 £	2019 £
Pensions	4,947,734	4,812,591
Commutation of pensions and lump sum retirement benefits	1,533,799	929,559
Lump sum death benefits	93,406	19,821
Purchase of annuities	<u>2,870</u>	<u>-</u>
	<u>6,577,809</u>	<u>5,761,971</u>

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020 £	2019 £
Individual transfers out to other schemes	3,472,019	1,723,970
Payments for members joining the State Scheme	-	16,926
	<u>3,472,019</u>	<u>1,740,896</u>

8. ADMINISTRATIVE EXPENSES

	2020 £	2019 £
PPF & TPR levies	658,632	509,489
Actuarial & consultancy	315,350	294,880
Legal	194,520	70,173
Administration	150,245	190,876
Audit	24,894	17,942
Bank charges	1,539	1,512
Covenant review	6,939	17,500
	<u>1,352,119</u>	<u>1,102,372</u>

Administrative expenses are borne by the Scheme, with the Employer remitting additional contributions to cover part of the cost of these expenses (as detailed in Note 4).

9. INVESTMENT MANAGEMENT EXPENSES

	2020 £	2019 £
Fiduciary investment management	523,548	476,066
Other administration, management and custody	317,862	199,245
Fee rebates	(4,758)	-
	<u>836,652</u>	<u>675,311</u>

10. INVESTMENT INCOME

	2020 £	2019 £
Income from pooled investment vehicles	8,619,375	20,294,291
Income from insurance policies	52,989	52,576
Interest on cash deposits	-	179
	<u>8,672,364</u>	<u>20,347,046</u>

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11. RECONCILIATION OF INVESTMENTS

Reconciliation of investments held at the beginning and the end of the year:

	Value at 1 January 2020 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31 December 2020 £
Pooled investment vehicles	240,548,803	125,038,935	(121,250,890)	23,999,808	268,336,656
AVC investments	862,269	-	(35,718)	30,681	857,232
	<u>241,411,072</u>	<u>125,038,935</u>	<u>(121,286,608)</u>	<u>24,030,489</u>	<u>269,193,888</u>
Income receivable	<u>195,000</u>				<u>180,000</u>
	<u>241,606,072</u>				<u>269,373,888</u>

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.

Transaction costs are included in the cost of purchases and deducted from sales proceeds. The Scheme investments are held exclusively within pooled investment vehicles and as such the Scheme does not incur any direct transaction costs.

Indirect costs are incurred through the bid-offer spreads on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

12. POOLED INVESTMENT VEHICLES

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

	2020	2019
	£	£
Liability driven investments (LDI) *	76,669,552	55,736,926
Diversifying strategies **	45,719,104	49,659,086
Cash/Liquidity	26,050,142	44,281,953
Property	34,320,883	30,042,939
Bonds	35,692,212	26,414,785
Equities	35,221,827	20,935,818
Infrastructure	10,741,325	8,438,135
Private equity ***	2,565,307	2,974,202
Downside risk hedge	1,356,304	2,064,959
	<u>268,336,656</u>	<u>240,548,803</u>

* LDI investments are held with Insight and represent the matching assets held by the Scheme. This includes fixed and inflation linked gilts and swaps.

** The Scheme invests in the Towers Watson Diversifying Strategies Fund, which holds a variety of investments including bonds, derivatives, commodities and other investments.

*** Private equity investments comprise a limited partnership that invests in other private equity funds, equities and bonds.

13. AVC INVESTMENTS

The Trustee holds assets invested separately from the main fund in the form of individual policies of assurance. These secure additional benefits, on a money purchase basis, for those members electing to pay AVCs. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movements in the year. The aggregate amounts of AVC investments held at the year end are as follows:

	2020	2019
	£	£
Royal London	<u>857,232</u>	<u>862,269</u>

THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14. EMPLOYER RELATED INVESTMENTS

During the year there were no direct or indirect Employer related investments.

15. INVESTMENT 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 the quoted prices included within Level 1 which are observable (i.e. developed 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.

For the purposes of this analysis, daily priced funds have been included in (1), weekly priced funds in (2), and monthly net asset values in (3).

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

	Level 1	Level 2	Level 3	2020
	£	£	£	£
Pooled investment vehicles	-	265,771,348	2,565,308	268,336,656
AVC investments	-	-	857,232	857,232
Income receivable	180,000	-	-	180,000
	180,000	265,771,348	3,422,540	269,373,888

	Level 1	Level 2	Level 3	2019
	£	£	£	£
Pooled investment vehicles	-	237,574,601	2,974,202	240,548,803
AVC investments	-	-	862,269	862,269
Income receivable	195,000	-	-	195,000
	195,000	237,574,601	3,836,471	241,606,072

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16. INVESTMENT RISK DISCLOSURES

FRS 102 requires the disclosure of information in relation to certain investment risks. FRS 102 sets out these risks as follows:

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

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

- **Currency Risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest Rate Risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other Price Risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits, which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's Investment Managers and monitored by the Trustee by regular reviews of the investment portfolio.

The Scheme investments are invested across a range of asset classes such as equities, credit, alternative credit and other alternatives (property, infrastructure and diversifiers). The Scheme assets have exposure and are correlated to wider market risks including interest rate and credit risk within the underlying pooled funds. The risks within the Scheme are subject to constant monitoring by WTW.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out on pages 32 and 33. This does not include AVC investments, as these are not considered significant in relation to the overall investments of the Scheme.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16. INVESTMENT RISK DISCLOSURES (continued)

Credit Risk

The Scheme invests in pooled investment vehicles (as detailed in Note 12) and is therefore directly exposed to credit risk in relation to these investments.

The Scheme's holdings in pooled investment vehicles are unrated due to the nature of the funds. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. WTW, on behalf of the Trustee, carries out due diligence checks on the appointment of new investment managers and monitors any changes to the regulatory and operating environment of the pooled manager. In addition, WTW monitor the underlying managers independently.

Indirect credit risk arises on the pooled investment vehicles apart from the equity, private equity and property funds as detailed in Note 12 although the proportion subject to credit risk will depend on the investments held at the time. The Investment Managers will consider the risk and expected reward when determining which investments to invest in. Pooled investment arrangements used by the Scheme comprise unit linked insurance contracts and units in open ended investment funds and a closed limited partnership.

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 Trustee has set a mandate to have exposure to Sterling (£) between 50 - 100%. The Scheme's total exposure by major currency as at 31 December was as follows:

Currency	% of Pooled Investment Vehicles	
	2020	2019
GBP	92.2	83.2
EM	5.2	3.3
USD	4.4	13.4
JPY	-0.6	-
EUR	-1.3	0.1

The Investment Managers consider the risk and reward when determining which investments to hold.

THE MIDCOUNTRIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16. INVESTMENT RISK DISCLOSURES (continued)

Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in gilts, corporate and sovereign bonds, cash through pooled investment vehicles. WTW manages these assets in line with the ranges set out in the Fund Management Agreement. Liability driven investments ("LDI") to hedge the interest rate exposure is at the discretion of WTW. Under this strategy, if interest rates fall, the value of the LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in interest rates. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of a rise in interest rates. The LDI mandate is managed by Insight and as at 31 December 2020, this was 28.3% (2019: 23.0%) of the Scheme's pooled investment vehicles. The bond and diversified strategies funds as detailed in Note 12 are also exposed to interest rate risk as a proportion of these funds invest in bonds, cash and derivatives although the extent of the risk is dependent upon the portfolio at the time. This was the case at the year ends. The Investment Manager will consider the risk and expected reward when determining which investments to invest in.

Other Price Risk

Other price risk arises in relation to the Scheme's return seeking portfolio, which includes equities, property and private equity funds held in pooled investment vehicles as detailed in Note 12 although the extent of the risk is dependent on the portfolio of the fund held at the time. This was the case in the current and preceding year end. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

17. CONCENTRATION OF INVESTMENTS

The following investments account for 5% or more, of the Scheme's net assets as at 31 December:

	2020		2019	
	£	%	£	%
WTW Diversifying Strategies Fund (USD Unhedged)	35,816,764	13	30,033,324	12
WTW Fiduciary Leveraged Long Real FX Hedging Fund	33,550,803	12	22,372,911	9
WTW Fiduciary Leveraged Long Fixed Fund	29,522,641	11	23,332,709	10
L&G Robeco Sustainable Multi Factor Equities Fund	24,581,480	9	14,632,918	6
Insight Liquidity Fund	23,527,730	9	39,562,960	16
Prudential M&G Secured Property Income Fund	21,904,528	8	21,688,967	9
Wellington Securitised Opps Bond Fund	12,699,300	5	-	-
L&G Heitman Global Prime Sec Fund	12,416,355	5	-	-

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. CURRENT ASSETS

	2020	2019
	£	£
Cash held with the Scheme Administrator	1,567,039	862,150
Employer contributions due	623,077	507,692
Other amounts due from Employer	47,700	32,300
Income due from insurance policies	4,366	4,420
Transfer calculation fees	-	420
	<u>2,242,182</u>	<u>1,406,982</u>

Employer contributions due were received after the year end, in accordance with the latest Schedule of Contributions certified by the Scheme Actuary on 27 March 2020.

19. CURRENT LIABILITIES

	2020	2019
	£	£
Investment management expenses payable	394,900	167,293
Administrative expenses payable	243,163	239,704
PAYE due to HMRC	65,044	64,955
Prepaid Employer expenses contributions	50,000	-
Benefits payable	31,663	73,379
	<u>784,770</u>	<u>545,331</u>

20. RELATED PARTY TRANSACTIONS

At the Scheme year end, four Trustee Directors were pensioners of the Scheme.

All Pensioner Trustee Directors receive benefits in accordance with the Scheme Rules and on the same terms as are normally granted to members. Trustee Director fees are borne by the Employer, amounting to £1,076.92 per year – dependent on them completing the Pension Regulator's Trustee Toolkit. The only exception to this is the Trustee Chair who receives a higher amount of £1,507.74 per year. Fees for the services of the independent Trustee, PTL, totalled £4,667 (2019: Nil). These are also paid by the Employer and not recharged to the Scheme.

Administrative fees and those from the Fiduciary Manager are paid by the Employer and recharged to the Scheme. The amount due to the Employer as at 31 December 2020 was £517,562 (2019: £305,858).

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

21. 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 and capital gains tax.

22. CONTINGENT ASSET

In accordance with the latest Schedule of Contributions certified by the Scheme Actuary on 27 March 2020, the Employer has confirmed that it will provide contingent security during the term of the recovery period as follows:

- A first charge over £10m worth of property assets that will remain in place until 1 September 2026.
- A first charge over an additional £12m worth of property assets that will remain in place until the Trustee and the Employer agree it is no longer required.

If it is agreed that a property is sold that is currently charged to the Scheme, the Trustee and the Employer have agreed that any proceeds from the sale of that property will be paid into the Scheme as soon as reasonably practicable (but in any event within 5 business days) following the Employer receiving proceeds of the sale. Further, the Trustee and Employer have agreed that any contributions received following the sale of a property will not be used to offset any deficit contributions otherwise payable.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

23. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Siguler Guff Distressed Opportunities Fund IV

The Scheme had contractual commitments at the year end with Siguler Guff Distressed Opportunities Fund IV of \$800,000 (2019: \$800,000) which had a Sterling equivalent of £589,000 (2019: £617,000).

GMP Equalisation

On 26 October 2018, the High Court ruled that benefits provided to members who had contracted out of their scheme must be recalculated to reflect the equalisation of state pension ages between 17 May 1990 and 6 April 1997. Following the ruling, it is expected that the Trustee will need to equalise guaranteed minimum pensions between men and women. This is likely to result in additional liabilities for the Scheme for equalisation of the benefits already crystallised e.g. historical transfers out, retirement benefits etc.

The value of the additional liabilities (including backdated payments and interest) has been estimated by the Scheme Actuary as £0.55m, using the "C2" methodology. In addition, a reserve of £1m was been added to the liabilities of the Scheme within the Actuarial valuation carried out as at 31 December 2018, to meet the costs of equalising GMPs and data cleanse work. These liabilities are not considered material to the accounts and therefore no amounts have been accrued on this basis.

A GMP Reconciliation/Rectification Project is currently being carried out by the Scheme Administrator, with the final data cut having now been received from HMRC.

Subsequently, on 20 November 2020, the High Court issued a follow up judgment in respect of the Lloyds Banking Group ruling that any transfers out paid since 17 May 1990 must potentially be increased to reflect additional liabilities arising from the equalisation of GMPs accrued between 17 May 1990 and 5 April 1997. This could potentially result in top-up payments to members but presents significant challenges for the Trustee and Scheme Administrator in terms of:

- Identifying transfers paid since 1990.
- Equalising the transfer payment.
- Tracking the relevant members and the arrangements they transferred to.

The Trustee is currently reviewing all options with its Scheme Advisers.

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME

ACTUARIAL CERTIFICATE

CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

Adequacy of Rates of Contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 December 2018 to be met by the end of the period specified in the Recovery Plan dated 27 March 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 27 March 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:

Damian McClure

Name:

Damian McClure

Date of Signing:

27 March 2020

Address:

Mercer Limited
12 Booth Street
Manchester
M2 4AW

Qualification:

Fellow of the Institute and Faculty of Actuaries

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS
FOR THE YEAR ENDED 31 DECEMBER 2020

Independent Auditor's Statement about Contributions, under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of The Midcounties Co-operative Pension Scheme

Statement about Contributions Payable under the Schedules of Contributions

We have examined the Summary of Contributions Payable to the Midcounties Co-operative Pension Scheme on page 39, in respect of the Scheme year ended 31 December 2020.

In our opinion the contributions for the Scheme year ended 31 December 2020 as reported in the attached Summary of Contributions on page 39 and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 1 February 2017 and 27 March 2020.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 39 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.

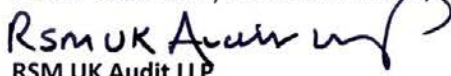
Respective Responsibilities of Trustee and Auditor

As explained more fully on page 17 in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

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 Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to 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 and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.


RSM UK Audit LLP

Statutory Auditor
Chartered Accountants
Birmingham

Date: 29 July 2021

THE MIDCOUNTIES CO-OPERATIVE PENSION SCHEME
SUMMARY OF CONTRIBUTIONS PAYABLE
FOR THE YEAR ENDED 31 DECEMBER 2020

During the year ended 31 December 2020, the contributions payable to the Scheme by the Employer were as follows:

Employer Contributions Payable under the Schedules of Contributions:	2020 £
Deficit funding	6,923,078
Expenses	<u>973,077</u>
Contributions per Note 4	<u>7,896,155</u>

Contributions were received in accordance with the Schedules of Contributions certified by the Scheme Actuary on 1 February 2017 and 27 March 2020, with the exception of those due for the Company pay date of 31 July 2020. These contributions of £623,077 were due to the Scheme by 19 August 2020 but were actually received on 17 September 2020.

The Summary of Contributions was approved by the Trustee and signed on its behalf by:

Trustee Director:



Trustee Director:



Date:

29th July 2021