

IMI 2014 DEFERRED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022
FUND REGISTRATION NUMBER: 12009946

IMI 2014 DEFERRED FUND
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YEAR ENDED 31 MARCH 2022

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TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2022

Trustee	IMI Pensions Trust Limited Lakeside Solihull Parkway Birmingham Business Park Birmingham B37 7XZ
Directors of the Trustee:	Company-appointed Mr J O'Shea (Chairman) (resigned 30 June 2021) Mr G Croydon Mr J Jones Member-nominated Mrs J Cooke Mr C Dunn Mr P Russell (resigned 12 April 2022) Mrs K Strath
Investment consultants	Aon Solutions UK Limited
Fund Secretary	Mr D Brown
Administrators	Towers Watson Limited
Fund Actuary	Mr C Smith
Independent auditor	KPMG LLP
Legal advisers	Squire Patton Boggs (UK) LLP
Buy in provider	Pension Insurance Corporation (PIC) Legal & General
Investment manager	IMI Common Investment Fund
Custodian bank	Northern Trust
Bankers	Barclays Bank

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TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2022

Composition of Trustee Board

The Trustee of the Fund is IMI Pensions Trust Limited, a wholly owned subsidiary of IMI plc. At 31 March 2022 the Trustee had two company appointed and four member nominated trustee directors (MNTD), although this reduced to three on 12 April 2022. The proportion of MNTDs to Company Appointed Directors (CAD) is higher than the 1/3rd requirement of the Pensions Act 2004.

The Trustee Board has eight Director positions. The term of appointment for MNTDs is six years.

Constitution of the Fund

The Fund was established with effect from 12 September 2014 and operates in accordance with a Definitive Trust Deed and Rules. References to "the Company" are to IMI plc, which is the Principal Employer. The Fund exists to provide benefits for employees of IMI plc and those subsidiaries that participate in the Fund. Its assets are entirely separate from those of the Company.

The Fund is a registered pension scheme by virtue of being an approved scheme (under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988). It is registered under Chapter 2 of Part 4 of Finance Act 2004.

Changes to Rules

There were no changes to the Fund Rules during the year.

Financial developments and financial statements

The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

World events

Markets across the world have continued to suffer from volatile movements due to the uncertainty that COVID-19 continues to present to the world economy. In February 2022, the geopolitical situation in Ukraine and Russia also added to market volatility. The Trustee has designed and implemented the Fund's investment strategy taking a long term view and has built resilience to withstand short term fluctuations. Given the inherent uncertainties, it is not practicable at this time to provide a quantitative estimate of the impact of these events.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Statement of Trustee's responsibilities for the financial statements

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

(i) show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up Fund, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Fund prescribed by pensions legislation, which it should ensure is fair and impartial.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

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

The Trustee is responsible for the maintenance and integrity of the Fund and financial information included on the Fund's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Membership

The changes in membership during the year are as follows:

	Deferred/ Preserved Employed members	Pensioners	Total
At 1 April 2021	2,684	449	3,133
Adjustments to prior period	(21)	15	(6)
New beneficiaries	–	1	1
Retirements	(63)	63	–
Deaths	(7)	(2)	(9)
Cessation of dependent pensions	–	(1)	(1)
Transfers out	(129)	–	(129)
At 31 March 2022	<u><u>2,464</u></u>	<u><u>525</u></u>	<u><u>2,989</u></u>

The adjustments to the prior period relate to late notifications which were processed after the finalisation of the financial statements in the previous period.

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Pension increases

The pension increases notes that follow do not apply to members who opted for a Pension Increase Exchange in 2012. These members receive no further increases.

Main Section (excluding ex MKR members), Senior Section and IMI Section (excluding former YIM Section members)

The Fund pays post retirement increases for these members each year on 1 January. The current rules allow for increases to be paid by reference to the movement in the retail prices index (RPI) for the 12 months preceding 30 September, to a maximum of 5% per year (2.5% for service after January 2006). Increases are applied to post-commuted pensions.

The post retirement increase applied on 1 January 2022 to pensions was 4.9%. Pensions commencing in the 12 months preceding 1 January 2022 receive a pro-rated increase.

The pension increases above do not apply to that element of the pensions in payment representing Guaranteed Minimum Pension (GMP) once GMP Pension Age (65 for men and 60 for women) is attained. The Fund is required to provide GMP as a consequence of contracting out of State pension arrangements. GMP earned after April 1988 will be increased by the Fund in line with inflation, as required by legislation, to a maximum of 3% per year. GMPs relate to service accrued from April 1978 to April 1997, when contracting out arrangements were changed and GMP ceased to apply.

Main Section (former MKR Scheme Members)

The same conditions apply as those in the IMI section above, except that post retirement increases for these members are applied each 1 April. On 1 April 2021 the pensions for these members were increased by 1.1% being the increase in the Retail Price Index (RPI) for the 12 months to September 2020.

IMI Section (former YIM Section Members)

On 1 January 2022 the increase awarded was 4.9%.

Facsimile section

Pensions in payment are adjusted in line with the objective to pay pensions as if members had continuous service within the ICI Pension Fund. Increases prior to and after retirement are granted by taking into account the increases made under applicable ICI pension arrangements. Pensions in this category have been bought out and therefore no increase was awarded from the Fund at 1 November 2020.

Transfer values

Individual Transfers paid by the Fund

Transfer values represent the cash equivalent of members' deferred pensions.

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Actuarial liabilities

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the 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 Fund is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled 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 Fund members on request.

The latest completed actuarial valuation of the Fund was carried out by Towers Watson Limited as at 31 March 2021. The results are summarised as follows. The valuation Report dated 20 December 2021 showed that the present value of promised retirement benefits (the "technical provisions") was £479 million at 31 March 2021, corresponding to a surplus of assets relative to the technical provisions of £6 million and a funding level of 101%. In assessing the surplus, the assets used exclude the value ascribed to the Trustee Payment Plan (TPP, referred to in the financial statements as the Special Purpose Vehicle). The Trustee's investment in the TPP currently generates an income of £7 million p.a. for the Fund.

The Actuary's statutory estimate of the solvency funding level as at 31 March 2021 is 87%.

The next valuation is due as at 31 March 2024.

Method

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

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Significant actuarial assumptions

The table below summarises the main financial assumptions used to calculate the Fund's technical provisions:

Financial assumptions	31 March 2021 % pa
Discount rate	Nominal gilt curve plus 0.25% pa – equivalent to an average rate of 1.55% pa
Retail price inflation (RPI)	Gilt market breakeven inflation curve – equivalent to an average rate of 3.4% pa
Consumer price inflation (CPI)	RPI less 0.7% pa until February 2030 and in line with RPI thereafter
Pension increases where not fixed	Term-dependant increases as implied by the relevant inflation assumption or the relevant cap/floor if lower/higher

The table below summarises the main demographic assumptions used to calculate the Fund's technical provisions:

Demographic assumptions	31 March 2021
Base mortality tables	Relevant SAPS S3 pensioner (amounts) tables with improvements from 2013 to 2021 in line with the CMI 2020 core projections model with a long term trend of 1.5% pa, 0.25% initial addition, 7.5 smoothing parameter and zero weighting to 2020
Proportion of relevant base mortality rates	
Male pensioners (vary by size of pension)	
Less than £5,000 pa	85.2% of the (male) 'Heavy' table
£5,000 pa to £20,000 pa	94.1% of the (male) 'Middle' table
£20,000 pa to £40,000 pa	90.7% of the (male) 'Light' table
More than £40,000 pa	84.0% of the (male) 'Very light' table
Male Dependants	102.2% of the (male) 'All pensioners' table
Female pensioners (vary by size of pension)	
Less than £1,000 pa	92.7% of the (female) 'Heavy' table
£1,000 pa to £8,000 pa	94.2% of the (female) 'Middle' table
£8,000 pa to £16,000 pa	89.8% of the (female) 'Light' table
More than £16,000 pa	91.6% of the (female) 'Very light' table
Female Dependants	98.3% of the (female) 'All pensioners' table
Future improvements in longevity	From 2021 in line with the CMI 2020 core projections model with a long-term trend of 1.5% pa, 0.25% initial addition, 7.5 smoothing parameter and zero weighting to 2020 population experience

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Administration

During the Fund year to 31 March 2022 the Fund was administered by Towers Watson Limited, who undertook the day-to-day administration. This included record keeping, accounting and operation of the pensioner payroll.

The Company's specialist in-house pensions team, IMI Group Pensions, provide secretarial services to the Trustee, prepares communications to members and liaises with the Fund's professional advisers. IMI Group Pensions also carries out specific duties, on behalf of the Trustee, which have been formally delegated and documented.

Operational Costs

The Company pays the operational costs of IMI Group Pensions.

The Trustee approves the fees incurred in the operation of the Fund, which are paid from the Fund's resources and monitored by IMI Group Pensions. They include the following:-

- administration services;
- actuarial and legal advice;
- audit fees;
- investment consultancy;
- bank charges;
- printing costs of all communications and information literature; and fees for medical reports requested by the Trustee.

Participating Companies

In addition to IMI plc, the Principal Employer, the following companies participated in the Fund as at 31 March 2022 :

IMI Components Ltd	IMI Webber Ltd
IMI Kynoch Ltd	IMI Precision Engineering Ltd
IMI Scott Ltd	TA Hydraulics Ltd (formerly Tour & Andersson Ltd)

The Fund is closed to future accrual of benefits.

Investment management

Investment managers

The majority of the Fund's assets are invested in the IMI Common Investment Fund (CIF). The investment managers used by the CIF are included in the financial statements of the CIF which is available on request from the contact on page 12.

Investment managers and the Fund's investment consultant are appropriately authorised under the Financial Services and Markets Act 2000 in the United Kingdom.

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Investment principles

The Trustee has produced a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995, as well as the requirements under the 2004 Pension Act and the Occupational Pension Schemes (Investment) Regulations 2005, which sets out the Trustee's general approach to risk management.

The Statement summarises how the Trustee:

- sets the investment policy and chooses the most suitable types of investments for the Fund;
- delegates buying and selling investments to the Investment Managers;
- monitors the performance of the investments;

The SIP was most recently updated in September 2020 to include:

- The Trustee's policies on the arrangements with its asset managers, including how costs and performance are monitored and assessed; and
- Extended policies in relation to stewardship of investments.

Fund performance

The performance of the Deferred Fund's assets held in the CIF over the year to 31 March 2022 has been included within the CIF Annual Report which is appended to this Annual Report. The table below shows the performance of the assets relative to the appropriate benchmarks.

Period to 31 March 2022

	Fund %	Benchmark %
1 Year	14.2	3.4
3 Years (p.a)	10.2	6.6

Source: Northern Trust (performance report to 31 March 2022)

Socially responsible investments

These include the risk that environmental, social and governance (ESG) factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from the investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Rights attaching to investments

Within the overall constraint of achieving the best financial return for the Fund's investments, the Trustee has delegated to the managers responsibility for taking social, environmental and ethical considerations into account when assessing the selection, retention and realisation of investments. As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to:

- where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Fund's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regards to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

Members' Views and Non-Financial Factors

In setting and implementing the Fund's investment strategy the Trustee does not seek the views of Fund members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

Custody of assets

Northern Trust has been appointed as global custodian of the CIF's segregated assets. Where the CIF invests in pooled investment vehicles, the investment managers are responsible for appointing a custodian to safeguard the underlying assets of the pooled vehicles.

Employer related investments

There were no employer related investments during the year or at the year end.

Compliance Statement

Matters relating to the Trustee

The Trustee has received a copy of the Guide for Pension Scheme Trustees issued by the Pensions Regulator.

Cash equivalents

Cash equivalents paid during the Fund year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

Fund advisers

There are written agreements in place between the Trustee and each of the Fund advisers listed on page 1 of these financial statements and also with the Principal Employer.

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

The Pension Tracing Service, MoneyHelper, the Pensions Ombudsman and The Pensions Regulator

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

- if they have general requests for information or guidance concerning pension arrangements contact MoneyHelper:
Address: Holborn Centre, 120 Holborn, London EC1N 2TD
Telephone: 0800 011 3797
Website: www.moneyhelper.org.uk
- if they have a complaint or dispute concerning a workplace or personal pension arrangement they have the right to contact The Pensions Ombudsman free of charge:
Address: 10 South Colonnade, Canary Wharf, E14 4PU
Telephone: 0800 917 4487
Website: www.pensions-ombudsman.org.uk
Email: enquiries@pensions-ombudsman.org.uk

In addition to the above The Pensions Regulator may intervene in the running of pension schemes where trustees, managers, employees or professional advisers have failed in their duties:

Address: Napier House, Trafalgar Place, Brighton, BN1 4DW
Email: customersupport@tpr.gov.uk

It has wide ranging powers which include the power to:

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

Information regarding the Fund has been given to the Pension Tracing Service. You can trace your pension by contacting the Pension Tracing Service:

Telephone: 0800 713 0193
Website: www.gov.uk/find-pension-contact-details

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

Internal disputes resolution procedure

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

IMI 2014 DEFERRED FUND

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2022

Contact for further information

Any queries or complaints about the Fund, including requests from individuals for information about their benefits or for a copy of Fund documentation, should be sent in the first instance to:

**Alex Ives
Towers Watson Limited
Westgate
120-130 Station Road
Redhill
Surrey
RH1 1WS**

On behalf of IMI Pensions Trust Limited

Trustee Director

~~Trustee Director~~

FUND SECRETARY.

IMI 2014 DEFERRED FUND

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Actuary's certification of the schedule of contributions

Name of scheme: IMI 2014 Deferred Fund

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2021 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated December 2021.

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: Colin Smith

Date: 21 December 2021

Colin Smith
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Towers Watson Limited is authorised and regulated by the Financial Conduct Authority

IMI 2014 DEFERRED FUND

TRUSTEE'S STATEMENT ABOUT CONTRIBUTIONS

YEAR ENDED 31 MARCH 2022

Trustee's summary of contributions

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer contributions payable to the Fund under the schedules of contributions dated 26 November 2018 and 20 December 2021 in respect of the Fund year ended 31 March 2022. The Fund Auditor reports on contributions payable under the schedules in the Auditor's Statement about Contributions.

Statement of Trustee's responsibilities in respect of contributions

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Fund's Trustee is also responsible for keeping records of contributions received in respect of any active member of the fund and for monitoring that contributions are made to the Fund in accordance with the schedule.

No contributions were due under the schedules of contributions during the year.

On behalf of IMI Pensions Trust Limited

Trustee Director

Date: 31 OCTOBER 2022

~~Trustee Director~~

FUND SECRETARY.

Date: 31 OCTOBER 2022

IMI 2014 DEFERRED FUND

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE YEAR ENDED 31 MARCH 2022

We have examined the summary of contributions payable under the schedules of contributions to the IMI 2014 Deferred Fund in respect of the Fund year ended 31 March 2022 which is set out on page 14.

In our opinion contributions for the Fund year ended 31 March 2022 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid from 1 April 2021 to 19 December 2021 at least in accordance with the schedule of contributions certified by the actuary on 26 November 2018 and subsequently been paid at least in accordance with the schedule of contributions certified by the actuary on 20 December 2021.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the schedules of contributions.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 14, the Fund'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 Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedules of contributions to the Fund and to report our opinion to you.

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

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



Nadia Dabbagh-Hobrow,
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: 31 October 2022

IMI 2014 DEFERRED FUND

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2022

Opinion

We have audited the financial statements of the IMI 2014 Deferred Fund ("the Fund") for the year ended 31 March 2022, which comprise the Fund Account and the Statement of Net Assets (*available for benefits*) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund during the Fund year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Fund in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Fund and analysed how those risks might affect the Fund's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Fund will continue in operation.

IMI 2014 DEFERRED FUND

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2022

Fraud and breaches of laws and regulations - ability to detect

Identifying and responding to risks of material misstatement due to fraud.

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee, as to the Fund's high-level policies and procedures to prevent and detect fraud as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.
- Reading Trustee Board meeting minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Trustee (or its delegates including Fund Administrator) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of the annuity policies and SPV. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Fund wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.
- Assessing whether the judgements made in making accounting estimates are indicative of potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee (as required by auditing standards) and discussed with the Trustee the policies and procedures regarding compliance with laws and regulations.

As the Fund is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Fund's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

IMI 2014 DEFERRED FUND

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2022

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Fund is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Fund is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Fund's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation recognising the financial and regulated nature of the Fund's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and their delegates and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedules of Contributions in our Statement about Contributions on page 15 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions), the Implementation Statement and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

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

IMI 2014 DEFERRED FUND

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2022

Trustee's responsibilities

As explained more fully in their statement set out on page 3, the Fund Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Fund, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Nadia Dabbagh-Hobrow,
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: 31 October 2022

IMI 2014 DEFERRED FUND**FUND ACCOUNT****YEAR ENDED 31 MARCH 2022**

	Note	2022 £000	2021 £000
Benefits payable	4	(4,693)	(5,147)
Transfers out	5	(25,581)	(4,895)
Administrative expenses	6	(5,142)	(2,218)
		<u>(35,416)</u>	<u>(12,260)</u>
Net withdrawals from dealings with members		(35,416)	(12,260)
Returns on investments			
Investment income	7	9,031	7,818
Change in market value of investments	8	19,803	19,677
Investment management expenses	9	(627)	(349)
		<u>28,207</u>	<u>27,146</u>
Net return on investments		28,207	27,146
Net (decrease)/increase in the fund during the year		(7,209)	14,886
Net assets of the Fund			
At 1 April		<u>622,940</u>	<u>608,054</u>
At 31 March		<u>615,731</u>	<u>622,940</u>

The notes on pages 22 to 32 form part of these financial statements.

IMI 2014 DEFERRED FUND

STATEMENT OF NET ASSETS (AVAILABLE TO MEET BENEFITS)

AS AT 31 MARCH 2022

	Note	2022 £000	2021 £000
Investment assets	8		
Pooled investment vehicles	11	348,530	524,409
Buy in policies	12	267,300	59,600
Other investments	13	—	37,858
		<u>615,830</u>	<u>621,867</u>
Current assets	18	3,681	2,989
Current liabilities	19	(3,780)	(1,916)
Net assets of the Fund at 31 March		<u>615,731</u>	<u>622,940</u>

The notes to the financial statements form part of these financial statements.

The financial statements summarise the transactions of the Fund 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 Fund year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the report on the actuarial liabilities on page 6 of the Annual Report and these financial statements should be read in conjunction with this report.

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

Trustee Director

~~Trustee Director~~

FUND SECRETARY

Date: 31 OCTOBER 2022

Date: 31 OCTOBER 2022

The notes on pages 22 to 32 form part of these financial statements.

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

1. General information

The Fund is established as a trust under English law. The address for enquiries to the Fund is included in the Trustee's 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, 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 the guidance set out in the Statement of Recommended Practice (SORP) (Revised June 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Fund has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least twelve months from the date of approval of these financial statements.

In reaching this conclusion, the Trustee considered the current economic environment, funding position of the Fund, the strength of the Principal Employer and the employer covenant to gain comfort that it will continue to make contributions as they fall due. This assessment gives the Trustee confidence to prepare the financial statements on a going concern basis.

Identification of the financial statements

The Fund is established as a trust under English Law. The registered address of the Fund is Lakeside,
Solihull Parkway,
Birmingham Business Park,
Birmingham,
B37 7XZ

3. Accounting policies

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

The financial statements functional and presentational currency is pound sterling.

Foreign currency conversion

Assets and liabilities in foreign currencies, including the effect of forward exchange contracts, are expressed in sterling at the rates of exchange ruling at the period end. Surpluses and deficits arising on conversion or translation are dealt with as part of realised and unrealised investment gains and losses. Other surpluses and deficits are dealt with as other receipts or payments as appropriate.

Contributions

Contributions are accounted for on an accruals basis at rates agreed by the Trustee as recommended by the actuary.

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

3. Accounting policies *(continued)*

Transfers to and from other schemes

Individual transfers in or out are accounted for when received or paid which is normally when member liability is accepted/discharged.

Benefits

Pensions payable in respect of the Fund year are accounted for by reference to the period to which they relate. Refunds and lump sums are accounted for on a cash basis if members can exercise a choice in relation to these benefits or, where members have no choice in relation to these benefits, by reference to the date of retirement or leaving the Fund.

Expenses

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

Annuity policies

The Trustee does not hold annuity policies in the name of the Trustee, other than the buy-in policies referred to in note 12.

Investment income

Investment income in respect of the Special Purpose Vehicle is accounted for under the agreement under which it is being paid.

Investment income arising from the underlying investments of the Pooled investment vehicles is reinvested within the Pooled investment vehicles and reflected in the unit price. It is reported within 'Change in Market Value'.

Interest is accrued on a daily basis.

Investments

Investments are included at fair value.

The Fund's interest in the Scottish Limited Partnership (SLP) is stated at the Trustee's estimate of the present value of expected cashflows arising from the SLP. The discount rate used to determine present value is based on market gilt rates at the reporting date adjusted for credit, funding and liquidity risks. The value of the SLP at the year end is based on an independent valuation by PricewaterhouseCoopers LLP.

Investment holdings in the IMI Common Investment Fund are stated at bid price for funds with bid / offer spreads, or single price where there are no bid/offer spreads as provided by the custodian.

Buy-in policies

The buy-in policies held with PIC and Legal & General have been valued at the values calculated by the Fund Actuary.

IMI 2014 DEFERRED FUND**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2022**

4. Benefits payable	2022	2021
	£000	£000
Pensions	2,560	1,824
Commutations and retirement lump sums	1,742	3,166
Lump sum death benefits	391	157
	<u>4,693</u>	<u>5,147</u>
5. Transfers out	2022	2021
	£000	£000
Individual transfers out	<u>25,581</u>	<u>4,895</u>
6. Administrative expenses	2022	2021
	£000	£000
Administration fees	735	263
Legal fees	142	98
Regulatory levies	26	93
Actuarial fees	603	375
Audit fee	70	56
Communications fees	778	467
Other fees	2,788	866
	<u>5,142</u>	<u>2,218</u>
7. Investment income	2022	2021
	£000	£000
Annuity income	2,059	828
Income from Special Purpose Vehicle	6,972	6,990
	<u>9,031</u>	<u>7,818</u>

IMI 2014 DEFERRED FUND**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2022**

8. Investments

	Value at 01/04/21 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31/03/22 £000
Pooled investment vehicles	524,409	6,972	(284,269)	101,418	348,530
Insurance policies	59,600	251,457	–	(43,757)	267,300
Other investments	37,858	–	–	(37,858)	–
	<u>621,867</u>	<u>258,429</u>	<u>(284,269)</u>	<u>19,803</u>	<u>615,830</u>

Explanatory note

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

At 31 March 2022, the Fund was estimated to be over 100% funded on an insurer pricing basis and hence the income stream ceased from the SPV and the valuation becomes £nil at that date.

Costs are borne by the Fund in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the unit price of these investments and are not therefore separately identifiable.

9. Investment management expenses

	2022 £000	2021 £000
Administration, management and custody	<u>627</u>	<u>349</u>

10. Taxation

The Fund 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.

IMI 2014 DEFERRED FUND**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2022**

11. Common investment fund

	2022	2021
	£000	£000
IMI Common Investment Fund	<u>348,530</u>	<u>524,409</u>

The funds held by Investment manager in the IMI Common Investment Fund are as follows:

	2022	2021
	£000	£000
Cash	23,873	32,969
Commercial Real Estate Debt	10,052	33,395
Corporate Bonds	–	294
Diversified Credit Fund	93,825	161,991
Currency Hedge	(1,490)	446
Gilts	103,306	194,109
Private Equity Fund	118,936	100,376
Property Fund	28	829
	<u>348,530</u>	<u>524,409</u>

12. Insurance policies (annuity buy in policies)

	2022	2021
	£000	£000
Annuities	<u>267,300</u>	<u>59,600</u>

In December 2021, the Trustee transferred £251.5m into a new buy-in policy with Pension Insurance Corporation to annuitise some of the pensioners of the Fund.

Previously, in December 2020, the Trustee transferred £52.08m into a buy-in policy with Legal & General and in November 2018, the Trustee transferred £14.7m into a buy-in policy with Pension Insurance Corporation to annuitise some of the pensioners of the Fund.

The market value of the annuity policies has been estimated by the Trustee based on the actuarial value of the expected future payments due to the Trustee under the terms of the policies. The actuarial value as at 31 March 2022 was calculated by the Fund Actuary using assumptions consistent with those used to assess the Fund's technical provisions, as set out in the Statement of Funding Principles ("SFP") dated December 2021 and reflecting financial market conditions as at 31 March 2022. The prior year figure was calculated by the Fund Actuary based on version 9 of "Guidance on assumptions to use when undertaking a valuation in accordance with Section 179 of the Pensions Act 2004" published by the Pension Protection Fund. Had the prior year figure been calculated using assumptions consistent with the Fund's technical provisions as at that time, it would have been £3.7 million higher than the disclosed figure.

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

13. Special purpose vehicles

	2022	2021
	£000	£000
Special Purpose Vehicles	–	37,858

As part of a package of initiatives to fund the deficit and remove volatility, the Principal Employer made a one-off deficit funding contribution of £48.6 million into the IMI Pension Fund to be invested in a Special Purpose Vehicle (SPV). The SLP holds loan notes issued by IMI Overseas Investments Limited. On the insolvency of a participating employer of the SLP or IMI Overseas Investments Limited or the General Partner, the Fund is entitled to a proportion (based on the self-sufficiency deficit) of the lower of:

- £48,600,000;
- Buy-out deficit;
- Net value of the SLP assets.

The Trustee agreed to transfer the SPV from the IMI Pension Fund to the two separate schemes on 1 December 2014 based on the proportion of the self-sufficiency deficit at that date. Going forward, interest cashflows also get paid into the participating schemes as a proportion of the self-sufficiency deficits up to the earlier of 2030 or when both Funds have a surplus on a self-sufficiency basis.

On 31 January 2017 the Trustee received a contribution of £9m from IMI plc and used this to invest in the IMI 2017 Scottish Limited Partnership, which alongside the IMI 2014 Pensioner Fund invested in a £64.8m loan issued by IMI Overseas Investments Limited paying a fixed rate of 4.01% pa. The partnership terms are very similar to the 2010 SPV whereby interest is received to the earlier of June 2030 or when both schemes are in a surplus on a self-sufficiency basis (Gilts + 0.25%).

On 28 March 2018, the Fund purchased the portion of the SPVs held by the IMI 2014 Pensioner Fund for £70,263,000. This amount is higher than the year end valuation due to the inclusion of an allowance for illiquidity premium in the transaction price.

At 31 March 2022, the Fund was estimated to be over 100% funded on an insurer pricing basis and hence the income stream ceased from the SPV and the valuation becomes £nil at that date.

14. Fair value determination

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 that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

14. Fair value determination (continued)

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

	At 31 March 2022	
	Level 3	Total
	£000	£000
Pooled investment vehicles	348,530	348,530
Insurance policies	267,300	267,300
Other investments	—	—
	<u>615,830</u>	<u>615,830</u>

	At 31 March 2021	
	Level 3	Total
	£000	£000
Pooled investment vehicles	524,409	524,409
Insurance policies	59,600	59,600
Other investments	37,858	37,858
	<u>621,867</u>	<u>621,867</u>

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

15. Investment risk disclosures

Investment policy and objectives

The Trustee aims to invest the assets of the Fund prudently with the aim of ensuring that the benefits promised to members are provided as they fall due. In setting the Fund's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

The asset allocation at 31 March 2022 is set out in the table below:

Asset allocation

Asset Class	31 March 2022 Allocation
Diversified Credit	26.9
PIMCO	26.9
Liability Driven Investment (LDI)	29.7
LGIM	29.7
Alternatives	37.0
M&G Real Estate Debt	2.9
Multi-manager Private Equity	34.1
Multi-manager Property	0.0
Cash	6.8
Cash	6.8
LGIM Currency Hedge	-0.4
LGIM Currency Hedge	-0.4
Total Assets	100.0

Source: Northern Trust. Figures subject to rounding.

Note: The Fidelity corporate bond account was terminated as at 31 March 2022.

The assets listed in the table above are invested in the IMI Common Investment Fund ("CIF").

In addition to the assets invested through the CIF, the Fund holds buy-in policies with Pension Insurance Corporation ("PIC") and Legal and General Assurance Society ("LGAS"), and had an interest in two Special Purpose Vehicles known as the IMI Scottish Limited Partnerships ("SLPs"). The SLPs were set up in June 2010 and January 2017 to provide contingent income streams for up to 20 years and 13 years respectively from their inception but had nil value at 31 March 2022 as disclosed in note 13.

Custody of assets

Northern Trust has been appointed as global custodian of the CIF's segregated assets. Where the CIF invests in pooled investment vehicles, the investment managers are responsible for appointing a custodian to safeguard the underlying assets of the pooled vehicles.

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

15. Investment risk disclosures *(continued)*

Risk management structure and risk mitigation

The Trustee is responsible for identifying and managing risks, including risks arising from the investment activities.

The Trustee monitors the Fund's risks periodically, measuring and reviewing investment risks in addition to other risks in relation to employer covenant and funding.

An investment adviser has been appointed to assist the Trustee in determining and implementing the investment strategy for the Fund.

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 is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables.

Market risk 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 - primarily bonds, interest rate swaps and pooled investment vehicles held mainly in bonds - 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 - primarily equity prices), 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 Fund has exposure to these risks through its investment in the CIF, buy-in policies and its interest in the SLPs. For detailed risk disclosures relating to the Fund's investments within the CIF, please refer to the separate CIF disclosures.

SLP

The Fund held the right to receive annual cash distributions from two Scottish Limited Partnerships where the underlying assets were fixed interest loan notes issued by IMI Overseas Investments Limited. At 31 March 2022, the Fund was estimated to be over 100% funded on an insurer pricing basis and no further distributions are expected to be received from the SLPs. The final payment was received on 24 February 2022.

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

15. Investment risk disclosures *(continued)*

Buy-in policies

At 31 March 2022, the policies were estimated to be valued at £267.3m combined.

At 31 March 2021, the policies were estimated to be valued at £59.6m combined.

The buy-in policies contribute to the management of funding risks, by insuring a proportion of the Fund's liabilities.

The principal risk to the Fund in relation to buy-in policies is that an insurer will fail to meet its obligations under the terms of the buy-in contract. This credit risk is limited:

- By the strict regulatory environment in which insurers operate. PIC and LGAS are regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The Prudential Regulation Authority sets rules to ensure that insurers have sufficient capital and reserves to meet their obligations.
- Because the buy-in policies are covered by the Financial Services Compensation Scheme should the insurers become insolvent.

The value of the buy-ins relates to the value of the insured liabilities. The indirect risks to the Fund therefore include:

- **Interest rate risk** - a rise in yields will reduce the value of the buy-ins;
- **Other price risk** - the value of the buy-ins may fall if there is a decrease in expected inflation or pensioner longevity.

16. Concentration of investments

The following investments amounted to more than 5% of the total net assets of the Fund:

	2022		2021	
	£000	%	£000	%
IMI Buy In -Insurance Policies	267,300	43.41	59,600	9.57
IMI CIF Private Equity Fund	118,936	19.32	100,376	16.11
IMI CIF Gilts Fund	103,306	16.78	194,109	31.16
IMI CIF Diversified Credit Fund	93,825	15.24	161,991	26.00
Special Purpose Vehicle - Non CIF	–	–	37,858	6.08
IMI Commercial Real Estate Debt Fund	–	–	33,395	5.36
IMI Cash	–	–	32,969	5.29

17. Employer related investments

There were no employer related investments during the year or at the year end.

18. Current assets

	2022	2021
	£000	£000
Cash balances	<u>3,681</u>	<u>2,989</u>

IMI 2014 DEFERRED FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

19. Current liabilities

	2022	2021
	£000	£000
Unpaid benefits	118	102
Accrued expenses	3,662	1,814
	<u>3,780</u>	<u>1,916</u>

20. Related party transactions

One Trustee Director, who is a pensioner of the Fund, received pension payments during the year in accordance with the Trust Deed and Rules.

IMI plc is the sponsoring employer for IMI 2014 Deferred Fund and IMI Common Investment Fund.

The Trustee is not aware of any additional material related party transactions that require disclosure in the financial statements.

21. GMP equalisation

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. A further High Court case in November 2020 has ruled that schemes are now required to equalise transfer values paid to members prior to October 2018 to take account of GMP equalisation where applicable. The implication of these rulings on the Fund and the equalisation of guaranteed minimum pensions between men and women, in the context of the rules of the Fund and the value of any liability, is estimated not to be material to the figures presented in these accounts.

The Trustee is in the process of reviewing the impact of GMP equalisation on both current members of the Fund and those that have previously transferred out, once this review is finalised and any liability quantified, then members will be contacted.

22. Subsequent events

As a result of the recent market events there was a dramatic downturn in UK markets in September 2022 which impacted LDI portfolios and provision of additional collateral. The Trustee has designed and implemented an investment strategy to withstand short term fluctuations. The Trustee continues to take proactive and considered steps, in conjunction with their advisers, to assess the situation and respond to it.

Engagement Policy Implementation Statement

IMI 2014 Deferred Fund (“the Fund”)

The Engagement Policy Implementation Statement (“EPIS”) has been prepared by the Trustee and covers the Fund year 1 April 2021 to 31 March 2022.

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the “Regulations”). The Regulations require that the Trustee produces an annual statement which outlines the following:

- Explain how and the extent to which the Trustee has followed its engagement policy which is set out in the Statement of Investment Principles (“SIP”).
- Describe the voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Fund year and state any use of third-party providers of proxy voting services.

Executive summary

Based on the activity over the year by the Trustee and its investment managers, the Trustee believes that the stewardship policy has been implemented effectively. The Trustee notes that its investment managers were able to disclose evidence of engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Fund through considered voting and engagement.

Fund stewardship policy

The below bullet points summarise the Fund’s stewardship policy in place over the Fund year to 31 March 2022.

The full SIP can be found here: [IMI deferred fund SIP 2020.pdf \(imipensions.co.uk\)](#)

- The Trustee recognises the importance of its role as a steward of capital and the need to promote high standards of governance and corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term financial value for the Fund and its beneficiaries.
- As part of their delegated responsibilities, the Trustee expects the Fund’s investment managers to: 1) Where appropriate, engage with investee companies with the aim to protect and enhance the long-term value of assets; and 2) exercise the Trustee’s voting rights in relation to the Fund’s assets.
- On an annual basis, the Trustee reviews the stewardship policies and practices of the managers and takes advice from the investment adviser with regards to the continuing suitability of the appointed managers. This advice includes consideration of broader stewardship matters and where applicable, the exercise of voting rights by the appointed managers.
- If an incumbent manager is found to be falling short of the standards the Trustee has set out in the SIP, the Trustee will consider, on a case-by-case basis, a broad range of methods to undertake to engage with the manager to seek improvements to respective processes and outcomes. In relation to responsible investment standards, particularly if an incumbent manager is found to be falling short of these standards, the Investment Executive will undertake to engage with the manager to facilitate greater levels of stewardship activity and disclosure.

Fund stewardship activity over the year

Training

Over the year, the Trustee and Investment Executive received updates from their investment and legal advisors on evolving regulatory requirements and the importance of stewardship activity.

In August 2021, the Investment Executive met with key managers of the Fund's assets and received briefings on how Environmental, Social and Governance (ESG) considerations are being incorporated into the investment management process.

Broader examples of training during the year include:

- In June 2021, the Investment Executive received a training session on hedging buy-out, including use of synthetic credit.
- In August 2021, Aon provided updates on the replacement of LIBOR with SONIA and implications for each of the Fund's asset classes.
- In December 2021, the Investment Executive received scenario analysis outlining the potential impact of different LDI hedging policies on the Fund.

Updating the Stewardship Policy

In line with regulatory requirements, the Trustee reviewed and expanded the SIP's Stewardship policy in September 2020. There were no further updates to the policy during the last Fund year.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Engagement activity – Fixed Income and Real Estate Debt

Over the year the Fund was invested in the PIMCO Diversified Income Fund (Duration Hedged) and the M&G Senior Commercial Mortgage Loan Fund.

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Whilst upside potential may be limited in comparison to equities, downside risk mitigation and credit quality are critical parts of the investment decision-making process.

The following examples demonstrate some of the engagement activity carried out by the Fund's fixed income managers over the year.

Pacific Investment Management Company ("PIMCO") – Diversified Income Fund

Engagement

PIMCO believes engagement is an essential tool for delivering impact for investors. It believes that engagement means partnering with issuers that already demonstrate strong sustainability commitments and those with less advanced sustainability practices. PIMCO believes that this can be a way for it to influence positive change that may benefit investors, employees, society and the environment. PIMCO's credit research analysts engage regularly with issuers, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management and board composition.

PIMCO states that for non-ESG dedicated portfolios, like the PIMCO fund the Fund is invested in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, there are often benefits from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies.

Engagement example:

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. The engagement resulted in a sustainability bond being issued by the West African Development Bank primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Since the issue of the sustainability bond, PIMCO has continued to engage with the issuer on the projects that the bond is financing. From this engagement, PIMCO noted that the new issuance will be used to fund green and social projects. These include the construction of a solar power plant and a smart hydro-agricultural development. In particular, the West African Development Bank committed to increase its green investments in line with the targets set in its environmental and climate strategic plan.

M&G – Senior Commercial Mortgage Loan Fund

Engagement

M&G developed its engagement process through adopting the Sustainable Accounting Standards Board ("SASB") framework. It uses this framework to structure its research and engagement activity, allowing it to incorporate ESG factors into the investment process for its holdings at all stages. On a case-by-case basis, M&G will formulate its own approach, if its views are expressly different to those of its peers or if the matter is of material consequence to its business, clients and the communities it serves. It provides technical feedback on ESG topics to regulators. Feedback is provided by both its trade bodies and directly to relevant national competent authorities, such as the Financial Conduct Authority, Prudential Regulation Authority and other rule makers in its key markets.

Engagement example (firm-level):

In 2021, M&G engaged with 81 entities, and concluded 49 engagements where the objective was achieved. It engaged on an array of specific, systemically important environmental and social themes. M&G met with Cheplapharm, a German Pharmaceutical company. M&G met with the company to discuss its ESG strategy, to encourage improved practices in relation to governance, and to ensure fair and ethical practices in relation to pricing strategies. Following the engagement, the company has made a commitment to bolster its board and will consider publishing its pricing policy.

Engagement activity – Private Equity

Examples of engagement activity provided by the most material private equity funds in which the Fund invests are described below.

Unigestion

Engagement activities at Unigestion are directed by the Responsible Investment Committee ("RIC") and conducted by the Corporate Engagement Team. Since 2016, Unigestion has engaged with companies on a variety of issues relating to directorship, reorganisation and mergers, health and environment, and social and corporate governance. Unigestion usually initiates the process by writing letters to corporate management, indicating that it is voting against the management on a specific issue, voicing its concerns and formally requesting that these concerns be addressed. Within the framework of its ESG integration process, Unigestion has incorporated a rule to identify companies within the worst decile that have also shown signs of improvement. Unigestion has decided to keep these companies in the portfolio given evidence that they are trying to improve, while engaging with them based on internal evaluations of the issues.

HgCapital ("Hg")

Hg's ESG team work together with key individuals, such as the Chief Human Resource officers from the portfolio companies, to conduct their assessment. Once completed each business is given a score from 0-10, to benchmark its performance across the Hg portfolio, and an output report which forms the basis of their ESG improvement plans. The final report, which includes a scorecard and agreed actions, is shared with the company's Chief Executive Officer and the Board. The assessment is repeated at least annually to ensure improvements are being made year on year.

As a private equity firm, Hg recognises its responsibility to encourage its portfolio of companies to align to Net Zero. Hg is one of several firms who have invested in and worked together to create a Science Based Targets initiative ("SBTi")¹ standard for the Private Equity industry. Hg was one of the first private equity firms globally to have its carbon reduction targets approved by the SBTi.

Hg's detailed targets include:

1. 50% reduction in its direct emissions (Scope 1 and 2) by 2030
2. All portfolio companies to have adopted science-based targets by at least 2040.

New Mountain Partners ("NMP")

NMP is committed to responsibly investing in companies that contribute positively to society and simultaneously generate strong risk adjusted returns. NMP partners with management teams to identify and capitalise on value creation opportunities with the aim of building stronger, more suitable companies over the long-term.

NMP formalised its focus on reporting on social responsibility and ESG matters in 2015, with an ESG Policy and the firm's first Annual ESG Report. The ESG Policy emphasises NMP's commitment since inception to investing in a sustainable and responsible way, with a focus on improving ESG issues within its portfolio companies and at the firm. The firm has identified 24 key ESG metrics to apply during the due diligence, investment, and monitoring stages of its portfolio companies, and has developed a reporting process to track ESG improvement. In addition, NMP has introduced a database called RepRisk, which helps to identify, assess and monitor ESG risks. RepRisk has been incorporated into the due diligence and monitoring process for private equity, credit, net lease, and public equity investments. More recently, NMP began to apply an industry specific ESG framework to identify material ESG risks and opportunities for new portfolio companies. The analysis is conducted post-investment and is presented to the deal team to determine Key Performance Indicators and other ESG initiatives to be incorporated into the plan. These metrics are monitored throughout the life of the investment while longer-term initiatives are developed over time.

¹ SBTi provides guidance to companies to set science-based targets in line with the latest climate science.

RCP Advisors (“RCP”)

RCP actively promotes the development and adherence to ESG policies with its underlying fund managers, the underlying investments, and the portfolio companies and has taken steps to implement ESG criteria into its investment process. The criteria includes pre-investment ESG analysis, sector exclusion, ESG related negotiated side letters, active support of companies involved in ESG efforts, and the use of a proprietary ESG tracking process to keep underlying fund managers accountable.

As a funds-of-funds sponsor, RCP maintains close contact with the managers of the underlying funds by serving on the funds’ Advisory Boards to remain apprised of all developments in the portfolio and to protect the interests of the investors in the RCP funds, as well as attending general partner due diligence meetings and annual general partner meetings. Since inception through to 1 June 2022, the members of the RCP’s Investment Team have participated on the advisory boards of more than 170 underlying partnerships.

Aberdeen Asia Pacific / Aberdeen Venture Partners (Aberdeen Standard, now ‘abrdn’)

Aberdeen Standard believes it has a duty to be active and engaged owners of the assets in which it invests. As part of its regular interactions with the investments that it owns, it seeks to provide constructive challenge to management and boards, aiming to both preserve and enhance the value of its clients’ investments. Aberdeen Standard seeks to improve the financial resilience and performance of investments, sharing insights from its ownership experiences across geographies and asset classes. Where Aberdeen Standard believes it needs to catalyse change it will endeavour to do so through its stewardship capabilities.

Within its Private Equity transactions, all its investment papers have dedicated ESG sections. ESG issues and opportunities are discussed at the Investment Committee. In non-sustainable mandates, Aberdeen Standard performs ESG materiality assessments where it focuses on risks and opportunities material to the financial performance of the targets.

Aberdeen Standard participates in several industry environmental, social and corporate stewardship initiatives. In 2021, it became a member of Net Zero Asset Managers (“NZAM”) initiative.

KKR & Co. (“KKR”)

KKR takes a materiality-driven approach and focuses on the issues that are most relevant to a particular asset, its area of operation, and its stakeholders. Where material issues are identified during the diligence process, KKR includes these issues in its management plans post-close, or KKR monitors ongoing progress on ESG issues, as applicable.

In 2021, KKR created an ESG Committee consisting of various members of senior management across its businesses. The Committee serves as a place to share emerging sustainability issues and best practice. The Committee ensures that its ESG-related priorities are being managed in each of its strategies. Additionally, KKR’s Sustainability Expert Advisory Council, which is made up of independent, third-party experts, advises KKR on ESG-related matters and shares external insights and perspectives to advance the manager’s strategy and practices.

KKR is engaged with industry efforts to drive more responsible investing. In early 2022, it welcomed the launch of the North American Chapter of The Initiative Climate International (“iCI”)², and this will be chaired by KKR’s Managing Director of Sustainable Investing.

² iCI is a PRI-endorsed global community of investors who seek to better understand and manage the risks associated with climate change

Engagement Activity – other investments

The Fund has three Bulk Purchase Annuity Agreements (“annuities”) with Pension Insurance Corporation plc (“PIC”) and Legal & General (“L&G”). The most recent annuity was purchased from PIC in December 2021. The aim of the annuities is to cover the benefits for an agreed portion of the Fund members. The responsibility for managing arrangements with underlying investment managers lies with PIC and L&G.

The Trustee believes that PIC and L&G should use their influence and purchasing power where possible to ensure that ESG factors (including climate change) are appropriately considered by the underlying investment managers and financial counterparties. The Trustee has elected to purchase the annuities in the best financial interests of the beneficiaries, and recognises that it cannot directly influence the ESG integration nor stewardship policies and practices of the insurers.