

# **ICI PENSION FUND**

**Registered with the Pensions Regulator  
Registration Number 10013256**

## **REPORT OF THE TRUSTEE AND FINANCIAL STATEMENTS**

**31 March 2017**

**ICI PENSION FUND**

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**ICI PENSION FUND****HIGHLIGHTS OF THE YEAR ENDED 31 MARCH 2017**

	Total £m
Fund's assets at 1 April 2016	9,347
How the money came in - Income	£m
Employer contributions	159
Investment income	464
<b>Total income</b>	<b>623</b>
<hr/>	
How it was used - Expenditure	£m
Pensions	476
Commutation lump sums	16
Transfers to other funds	32
<b>Total expenditure</b>	<b>524</b>
<hr/>	
Change in the Fund	£m
Balance of Income and Expenditure	99
Change in market value of investments	942
<b>Total change in the Fund</b>	<b>1,041</b>

**Fund's Assets at 31 March 2017****£10,388 million**

The Fund provides for:

Contributing members	267
Pensioners	42,933
Deferred pensioners	8,129
<b>Total members at 31 March 2017</b>	<b>51,329</b>

## ICI PENSION FUND

### TRUSTEE, DIRECTORS AND PROFESSIONAL ADVISERS AS AT 13 JULY 2017

**Trustee:**

ICI Pensions Trustee Limited

**Directors:**

D J Gee (Chairman) SRC  
Pensioner

I N Canham AC\*, SRC  
Deferred Member

S Kinnaird IC  
Deferred Member

D J Loose PAC\*, AUC  
Pensioner

S A McMahon SRC, PAC, AUC  
Deferred Member

M T Owtram PAC  
Deferred Member

F G Rose PAC  
Pensioner

M L Rugg IC  
Pensioner

R W T Turner IC\*, SRC  
Pensioner

D W Welch IC, AC, AUC  
Other Director

The Law Debenture Trust Corporation p.l.c.  
SRC\*, PAC, IC, AUC\*

**Committee Roles:**

IC - Investment Committee  
SRC - Strategic Risk Committee  
PAC - Policy & Administration Committee  
AC - Appeals Committee  
AUC - Audit Committee

\* The asterisk indicates that the Trustee director is chairman of the committee so marked

**Secretary:**

Pensions Secretariat Services Limited  
3<sup>rd</sup> Floor, 38 Lombard Street  
London EC3V 9BS

**Scheme Actuary:**

G McLean FIA  
Towers Watson Limited  
Watson House, London Road  
Reigate, Surrey RH2 9PQ

**External Auditor:**

KPMG LLP  
15 Canada Square, London E14 5GL

**Investment Managers:**

Alinda Capital Partners LLC  
100 West Putnam Avenue, 3<sup>rd</sup> Floor  
Greenwich, CT 06830, USA

Beach Point Capital Management LP  
1620 26<sup>th</sup> Street, Suite 6000N  
Santa Monica, CA90404, USA

BlackRock Advisors (UK) Limited  
12 Throgmorton Avenue, London EC2N 2DL

Brigade Capital UK LLP  
3<sup>rd</sup> Floor, Southwest House  
11A Regent Street, London SW1Y 4LR

Stone Harbor Investment Partners LP  
31 West 52<sup>nd</sup> Street, 16<sup>th</sup> Floor, New York  
NY 10019 USA

**Annuity Providers:**

Legal & General Assurance Society Limited  
One Coleman Street, London EC2R 5AA

Prudential Retirement Income Limited  
Craigforth, Stirling FK9 4UE  
(until October 2016)

Prudential Assurance Company  
Craigforth, Stirling FK9 4UE  
(from October 2016)

Scottish Widows Limited  
25 Gresham Street, London EC2V 7HN

**Investment & Insurance Advisers:**

Mercer Limited  
Tower Place West, London EC3R 5BU

Lane Clark Peacock LLP  
95 Wigmore Street, London W1U 1DQ

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

## ICI PENSION FUND

### TRUSTEE, DIRECTORS AND PROFESSIONAL ADVISERS AS AT 13 JULY 2017

**Custodians:**

Northern Trust  
50 Bank Street, London E14 5NT

The Bank of New York Mellon SA/NV  
The Bank of New York Mellon Centre,  
160 Queen Victoria Street, London EC4 4LA

State Street Bank and Trust Company  
20 Churchill Place, London E14 5HJ

**Solicitors:**

Allen & Overy LLP  
One Bishops Square, London E1 6AD

CMS Cameron McKenna LLP  
Cannon Place, 78 Cannon Street  
London EC4N 6AF  
(Appointed March 2017)

DLA Piper UK LLP  
1 St Paul's Place  
Sheffield S1 2JX

**Administrator:**

Towers Watson Limited  
Administration Offices  
ICI Pensions Services  
PO Box 545,  
Redhill,  
Surrey, RH1 1YX  
Email: [ici@willistowerswatson.com](mailto:ici@willistowerswatson.com)

**Bank:**

Barclays Bank PLC  
London Corporate Service Centre  
1-11 The Broadway  
London E15 4BQ

**Covenant Advisers – Sponsor Covenant:**

Penfida Partners LLP  
1 Carey Lane, London EC2V 8AE

**Covenant Advisers – Annuity Providers:**

Oliver Wyman Limited  
55 Baker Street, London W1U 8EW

**Communication Advisers:**

MHP Communications  
60 Great Portland Street  
London W1W 7RT

Like Minds UK Limited  
The Media Gallery, 16 High Street  
Kenilworth, Warwickshire CV8 1LZ  
(Appointed June 2017)

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

**Insurance Broker:**

Lockton Companies LLP  
The St Botolph Building, 138 Houndsditch  
London EC3A 7AG

**Investment Performance Measurer:**

Northern Trust  
50 Bank Street, London E14 5NT

**Medical Advisers:**

DPJ Occupational Health Limited  
50 Elizabeth Crescent, Queens Park  
Chester, Cheshire CH4 7AZ  
(Appointed September 2016)

Roodlane Medical Limited  
242 Marylebone Road, London NW1 6JL

**Tracing Agent**

Omega Legal Services Limited  
1 Moseley Wood View, Leeds LS16 7ES  
(Appointed April 2017)

**Safe Custody Adviser:**

Amaces Limited  
10<sup>th</sup> Floor, 88 Wood Street  
London EC2V 7RS  
(Appointed March 2017)

**AVC Providers:**

Clerical Medical Investment Group Limited  
PO Box 174, Walton Street  
Aylesbury  
Bucks. HP21 7YP

The Equitable Life Assurance Society  
PO Box 177, Walton Street  
Aylesbury  
Bucks. HP21 7YH

Scottish Friendly Society  
Scottish Friendly House,  
16 Blythswood Square, Glasgow G2 4HJ  
(Formerly Marine & General Mutual  
Assurance Society)

The Prudential Assurance Company  
Craigforth, Stirling FK9 4UE

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2017

The Trustee Board submits the Annual Report on the operations of the ICI Pension Fund (the "Fund"), together with the Financial Statements of the Fund for the Fund year ended 31 March 2017.

#### **Principal Employer**

The Principal Employer of the Fund is Imperial Chemical Industries Limited ("ICI"), The AkzoNobel Building, Wexham Road, Slough SL2 5DS (formerly Imperial Chemical Industries PLC).

#### **Guarantor**

On 2 January 2008, ICI was acquired by Akzo Nobel N.V. ("AkzoNobel"), a company based in the Netherlands. Under a Deed executed on the same date, AkzoNobel guarantees all ICI's obligations to make payments to the Fund arising under legislation and under the Trust Deed and Rules.

#### **Trustee**

The Fund has one trustee, a corporate trustee, called ICI Pensions Trustee Limited (the "Trustee"). This company is owned by The Law Debenture Trust Corporation PLC ("Law Debenture"), a professional trustee company which is entirely independent from ICI and from AkzoNobel. As owner of all the share capital, only Law Debenture has the power to remove Directors and to appoint replacements, subject to legislation.

The Trustee Board normally has 11 Directors, categorised as follows:

- one Independent Director, Law Debenture;
- five Member-Nominated Directors;
- five Other Directors.

#### **Status of the Fund**

The Fund is a defined benefit occupational pension scheme. On 1 October 2000 the Fund was closed to new employees of ongoing ICI businesses and on 30 June 2002 it was closed to all new members, except for re-admission, at the request of ICI, of certain former members who previously left the Fund in order to take up employment with a different ICI group company.

#### **Bulk Annuity Policies**

In March 2014, the Trustee purchased two bulk annuity policies (sometimes known as 'buy-ins'), one from Legal and General Assurance Society Limited ("L&G") and one from Prudential Retirement Income Limited ("Prudential") to help further increase the security of member benefits by reducing risks including the risk of increased life expectancy. Further purchases of bulk annuity policies have been made since then, from Prudential in November 2014 and June 2015; from L&G in March and June 2015 and March, July and September 2016; and from Scottish Widows Limited ("Scottish Widows") in June and October 2016 and March 2017.

#### **Member-Nominated Directors ("MNDs")**

Under the Pensions Act 2004, the Trustee is responsible for determining the procedure for nomination and selection of MNDs, subject to certain requirements set out in that Act. The Trustee also has regard to guidance issued by the Pensions Regulator. Detailed arrangements for the nomination and selection procedure are determined by the Policy and Administration Committee and vacancies are notified to members via the Fund's annual newsletter ("Pensions News") which is sent to members and published on the Trustee website, [www.icipensionfund.org.uk](http://www.icipensionfund.org.uk).

Under the current arrangements:

- any Fund member may be nominated as an MND, except those who are dependant pensioners or only have AVC benefits within the Fund;
- the Trustee decides the selection criteria and nominates a selection panel;
- the final decision on whom to recommend for appointment is taken by this selection panel.

#### **Directors**

The Directors held six Board meetings during the Fund year from 1 April 2016 to 31 March 2017. A list of the Directors at the date of this report is given on page 3. During the year and subsequently, the following changes in Director appointments have arisen:

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2017

The term of appointment of K R January came to an end on 31 May 2016. F G Rose was appointed on 1 June 2016. The terms of appointment of J H Fitzpatrick and F P Gray both came to an end on 31 March 2017. S Kinnaird and M T Owtram were both appointed from 1 April 2017. D J Gee was re-appointed from 1 April 2017.

#### **Secretary and Administrator**

Pensions Secretariat Services Limited ("Pensecserv"), a wholly-owned subsidiary of the Fund, served as Secretary throughout the year, providing strategic support services to the Fund. The administrator of the Fund is Willis Towers Watson Limited ("Willis Towers Watson").

#### **Directors' Remuneration**

Law Debenture is remunerated at its normal fee rates for the professional services it provides to the Trustee. MNDs and Other Directors are remunerated at rates set independently by Law Debenture. The normal annual rates applicable at the date of approving this report are as follows:

	£
Chairman	70,000
Committee Chairman	42,000
Director	24,000

The cost of Directors' remuneration is an administrative expense of the Fund and so is borne by ICI in accordance with the Trust Deed and Rules and paragraph 4 of the Schedule of Contributions (see page 16).

#### **Committees of the Trustee Board**

The Board has established five committees to deal with aspects of its activities:

##### **Appeals Committee**

The Appeals Committee monitors and reviews decisions taken under Stage 1 of the Internal Dispute Resolution Procedure ("IDRP") and decides and responds on any cases under Stage 2 of the IDRP. The Appeals Committee met four times during the Fund year.

##### **Audit Committee**

The role of the Audit Committee is to make recommendations to the Board as to the appointment of external auditors; to appoint or remove internal auditors; to agree the scope of their audit work and to discuss with them any issues arising. The Committee also reviews the Fund's annual financial statements and reviews the effectiveness of the Fund's internal control and risk management procedures. The Audit Committee met three times during the Fund year.

##### **Investment Committee**

The Investment Committee advises the Board on investment strategy and risks and has delegated authority to implement changes to investment strategy. It also has authority to review, monitor, select and deselect investment managers and custodians and to determine their remits and terms of appointment. Further details are contained in the Investment Report on pages 11 to 13. The Investment Committee met twelve times during the Fund year.

##### **Policy and Administration Committee**

The Policy and Administration Committee advises the Board on a variety of issues of policy; monitors the administrator of the Fund, Willis Towers Watson, and deals with discretionary benefits and other administrative issues delegated to the Committee by the Board. The Policy and Administration Committee met 10 times during the Fund year.

##### **Strategic Risk Committee**

The Strategic Risk Committee's role is to represent the Fund's interests in discussions with the Principal Employer about funding issues and the general security of the Fund and to investigate ways of mitigating the principal non-investment risks that may affect the Fund. The Strategic Risk Committee met 16 times during the Fund year.

#### **Trustee Training**

The Trustee Board believes that all Directors should receive appropriate training to enable them to undertake their duties. It operates its own in-house training programme, utilising a variety of external speakers as well as identifying appropriate external training opportunities which Directors may choose to attend. To provide a

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2017

common foundation training for all, Directors are also required to complete the Pensions Regulator's Trustee Toolkit (an online training programme) within six months of appointment.

#### **Statement of Trustee Responsibilities**

The audited accounts are the responsibility of the Trustee Board. Pension scheme regulations require the Trustee Board to make available to scheme members, beneficiaries and certain other parties audited accounts for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) (Amendment) Regulations 2016 including a statement as to whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee Board has arranged for the preparation of the accounts 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 making available each year, commonly in the form of an annual report, information about the scheme prescribed by pensions legislation, which the Trustee Board should ensure is consistent with the audited accounts it accompanies.

Under the Pensions Act 1995, the Trustee Board is responsible for ensuring that there is prepared, maintained and, from time to time revised, a Schedule of Contributions showing the rates of contributions payable to 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 Trustee Board is also responsible for keeping records of contributions received in respect of any active member of the Fund and for procuring that contributions are made to the Fund in accordance with the Schedule of Contributions.

The Trustee Board also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

#### **Financial Statements**

The Annual Financial Statements of the Fund have been prepared and audited in accordance with the requirements of the Pensions Act 1995 and are shown on pages 18 to 29.

It must be emphasised that market value is a snapshot at the date of the Financial Statements and that there can be sharp short-term fluctuations in market value. Given the long-term nature of pension funds, not too much emphasis should be given to short-term rises or falls in the market value of the Fund's investments. Therefore, it is advised that the Fund's Financial Statements should be read in conjunction with the Actuarial Certificate on page 17.

#### **Custodian**

The Fund has a single, independent custodian for its direct investments. The Northern Trust Company ("Northern Trust") was appointed as the independent custodian of the Fund with effect from 1 April 2015. Pooled investment funds in which the Fund invests use independent custodians appointed by the manager of each fund. Northern Trust also acts as independent custodian of the assets held as security in relation to the bulk annuity policies with L&G. The Fund has also appointed The Bank of New York Mellon SA/NV as independent custodian of the assets held as security in relation to the bulk annuity policies with Prudential and (with effect from 3 June 2016) State Street Bank and Trust Company as independent custodian of the assets held as security in relation to the bulk annuity policy with Scottish Widows.

#### **Additional Voluntary Contributions ("AVCs")**

AVC arrangements are no longer open to new contributions. However, members are able to continue to maintain existing AVC savings accounts if they wish to do so. Responsibility for the various aspects of the AVC arrangements is split between the Investment Committee and the Policy and Administration Committee.

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2017

#### Benefit Statements

Benefit Statements are normally sent to contributing members between July and September each year. Deferred members may request them individually.

#### Pension Increase

Pensions in payment were increased by 1.9% with effect from 1 November 2016, reflecting the annual increase in RPI as at 31 July 2016. The Fund's Rules provide for pensions to be increased in line with the annual increase in RPI, subject, for the majority of members, to a limit of 5% and applied to the pension in excess of Guaranteed Minimum Pension ("GMP"). GMPs are increased as required by government regulations. For most pensioners who retired before 6 April 2006, the increase is based on the pension value before commutation.

#### Self Investment

The Fund has no direct investments in ICI or any other companies within the Group. Indirect investment would arise only via indexed pooled investment vehicles (as permitted by the Pensions Act 1995) and represents less than 1% of Fund assets.

#### Risk Controls

Regulations require all pension fund trustees to ensure adequate internal financial controls and policies for the control of investment risk. The Trustee's policies and procedures comply with these regulations.

#### Actuarial Valuation and Determination of Contributions

The Scheme Actuary carried out a formal valuation of the Fund as at 31 March 2014. This was the third valuation of the Fund to be conducted under the scheme-specific funding regulations established by the Pensions Act 2004. As a result of this valuation, a Recovery Plan and a revised Schedule of Contributions were agreed between the Trustee and the Principal Employer and certified by the Scheme Actuary on 17 July 2015. The Principal Employer made the following contributions during the year to 31 March 2017 in accordance with the Schedule of Contributions dated 17 July 2015:

In respect of all members other than Holden Section members      From 1 August 2015, 56.1% of members' total Pensionable Pay, less the contributions paid by members.

In respect of Holden Section members      From 1 August 2015, 48.3% of Pensionable Salaries, less the contributions paid by members.

The contribution rates payable from 1 August 2015 were effectively introduced retrospectively from 1 April 2014.

Additional contributions to fund the costs of all early retirements in normal health.

The contributions payable by the Principal Employer as a result of the statutory funding objective not being met at 31 March 2014 were £150million in January 2017.

A Summary Funding Statement outlining the funding position as at 31 March 2016 was issued to members in October 2016. This is available on the Trustee website, [www.icipensionfund.org.uk](http://www.icipensionfund.org.uk).

#### Arrangements for Payment of Employer Contributions

The following contribution dates are embodied in the Schedule of Contributions:

Type of Payment	Due Date
Members' contributions deducted from salary	Within nineteen days after the end of the month in which the deduction was made
Employers' contributions related to salary	As for members' contributions
Recovery plan Contributions	By the end of January in each Fund year

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2017

Other additional contributions (e.g. Early Retirement Top-Ups)

Within three months of being properly demanded by the Trustee

#### **Additional Agreements with the Principal Employer**

Under Clause 14 of the Trust Deed, ICI guarantees the due payment of contributions and other payments to the Fund so as to ensure solvency of the Fund and the due payment of all pensions and benefits.

AkzoNobel has also agreed to share information on its financial position periodically with the Trustee.

#### **Transfers**

All transfer values paid to other pension schemes were either calculated by the Scheme Actuary, or calculated in accordance with instructions prepared by him, in accordance with statutory regulations. Transfers in from external companies' pension schemes are no longer accepted into the Fund. Existing ICI employees who were required to leave the Fund and transfer into other ICI pension arrangements may still be permitted to rejoin the Fund, subject to the consent of ICI and the Trustee.

#### **Equal Treatment**

The Directors believe that the Fund has equalised benefits between men and women as required by law except for GMPs where, in common with most other pension schemes, the Directors are awaiting further clarification of the law.

#### **Internal Dispute Procedure**

The Fund has instituted a procedure in accordance with the requirements of the Pensions Act 1995 and the Pensions Act 2004. The process is intended to be clear and simple and members can obtain details from the Fund's administrator, whose address is shown on page 4.

#### **Contracting-out of State Second Pension**

Prior to 6 April 2016 employees of ICI were contracted-out of the State Second Pension ("S2P", formerly the State Earnings Related Pension Scheme or SERPS) and have been since the scheme was introduced in 1978. The basis for contracting-out of S2P for the Fund is the Reference Scheme Test. Since 6 April 2016 it has no longer been possible for pension schemes to be contracted out of the State Second Pension.

#### **Appointment of Advisers**

The advisers listed on pages 3 and 4 have all been appointed by the Trustee or under the authority of the Trustee.

#### **Data Protection Act 1998**

The Trustee Board, together with the Administrator and the Scheme Actuary, periodically review the data held and systems used in order to assess actions required to meet the provisions of the Data Protection Act 1998. The Trustee believes that it complies with all aspects of the legislation.

#### **Tax Status**

The Fund is registered with HMRC in accordance with the Finance Act 2004 and the Directors know of no reason why this registration may be prejudiced or withdrawn.

#### **Enquiries**

Any enquiries concerning the Trustee's Report, Financial Statements or any provisions of the Fund should be addressed to the Fund's administrator, whose contact details are shown on page 4.

BY ORDER OF THE BOARD OF ICI PENSIONS TRUSTEE LIMITED

B J Picknett  
for and on behalf of Pensions Secretariat Services Limited  
Secretary

13 July 2017

## ICI PENSION FUND

### MEMBERSHIP REPORT 31 MARCH 2017

	Contributing Members	Pensions in Payment	Deferred Pensioners	Total
At 1 April 2016	308	44,821	8,699	53,828
Additions	-	1,122	16	1,138
Cessations	-41	-3,010	-586	-3,637
At 31 March 2017	267	42,933	8,129	51,329

The 1,122 additions to the Pensions in Payment comprise 24 who were former contributing members, 417 who were former deferred members and 681 dependants pensions.

#### Cessations of Contributing Members

Pension at normal retirement	4
Pension at early retirement	18
Pension on failure of health	2
Deaths	1
Deferred pensions	16
	41

#### Commutation of Pensions

During the year 469 members were eligible to exercise their option to commute part of their pensions and 387 (82.5%) decided to do so. The total value of pensions commuted during the period under review amounted to £0.3million. The amount of commutations paid in the year was £16million.

#### Dependants' and Spouses' Pensions

Of the 42,933 pensions in payment at 31 March 2017, 14,009 were payable to dependants or spouses.

#### Additional Voluntary Contributions (AVC) Schemes

AVCs are invested in individual accounts with Clerical Medical and the Equitable Life and in the case of members transferred in from the Holden UK Retirement Benefit Plan, Prudential and Scottish Friendly.

AVCs are closed to new contributions. The figures given below indicate the total number of members with AVCs and the companies with which they are invested.

	Equitable Life	Clerical Medical	Prudential	Scottish Friendly
AVC Members at 1 April 2016	71	134	18	2
<b>Less:</b> Leavers	-14	-25	-2	-
<b>AVC Members at 31 March 2017</b>	<b>57</b>	<b>109</b>	<b>16</b>	<b>2</b>

## ICI PENSION FUND

### INVESTMENT REPORT 31 MARCH 2017

#### **Statement of Investment Principles**

In accordance with the Pensions Act 1995, the Directors of ICI Pensions Trustee Limited have produced a Statement of Investment Principles ("SIP") after having consulted with ICI. A copy can be obtained by writing to the Fund Administrator at the address given on page 4.

#### **Investment Management Structure**

Investments are managed according to remits and control limits laid down in the SIP. The Directors have established an Investment Committee to which a number of operational powers are delegated, but key decisions about long-term strategy and governance are taken by the Board of Directors.

The Trustee has delegated all day-to-day investment decisions to its investment managers. As at 31 March 2017 these were:

Alinda Capital Partners LLC ["Alinda" or "ALI"]  
Beach Point Capital Management LP ["Beach Point" or "BEA"]  
BlackRock Advisors (UK) Limited ["BlackRock" or "BLK"]  
Brigade Capital UK LLP ["Brigade" or "BRG"]  
Stone Harbor Investment Partners LP ["Stone Harbor" or "STH"]

Each remit includes a benchmark against which performance is measured. BlackRock's remit is to manage the matching asset portfolio, being bonds or a combination of cash and swaps with similar economic characteristics, designed to match a substantial proportion of the Fund's non-insured liabilities. BlackRock also manages an equity options portfolio within the qualifying investment fund. Alinda is a specialist infrastructure manager. Beach Point and Brigade are alternative credit managers and Stone Harbor was appointed during the year as a further alternative credit manager. The Genesis emerging market equity mandate was terminated in July 2016. The M&G leveraged loans and long-leasehold property mandates were both terminated in December 2016.

#### **Investment Strategy**

The Fund continued its existing investment strategy of maintaining a substantial proportion of assets in bulk annuity policies, bonds, cash and swaps that closely match expected future cash outflows, in order to minimise volatility of assets relative to liabilities. This strategy has served the Fund well in the year to 31 March 2017 where further falls in gilt yields led to an increase in the present value of the liabilities which has been offset by an increase in the value of the Fund's assets. The Fund relied on bulk annuity payments, income and maturities from its low-risk bond portfolio, together with deficit-reduction contributions from ICI, to meet pension outgoings during the year.

As at the year end the Fund had reduced the allocation to investments exhibiting higher risk but with correspondingly higher return expectations ("return-seeking") to 6% of the total value of its assets, with the proportion allocated to liability-related investments (the bulk annuity policies together with the matching asset portfolio) increasing to 94%. During the year the Trustee increased its hedging targets to 105% for both interest rate and inflation risk relating to its uninsured liabilities and the new targets were established in the first quarter of 2017. The 105% target for the uninsured liabilities translates to a hedge ratio of around 102% of the interest rate and inflation risk of the total liabilities (including insured liabilities).

The Investment Committee has continued to refine the investment strategy during the year undertaking further buy-ins and taking further measures to de-risk the portfolio of return-seeking investments as the funding level of the Fund improved.

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## INVESTMENT REPORT 31 MARCH 2017

The Fund's strategic asset allocation at 31 March 2017, was as set out below:-

The headings in the table indicate the investment managers responsible (see key on previous page)	BLK %	L&G %	Pru %	SW %	ALI %	BEA %	BRG %	STH %	Total %
<b>Liability-related Investments:</b>									
Bulk Annuity Policies		54	14	14					<b>82</b>
Matching Asset Portfolio (LDI)	12								<b>12</b>
									<b>94</b>
<b>Return Seeking Investments:</b>									
Developed Market Equity Options	1								<b>1</b>
Alternative Credit						2	2	1	<b>5</b>
Infrastructure					0				<b>0</b>
									<b>6</b>
<b>Total</b>	<b>13</b>	<b>54</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>100</b>

Subject to rounding differences

### Investment Performance Summary

Until 31 March 2016 the Fund subscribed to the independent State Street Investment Analytics service for performance measurement of UK pension funds. For this Fund year the performance has been measured by the custodian bank, Northern Trust. The returns for each manager who served throughout the relevant period are measured against their respective funding benchmark. The total Fund return is measured against the strategic liability benchmark, which reflects changes to the value of future benefit cashflows. Other than in the case of the BlackRock Matching Portfolio, there is no direct connection between the funding benchmarks and the strategic benchmark. The returns for the year to 31 March 2017 and for the last three and five year periods were as follows:

Investment Managers	Year to 31 March 2017			Last 3 Years (Annualised)			Last 5 Years (Annualised)		
	Actual %	Benchmark		Actual %	Benchmark		Actual %	Benchmark	
		Market	Strategic		Market	Strategic		Market	Strategic
<b>Liability-related Investments:</b>									
BlackRock Matching Portfolio	13.3	16.1		11.7	13.1		8.2	8.5	
<b>Return Seeking Investments:</b>									
BlackRock Equity Options*	88.3	14.3		24.1	7.9		N/A	N/A	
Beach Point	16.5	3.7		N/A	N/A		N/A	N/A	
Brigade	19.4	3.7		N/A	N/A		N/A	N/A	
Alinda	12.7	0.6		21.2	5.5		11	2.5	
<b>Total Fund Return</b>	<b>16.3</b>	<b>16.1</b>		<b>11.0</b>	<b>13.1</b>		<b>8.2</b>	<b>8.5</b>	

\* The equity options returns have been calculated on a net asset value ("NAV") as opposed to exposure basis and, given the positive returns for equity markets, this has caused the significant returns. However, the returns will not greatly impact the Total Fund return as the options NAV is less than 1% of the overall Fund.

Investment management benchmarks are adjusted for changes in remit quarterly as necessary. Where a manager's remit is changed in mid-quarter, this can distort comparison with benchmarks over periods as long as three years.

The Matching Asset portfolio represents 67% of the Fund's non-insured assets and the relative performance of this portfolio dominates performance. In the year to 31 March 2017, the Fund trailed the liability benchmark partly as a result of the timing effects of the buy-in activity undertaken during the period. However, Beach Point, Brigade and Alinda delivered higher percentage out-performance compared to their own funding benchmarks in the year to 31 March 2017.

Dramatic changes in investment markets, such as those occurring in recent years, emphasise the importance of judging performance of pension fund investments over long periods of time. Over the last 10 years, the Fund has delivered a positive return of 9.4% p.a., against its strategic liability benchmark return of 8.9% p.a..

## ICI PENSION FUND

### INVESTMENT REPORT 31 MARCH 2017

#### **BlackRock Matching Asset (LDI) performance**

The LDI portfolio targets a £ amount return of 105% of the £ amount return on the non-insured liabilities (this is simply another way of stating the hedge ratio is 105%). To achieve this hedge target there has to be some borrowing (leverage) within the portfolio because it is worth less than the liabilities it hedges. Therefore the LDI portfolio must achieve a greater % return than the liabilities in order to match the £ return. In seeking to understand the relative performance of the LDI portfolio we therefore believe that it is the asset return adjusted for leverage that is of interest.

The return reported above on the Matching Asset portfolio is calculated by the manager taking into account returns not only on the assets held, but also on “notional assets”. These are included to adjust for the difference in size between the assets managed and the liabilities in the manager’s benchmark. This can lead to the reported return being either higher or lower than the return on the assets held. This adjustment is necessary to give a fair view of the manager’s performance against its benchmark. The manager’s calculation is verified by Northern Trust. However, the return on assets included in total fund returns is the actual return on the assets held (excluding any notional allocations in the LDI manager performance calculations). As a result, the sum of the weighted returns differs from the “Total Fund Return” figure shown in the table on the previous page.

#### **Disclosure of Information**

Further information concerning investments is detailed in Notes 7 to 10 of the Financial Statements on pages 22 to 29.

#### **Myners’ Report - Trustee Compliance Statement**

In 2008, the government published an updated version of its Myners’ Principles, a voluntary code of practice, on the governance of pension fund investment processes.

The Trustee supports Myners’ Principles and believes that, in general, they coincide with the interests of the Fund.

#### **Bulk Annuity Policies**

As at 31 March 2017 the Fund had three bulk annuity policies held in its name, one with Legal & General Assurance Society Limited (“L&G”) one with Prudential Assurance Company (“Prudential”) and one with Scottish Widows Limited (“SW”). The key features of the policies are as follows:

##### **Structure**

The policies are structured as umbrella agreements allowing further transactions to be entered into under the same general terms. They are for the benefit of the Fund as a whole and do not change the position of individual members who see no change as to how their pensions are provided. However, the policy receipts are dependent on the longevity of specific members.

##### **Security**

There are in place collateral structures whereby the Fund has legal ownership of a pool of assets which it can access should L&G, Prudential or SW default on the contracts or breach them in other ways. The levels of collateral have been agreed with L&G, Prudential and SW and they are obliged to top up the collateral where necessary.

The assets in the collateral pools are managed in accordance with pre-agreed investment policies which ensure that the credit quality, liquidity and marketability of the portfolios are kept at appropriate levels.

##### **Management and custody**

Legal & General Investment Management Limited are investment managers of the L&G collateral pool and Northern Trust Company is the custodian.

M&G are investment managers of the Prudential collateral pool and Bank of New York Mellon SA/NV is the custodian.

Aberdeen Asset Management are investment managers of the SW collateral pool and State Street is the custodian.

All of the assets are legally owned by the Trustee subject to fixed charges in favour of the respective insurers.

##### **Monitoring**

Regular monitoring of the policies and the collateral arrangements takes place, both internally at Trustee level and with Prudential, L&G and SW. Monitoring occurs, daily, monthly, quarterly and annually in relation to different aspects of the arrangements.

## ICI PENSION FUND

### SCHEDULE OF CONTRIBUTIONS 17 JULY 2015

**Name of Principal Employer:** Imperial Chemical Industries Limited

**Period covered by schedule:** From 1 April 2014 to 31 January 2021 inclusive.

This schedule of contributions has been prepared by ICI Pensions Trustee Limited, the Trustee of the ICI Pension Fund (the "Fund") after obtaining the advice of Graham McLean, the Scheme Actuary, and has been agreed to by the Principal Employer. The Principal Employer confirms that it has been nominated to act as the representative of the employers for the purpose of section 229 of the Pensions Act 2004 and accordingly signs this Schedule on behalf of itself and the other employers.

IT IS AGREED that

- A. The contributions payable from 1 July 2015 are set out below. The contributions payable from 1 April 2014 to 30 June 2015 are set out in the schedule of contributions signed on behalf of the Trustee and the Company and certified by the Scheme Actuary on 30 January 2012 (the "2012 Schedule").
- B. This schedule revokes and replaces the 2012 Schedule with effect from 17 July 2015, which shall, from that date, be of no further effect.
- C. If the Principal Employer fails to pay an amount due under paragraph 2 of this Schedule of Contributions (recovery plan contributions) on or before the last permitted date of payment (including payment of interest under paragraph D below) and has failed to remedy its default within 15 Business Days after the Trustee has notified it of such default, the Trustee may, by written notice to the Principal Employer, declare all or part of the aggregate unpaid amounts payable under paragraph 2 of this Schedule of Contributions to be immediately due and payable by the Principal Employer and/or payable by the Principal Employer on demand by the Trustee.
- D. If the Principal Employer or any other Contributing Company fails to pay any amount in accordance with this Schedule of Contributions, it shall pay interest on that amount from the time of default up to the time of actual payment (as well as after as before judgment) at the rate per annum which is the sum of:
  - (i) one per cent: and
  - (ii) the rate (as determined by HSBC Bank plc) for a deposit of an amount comparable to the defaulted amount, for such period or periods as HSBC Bank plc may from time to time select, at or about 11.00 (London time) on the Business Day on which, or succeeding that on which, the Trustee becomes aware of the default, for the value on that day.

In this schedule

- (i) terms used have the meanings given to them in the Definitive Deed and Rules dated 6 April 2006 and the Holden Rules, as subsequently amended, (such deed and rules being together referred to as the "Rules") governing the Fund, unless the context requires otherwise;
- (ii) "Holden Section members" refers to Contributing Members or Employed Members who transferred to the Fund with effect from 1 December 2010 from the Holden UK Retirement Benefits Plan (the "Holden Plan");
- (iii) "salary sacrifice member" refers to a Contributing Member or Employed Member who participates in a Contributing Company's salary sacrifice arrangement, and
- (iv) "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for general business in London.

## ICI PENSION FUND

### SCHEDULE OF CONTRIBUTIONS 17 JULY 2015

#### 1. Rates of contribution – normal future service contributions

The rates of contribution payable in respect of the accrual of benefits from and including 1 July 2015 by Contributing Members, Employed Members or Contributing Companies are:

*by Contributing Members or Employed Members:*

Salary sacrifice members:	Nil.
Other members:	At the rates set out in the Rules (allowing for any changes to the contribution rates due to the end of Contracting Out).

*by Contributing Companies:*

In respect of all members other than Holden Section members:	38.5% of members' total Pensionable Pay until 31 July 2015. From 1 August 2015 56.1% of members' total Pensionable Pay less the contributions paid by Contributing Members or Employed Members. Pensionable Pay is defined in the 1967 Rules or the Senior Executive Rules (1996), as applicable.
In respect of Holden Section members:	28.9% of Pensionable Salaries until 31 July 2015. From 1 August 2015 48.3% of Pensionable Salaries less the contributions paid by Contributing Members or Employed Members.
Additional amounts in respect of salary sacrifice members:	Up to 31 July 2015 only, the amount of any member contributions which are not required to be paid because the member concerned participates in a salary sacrifice arrangement.

The revised employers' future service contribution rates payable from 1 August 2015 will effectively be introduced retrospectively from 1 April 2014. The resulting additional contribution requirement will be met by the payment of the recovery plan contributions specified in 2 below.

#### 2 Rates of contribution – recovery plan contributions

The rates of contribution payable as a result of the statutory funding objective not being met at 31 March 2014 are:

*by the Principal Employer:*

In 2015:	£178.5 million in January.
In 2016 and 2017:	£150 million in January each year.
From 2018 to 2021 inclusive:	£125 million in January each year.

## ICI PENSION FUND

### SCHEDULE OF CONTRIBUTIONS 17 JULY 2015

#### 3 Rates of contribution - additional contributions

The additional contributions payable from and including the date this schedule is certified by the Scheme Actuary by Contributing Members, Employed Members or Contributing Companies are:

*by Contributing Members or Employed Members:*

Any additional voluntary contributions.

*by the Contributing Companies:*

Additional contributions as may be determined from time to time by the Actuary to be necessary to meet the estimated cost of all early retirements in normal health arising under the Rules.

Additional contributions as may be determined from time to time by the Actuary to be necessary to meet the estimated cost of benefit augmentations granted under the Rules.

Any sum due under Section 75 of the Pensions Act 1995 as a result of a Contributing Company's cessation of participation in the Fund.

Additional amounts as may, from time to time, be agreed between the Trustee and the Principal Employer.

#### 4 Expenses and Pension Protection Fund levies

The Contributing Companies will reimburse the Fund for all costs and expenses relating to the Fund (other than such costs and expenses directly related to investment as the Trustee determines) and Pension Protection Fund (PPF) levies that have been met out of the Fund's assets.

Alternatively, the Contributing Companies may pay these expenses and PPF levies directly.

#### 5 Calculation errors

The Contributing Companies may contribute smaller amounts than those described in paragraphs 1 and 3 provided that this results from calculation errors and that, at any time, the cumulative amounts paid are no more than £50,000 lower than the cumulative amounts due in accordance with the previous paragraphs. The Contributing Companies shall make good the shortfall as soon as reasonably practicable after they become aware of any such calculation error.

#### 6 Due dates of payment (where not already shown)

Contributions by Contributing Members or Employed Members:

To be received by the Trustee no later than the 19th day of the month following the calendar month in which contributions are deducted from earnings.

Contributions by Contributing Companies under 1 above:

To be received by the Trustee no later than the 19th day of the month following the calendar month to which they relate.

Additional contributions by Contributing Companies under 3 above and the expenses and PPF levies under 4 above:

To be received by the Trustee within three months of being properly demanded by the Trustee.

7 Nothing in this schedule shall preclude the payment of higher contributions as may from time to time be agreed between the Trustee and the Contributing Companies.

**ICI PENSION FUND**  
**ACTUARIAL CERTIFICATE**

**Name of scheme: ICI Pension Fund**

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of the contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2014 to be met by the end of the period specified in the recovery plan.

**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 17 July 2015.

This certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

**Graham McLean**  
**Fellow of the Institute and Faculty of Actuaries**

**17 July 2015**

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

**ICI PENSION FUND**

**FUND ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2017**

	Note	Year to 31 Mar 17 £m	Year to 31 Mar 16 £m
<b>Contributions and Benefits:</b>			
Contributions receivable	3	159	160
		<u>159</u>	<u>160</u>
Benefits payable	4	-492	-503
Payments to and on account of leavers	5	-32	-22
		<u>-524</u>	<u>-525</u>
<b>Net withdrawals from dealings with members and employers:</b>		<u>-365</u>	<u>-365</u>
<b>Returns on investments:</b>			
Investment income	6	464	327
Change in market value of investments	7	942	-189
<b>Net returns on investments:</b>		<u>1,406</u>	<u>138</u>
<b>Net change to the Fund during the year:</b>		<u>1,041</u>	<u>-227</u>
<b>Net assets of the Fund at the start of the year:</b>		<u>9,347</u>	9,574
<b>Net assets of the Fund at the end of the year:</b>		<u>10,388</u>	9,347

The notes are shown on pages 20-29 and form part of the financial statements.

<p><b>ICI PENSION FUND</b></p> <p><b>NET ASSETS STATEMENT</b></p> <p><b>AS AT 31 MARCH 2017</b></p>
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	Note	Year to 31 Mar 17 £m	Year to 31 Mar 16 £m
<b>Investment assets</b>	7		
Pooled Investment vehicles		1,909	3,792
Bulk annuity policies		8,434	5,546
AVC Investments		2	2
Cash		13	13
Other investment balances		36	-
<b>Total Investments</b>		<b>10,394</b>	9,353
<b>Current liabilities</b>	11	<b>-6</b>	-6
<b>Net assets of the Fund at end of the year</b>		<b>10,388</b>	9,347

The notes on pages 20-29 form part of the 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 other benefits in the future. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on page 33 of the annual report and these financial statements should be read in conjunction with it and with the Summary Funding Statement which is available on the Fund's website [www.icipensionfund.org.uk](http://www.icipensionfund.org.uk).

These financial statements were approved by the board of the Trustee Company on 13 July 2017 and were signed on its behalf by:

D.J.Gee                      Director

B.J.Picknett  
for and on behalf of Pensions Secretariat Services Limited  
Secretary

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2017

#### 1. Basis of Preparation

The Financial Statements have been prepared in accordance with the 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 guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014).

#### 2. Accounting Policies

##### (a) Accruals Basis

The Financial Statements have been prepared on an accruals basis, except where noted.

##### (b) Additional Voluntary Contributions (AVCs)

All investments and transactions in AVCs are included in these accounts under the relevant heading. Investment gains and losses notified later than six weeks after the year-end are included in the following year's accounts on the grounds that the amounts involved are immaterial and that this is necessary to avoid inordinate delay to the production of the Financial Statements.

##### (c) Contribution Income

Ordinary contributions relating to wages and salaries earned in the financial year were calculated at rates determined in accordance with the revised Schedule of Contributions agreed with the Principal Employer as a result of the Fund's scheme-specific funding valuation as at 31 March 2014. Contributions for existing members were accounted for in the month when the corresponding wages and salaries were paid. Additional contributions determined by the Scheme Actuary are accounted for when due in accordance with the agreed timetable.

##### (d) Investment Income

Investment income is accounted for on an accruals basis. Interest income is accrued for on a daily basis whereas dividends are accrued for on the basis of the date when the corresponding share price becomes quoted on an ex-dividend basis. Dividends and interest are grossed up for the effects of overseas taxation if any, and any irrecoverable withholding taxes are shown separately.

##### (e) Benefits Payable

Benefits payable represent all material valid benefit claims in respect of the scheme year. Where members have a choice in connection with their benefits (e.g. to commute part of the pension), the benefit choice is accounted for in the month that a notification from the member is received by the Trustee.

##### (f) Administration Expenses

All the Fund's administration expenses and investment management fees are borne by the Principal Employer, with the exception of some investment-related expenses. Charges in relation to specific transactions are deducted from the relevant category of investment income or capital return.

##### (g) Valuation of Investments

The Fund's investments are reported in the Financial Statements on the basis of market values. Market values at the year end are assessed as follows:

- Listed ordinary shares, government, fixed interest and index linked securities are valued at bid price or last traded price, depending on the convention of the stock exchange on which they are quoted. Government, fixed interest and index linked securities are valued on a clean basis, excluding accrued income. Any excluded accrued income is accounted for in investment income.

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2017

- Equity option values are obtained from a third party which employs appropriate valuation techniques.
- Cash which is backing open futures contracts has been classified with pooled cash funds within unitised funds as futures contracts are undertaken to gain market exposure against assets held in these funds.
- Pooled investment vehicles are valued at bid price for funds with a bid/offer spread, or single price where there are no bid/offer spreads provided by the investment manager.

#### **(h) Foreign Currency Conversion**

All assets and liabilities stated in foreign currencies are converted at rates of exchange ruling at the year end date. Exchange adjustments arising are then incorporated in the Fund Account and included in the change in market value of investments.

#### **(i) Bulk Annuity Policies**

The fair value of the bulk annuity policies is deemed to be the present value of the related pension obligations. This value has been calculated using the scheme funding valuation basis. The Scheme Actuary has calculated this value to be £8,434million (2016 £5,546million).

Premia of £3,634million were paid by means of transfer of assets in specie in the year to 31 March 2014. £48million of the original transfer value was refunded to the Fund in the year to 31 March 2015 following a review of the liabilities. Premia totalling £811million were paid in the year to 31 March 2015 in relation to additional policies entered into by the Fund. Further premia totalling £1,298million were paid in the year to 31 March 2016 and £2,642million paid in the year to 31 March 2017. Payments received under the policies during the year were treated as investment income (see note 7). As at 31 March 2017, the final settlement of premia relating to some of the policies was subject to data confirmation. This exercise will give rise to a final settlement payment either by the Fund or the insurer.

An accrual of £15million was recognised in respect of premium adjustments due to the Fund on six transactions completed in the period from 16 March 2016 to 14 March 2017, less a payment required from the Fund in respect of one transaction with Prudential which was completed in June 2015. Interest to 31 March 2017 is included in the accrual figure. Since 31 March, the payment to Prudential amounting to £4.4million, has been paid.

Any difference between the opening value of the policy and the closing value, other than due to additional premia or adjustments to premia, is shown as a change in market value of the investment.

Collateral held to provide security in relation to the annuity policies is not included or valued in these accounts.

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2017**

**3. Employers contributions receivable:**

	<b>Year to 31 Mar 17</b>	Year to 31 Mar 16
	<b>£m</b>	£m
Normal	<b>8</b>	8
Augmentation	<b>1</b>	2
Deficit funding	<b>150</b>	150
	<b>159</b>	160

**4. Benefits payable on or during retirement:**

	<b>Year to 31 Mar 17</b>	Year to 31 Mar 16
	<b>£m</b>	£m
Pensions	<b>476</b>	485
Commutation and lump sum retirement benefits	<b>16</b>	18
	<b>492</b>	503

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

	<b>Year to 31 Mar 17</b>	Year to 31 Mar 16
	<b>£m</b>	£m
Individual transfers to other schemes	<b>32</b>	22
	<b>32</b>	22

**6. Investment income:**

	<b>Year to 31 Mar 17</b>	Year to 31 Mar 16
	<b>£m</b>	£m
Income from bonds	<b>1</b>	5
Income from pooled investment vehicles	<b>11</b>	16
Income from bulk annuity policies	<b>461</b>	309
Gain or loss on foreign exchange transactions	<b>-2</b>	-2
Investment management fees	<b>-7</b>	-1
	<b>464</b>	327

In addition to the above, income is received from pooled investment vehicles which is re-invested and is reflected in the change in market value of those funds.

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2017**

**7. Investments:**

**(a) Reconciliation of investments held at the beginning and the end of the year**

	Market Value at 31 Mar 16	Purchases at cost	Sales proceeds and premium adjustments	Change in market value	<b>Market Value at 31 Mar 17</b>
	£m	£m	£m	£m	£m
Bonds	0	1,603	-1,709	106	-
Pooled investment vehicles	3,792	1,134	-3,607	590	<b>1,909</b>
Bulk annuity policies	5,546	2,644	-2	246	<b>8,434</b>
AVC investments	2	-	-	-	<b>2</b>
	<b>9,340</b>	<b>5,381</b>	<b>-5,318</b>	<b>942</b>	<b>10,345</b>
Cash deposits	13	167	-167	-	<b>13</b>
Other investment balances	-	36	-	-	<b>36</b>
	<b>9,353</b>	<b>5,584</b>	<b>-5,485</b>	<b>942</b>	<b>10,394</b>

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 on sales of investments during the year.

**(b) Transaction Costs.**

In the reconciliation of investments table, transaction costs of bonds and pooled funds are included in the price charged by counterparties and so cannot be identified separately.

**(c) The Fund has the following investments which represent more than 5% of the assets of the Fund.**

	Market Value 31 Mar 17 £m	% of total assets
L&G bulk annuity policy	5,504	50.4
Scottish Widows bulk annuity policy	1,495	13.7
Prudential bulk annuity policy	1,435	13.1
BlackRock LDI QIF	1,282	11.7

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2017**

**(d) Pooled Investment Vehicles (PIVs)**

The Fund's holdings of PIVs are analysed below:

	<b>Market Value at 31 Mar 17 £m</b>	<b>Market Value at 31 Mar 16 £m</b>
Inflation-linked qualifying investment fund *	1,282	2,935
Alternative Credit *	504	405
Equities	-	92
Leveraged loans	-	149
Infrastructure	60	57
Long lease property	-	154
Pooled cash funds	63	-
	<b>1,909</b>	<b>3,792</b>

\* = Investment vehicles in which the Fund is the sole investor

The assets underlying the inflation-linked qualifying investment fund are:

	<b>Market Value at 31 Mar 17 £m</b>	<b>Market Value at 31 Mar 16 £m</b>
Interest rate swaps	-324	-66
Inflation swaps	-4	-6
Overnight interest swaps	480	411
Total return swaps	-2	1
UK fixed interest gilts	486	587
UK fixed interest gilts repurchase agreements	-240	-165
UK index-linked gilts	914	2,091
UK index-linked gilts repurchase agreements	-255	-49
Equity options	63	49
Pooled cash funds **	359	68
Cash & receivables/payables	-195	14
	<b>1,282</b>	<b>2,935</b>

\*\* The pooled cash funds comprise mainly commercial paper, certificates of deposit and floating rate notes. Units held in these cash funds can be realised for use as collateral under the swap agreements.

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2017**

**8. Investment Fair Value Hierarchy.**

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

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the Fund 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) for the asset or liability, either directly or indirectly.

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

For the purposes of this analysis daily priced funds have been included under Level 1, weekly priced funds under Level 2 and the quarterly net asset values of the infrastructure fund under Level 3. The underlying assets held in the Qualifying Investment Fund have been classified by their respective categories.

The fair value of the Fund's investment assets have been determined using the hierarchy categories above. The categorisation reflects the amendment to FRS102 issued in March 2016, and has been applied (as permitted) before it becomes a formal requirement. The outcome is summarised in the table below.

	Level 1 £m	Level 2 £m	Level 3 £m	Total
<b>At 31 March 2017</b>				
Pooled Investment vehicles	-	1,849	60	1,909
Bulk annuity policies	-	-	8,434	8,434
AVC Investments	2	-	-	2
Cash	13	-	-	13
Other investment balances	36	-	-	36
	51	1,849	8,494	10,394

	Level 1 £m	Level 2 £m	Level 3 £m	Total
<b>At 31 March 2016</b>				
Pooled Investment vehicles	-	3,580	212	3,792
Bulk annuity policies	-	-	5,546	5,546
AVC Investments	2	-	-	2
Cash	13	-	-	13
	15	3,580	5,758	9,353

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2017

#### 9. Investment risk disclosures

##### a) Investment risks

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

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

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

- **Currency risk:** the risk that the fair value of or future cash flows from a financial asset denominated in one currency will fluctuate when measured in a different currency because of changes in foreign exchange rates.
- **Interest rate risk:** the risk that the fair value of or future cash flows from a financial asset will fluctuate because of changes in market interest rates.
- **Inflation risk:** the risk that the fair value of or future cash flows from a financial asset will fluctuate because of changes in market inflation rates.
- **Other price risk:** the risk that the fair value of or the future cash flows from a financial asset will fluctuate because of changes in market prices (other than the above) whether those changes reflect factors specific to the individual financial instrument or issuer or factors affecting all similar financial instruments traded in the market.

The Fund has exposure to these risks because of the investments it makes pursuing the investment strategy set out below to meet the liability payments.

Further information on the Trustee's approach to risk management and investment risk is set out below. This does not include AVC investments which are not considered to be significant in relation to the overall investments of the Fund.

##### b) Investment strategy

The investment strategy of the Fund is set after taking advice from professional investment advisers and taking into account considerations such as the strength of the employer covenant, the liabilities of the Fund and the funding agreed with the Principal Employer at the conclusion of the 31 March 2014 valuation.

The Fund maintains a substantial proportion of its assets in bulk annuity policies, UK government bonds, cash and swaps which closely match expected future cash outflows, in order to minimise volatility of assets relative to liabilities ("the LDI portfolio"). To further reduce the risk from interest rates and inflation changes, the Trustee enters into hedging arrangements beyond the value of the assets in the LDI portfolio, such that around 102% of the estimated liabilities of the Fund are hedged against changes in interest rates and inflation. Current pension outgoings are met from bulk annuity payments, income and maturities from bonds and deficit reduction contributions from the Principal Employer. At the year end the LDI portfolio represented 94% of the total investment portfolio, including the bulk annuity policies, 82%.

The Fund continues to allocate a relatively small proportion of its assets (around 6%) to investments exhibiting higher risk but with correspondingly higher return expectations. Based on the actuarial assumptions used in the valuation, the excess return on these investments (compared to the increase in the liabilities) together with normal and deficit reduction contributions should enable the Fund to eliminate the Fund's deficit and meet the benefits payable to members as they fall due.

##### c) Credit risk

The Fund is exposed to credit risk through its holding of cash balances. In addition the Fund is indirectly exposed to credit risk through its investment in the BlackRock Qualifying Investment Fund, which invests in bonds, "over the counter" (OTC) derivatives, cash balances, repurchase agreements (Repo) etc and through its investments in other pooled vehicles.

Credit risk in the LDI portfolio is minimised by reliance on government bonds where credit risk is considered to be minimal. The direct holdings of corporate bonds in the LDI portfolio have been sold during the year.

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2017

The derivatives in the LDI portfolio in which the Fund invests are held through a sole investor pooled vehicle. These are OTC derivatives not guaranteed by any exchange and the Fund is therefore exposed to the risk of failure of any counterparty. The credit risk is significantly reduced by collateral arrangements and diversification across a number of counterparties.

The Trustee does not permit stock lending in relation to its segregated or sole investor pooled vehicles.

#### Analysis of credit risk – 31 March 2017

Asset class	Investment Grade (£m)	Non-investment Grade (£m)	Unrated (£m)	Total (£m)
Bonds	1,400	-	-	1,400
OTC Derivatives	150	-	-	150
Repo	495	-	-	495
Other PIVs	-	-	504	504
Cash	275	-	-	275
<b>Total</b>	<b>2,320</b>	<b>-</b>	<b>504</b>	<b>2,824</b>

#### Analysis of credit risk – 31 March 2016

Asset class	Investment Grade (£m)	Non-investment Grade (£m)	Unrated (£m)	Total (£m)
Bonds	2,678	-	-	2,678
OTC Derivatives	340	-	-	340
Repo	214	-	-	214
Other PIVs	-	-	554	554
Cash	93	-	-	93
<b>Total</b>	<b>3,325</b>	<b>-</b>	<b>554</b>	<b>3,879</b>

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

Type of Vehicle	31 March 2017 (£m)	31 March 2016 (£m)
Unit linked insurance contracts	-	-
Open ended investment companies	-	149
Shares in limited liability partnerships	504	405
<b>Total</b>	<b>504</b>	<b>554</b>

The credit risk arising on other investments is managed by the appointment of managers whom the Trustee believes, having taken appropriate advice, to be skilled in managing such risks while delivering a return reflecting the level of risk. Direct credit risk from the pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the manager, the regulatory environments in which the managers operate and diversification amongst a number of pooled arrangements.

Cash is held in a pooled vehicle operated by the LDI investment manager. The pooled fund has a 7-Day LIBID benchmark and a focus on maximising income with the preservation of principal and liquidity. The fund has a AAAm rating from Standard & Poor's and a Aaa-mf rating from Moody's, the highest ratings for liquidity funds.

Credit risk in relation to the annuity policies entered into with Prudential, L&G and SW is mitigated by the collateral structures described in the Investment Report on page 13.

#### d) Currency risk

The Fund is subject to currency risk to the extent that its liabilities are all denominated in sterling, but some of its investments are held through pooled funds investing in overseas markets. With the exception of the infrastructure investment, the managers hedge the non-sterling currency exposure back to GBP.

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2017**

The Fund's total net unhedged exposure by major currency at the year end was as follows:

Currency	31 March 2017 (£m)	31 March 2016 (£m)
US Dollar	60	150
Euro	-	-
Japanese Yen	-	-
<b>Total</b>	<b>60</b>	<b>150</b>

**e) Interest rate risk**

The Fund is subject to interest rate risk because some of its investments are held in the form of bonds, interest rate swaps and cash. The Trustee has, as part of its investment strategy, set a target for the interest rate sensitivity across the Fund's investments in bonds and swaps to match 102% of the sensitivity to interest rate changes of the Fund's liabilities to pay future benefits. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. By the same mechanism, if rates rise, the LDI investments will fall in value, as will the actuarial liabilities. As at 31 March 2017 the ratio of matching was 102%.

The interest rate exposure for the Fund on the investments held at the start and end of the last financial year was as follows:

Asset Class	31 March 2017 (£m)	31 March 2016 (£m)
Gilts	1,400	2,678
Corporate Bonds	-	-
Gilt Repo	495	214
Swap Mark to Market	150	340
Alternative Credit*	504	405
Emerging Market Debt	-	-
<b>Total</b>	<b>2,549</b>	<b>3,637</b>

\* The alternative credit portfolios are fairly short duration and so not as exposed to interest rate risk as the assets in the LDI Portfolio.

The figures provided for the swap exposure represent the mark to market of the swaps whereas the potential profit/loss from these holdings could be significantly larger. It should, however, be noted that any move in the swap value would be reflected in the liabilities.

**f) Other price risk**

Other price risk arises in relation to other return seeking investments. These include equity options, property and infrastructure investments. All of these are held through pooled investment vehicles.

At the year end, the Fund's exposure to investments subject to other price risk was as follows:

Indirect	31 March 2017 (£m)	31 March 2016 (£m)
Equity Options	63	49
Developed Market Equity	-	-
Emerging Market Equity	-	92
Emerging Market Currency	-	-
Infrastructure	60	57
Long Lease Property	-	154
<b>Total</b>	<b>123</b>	<b>352</b>

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2017

#### 10. Forward foreign exchange

In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolios are invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling the Fund has a policy of hedging the majority of the developed economic currency exposure. Hedging will normally be done by investing in a sterling denominated share class or mandating the manager to hedge and report performance against a sterling benchmark.

#### 11. Current assets and liabilities

	31 Mar 17 £m	31 Mar 16 £m
Unpaid benefits	-6	-6
	<u>-6</u>	<u>-6</u>

#### 12. Related Party Transactions

##### (a) Directors of the Trustee Company

The Fund received contributions in respect of a director of the Trustee company who is also a Contributing member of the Fund. The Fund has also paid benefits to directors of the Trustee company who are also beneficiaries of the Fund, as reported in the director's remuneration note on page 6. All of the above transactions are in accordance with the rules of the Fund and on the same terms as other members. All of the directors listed on page 3 are remunerated for services provided to the Trustee.

##### (b) Owners of the Trustee Company

The Law Debenture Trust Corporation p.l.c ("Law Debenture") owns and is also a director of the corporate trustee of the Fund. Law Debenture earned fees during the year, which were borne by ICI.

#### 13. Investment Management expenses

Charges in relation to specific transactions are deducted from the relevant category of investment income or capital return. As explained in note 2(f), general investment management expenses are normally paid by the Principal Employer unless otherwise determined by the Trustee.

#### 14. Employer Related Investment

The Trust Deed permits aggregate investment of up to 1% of the Fund in securities of the AkzoNobel Group.

As at 31 March 2017 there were no direct investments in securities of AkzoNobel or ICI and any indirect investments by pooled fund securities were less than 1%.

# ICI PENSION FUND

## AUDITOR'S REPORT

### Independent Auditor's Report to the Trustee of the ICI Pension Fund

We have audited the Financial Statements of the ICI Pension Fund for the year ended 31 March 2017 set out on pages 18 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Fund's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Fund's 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's Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee responsibilities set out on page 7, the Fund's Trustee is responsible for supervising the preparation of Financial Statements which show a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

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 2017 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 Generally Accepted Accounting Practice; and
- Contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Jatin Patel (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

13 July 2017

## ICI PENSION FUND

### AUDITOR'S REPORT ON CONTRIBUTIONS

#### **Independent Auditor's Statement about Contributions to the Trustee of the ICI Pension Fund**

We have examined the Summary of Contributions payable under the Schedule of Contributions to the ICI Pension Fund in respect of the Fund year ended 31 March 2017 which is set out on page 32.

This statement is made solely to the Fund's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the 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, as a body, for our work, for this statement, or for the opinions we have formed.

#### **Respective responsibilities of Trustee and Auditor**

As explained more fully in the Statement of Trustee's responsibilities set out on page 32, 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 Schedule of Contributions to the Fund and to report our opinion to you.

#### **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 Schedule 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 Schedule of Contributions

#### **Statement about contributions payable under the Schedule of Contributions**

In our opinion contributions for the Fund year ended 31 March 2017 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid for the period 1 April 2016 to 31 March 2017 in accordance with the Schedule of Contributions certified by the actuary on 17 July 2015.

Jatin Patel (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London E14 5GL

13 July 2017

## ICI PENSION FUND

### 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 procuring that contributions are made to the Fund in accordance with the schedule.

#### Trustee's Summary of Contributions payable under the schedule in respect of the Fund year ended 31 March 2017

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Fund under the schedules of contributions applicable in respect of the Fund year ended 31 March 2017. The Fund auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

#### Contributions payable under the schedule in respect of the Fund year

	£000s
Employer:	
normal payroll related contributions	7,525
normal early retirement related contributions	1,478
deficit funding contributions	150,000
Member:	
normal payroll related contributions	36
<b>Total contributions payable under the schedule (as reported on by the Fund auditor)</b>	<b>159,039</b>

#### Reconciliation of contributions

Reconciliation of contributions payable under the schedule to contributions reported in the accounts in respect of the Fund year ended 31 March 2017:

	£000s
Contributions payable under the schedule (as above)	159,039
Contributions payable in addition to those due under the schedule (and not reported on by the Fund auditor):	Nil
<b>Total contributions reported in the accounts</b>	<b>159,039</b>

Approved on behalf of the Trustee on 13 July 2017

B.J.Picknett  
for and on behalf of Pensions Secretariat Services Limited  
Secretary

## ICI PENSION FUND

### REPORT ON ACTUARIAL LIABILITIES

Under section 222 of the Pensions Act 2004, occupational pension schemes with defined benefit liabilities are subject to the “Statutory Funding Objective”, which is to have sufficient and appropriate assets to cover their technical provisions. The technical provisions represent the present value of the 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 Imperial Chemical Industries Limited and set out in the Statement of Funding Principles, which is available to members upon request.

A full actuarial valuation of the ICI Pension Fund as at 31 March 2017 is underway. The most recent, completed, full actuarial valuation was carried out as at 31 March 2014. This showed that on that date:

The value of the technical provisions was: £9,297million

The value of the assets was: £8,447 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles).

#### Method

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

#### Significant actuarial assumptions

**Discount interest rate:** term-dependent rates set by reference to a real gilt yield curve, plus assumed future retail price inflation, with an addition of 0.8% per annum for the year to 31 March 2015 and an addition of 0.6% per annum thereafter until 31 March 2020.

**Future retail price inflation (RPI):** a rate of 3.45% per annum is assumed, set by reference to nominal and real gilt yield curves over the duration of the Fund's expected benefit payments.

**Future consumer price inflation (CPI):** a rate of 2.45% per annum is assumed, set by reference to views on the expected long-term differential between RPI and CPI inflation.

**Pension increases:** derived from the rates of future RPI and CPI allowing for the caps and floors on pension increases according to the provisions in the Fund's rules.

**Pay increases:** general pay increases of 1% per annum above future RPI, i.e. 4.45% per annum, has been assumed.

**Mortality:** For the period in retirement, the following standard tables, scaling factors and assumed rates of improvement were used:

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#### Base mortality rates

	Scaling factor	Relevant standard S2 SAPS (Amounts) table
Males (age retirement)	97.5%	Male All retirements
Males (ill-health retirement)	96%	Male ill-health
Females (age retirement)	91%	Female Normal retirement (heavy)
Females (ill-health retirement)	96%	Female ill-health
Males dependants	97%	Male All retirements
Female dependants	108%	Female Dependants

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**future improvements (to base rates):** in line with the CMI 2013 core projection model from 2007 onwards with an assumed long-term mortality improvement trend of 1.5% per annum

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