

ICI PENSION FUND

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

REPORT OF THE TRUSTEE AND FINANCIAL STATEMENTS

31 March 2020

ICI PENSION FUND

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ICI PENSION FUND**HIGHLIGHTS OF THE YEAR ENDED 31 MARCH 2020**

	Total £m
Fund's assets at 1 April 2019	10,350
How the money came in - Income	£m
Employer contributions	4
Investment income	452
Total income	<u>456</u>
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How it was used - Expenditure	£m
Pensions	464
Commutation lump sums	16
Transfers to other funds	65
Total expenditure	<u>545</u>
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Change in the Fund	£m
Balance of Income and Expenditure	-89
Change in market value of investments	19
Total change in the Fund	<u>-70</u>

Fund's Assets at 31 March 2020**£10,280 million**

The Fund provides for:

Contributing members	116
Pensioners	38,286
Deferred pensioners	6,245
Total members at 31 March 2020	<u>44,647</u>

ICI PENSION FUND

TRUSTEE, DIRECTORS AND PROFESSIONAL ADVISERS AS AT 8 JULY 2020

Trustee:

ICI Pensions Trustee Limited

Directors:

D J Gee (Chairman) SRC
Pensioner

I N Canham AC*, SRC
Deferred Member

C J Cook AC, AUC, IC
Pensioner

S Kinnaird IC, PAC
Deferred Member

S A McMahon PAC*, IC
Other Director

M T Owtram AUC, PAC, SRC
Deferred Member

F G Rose AC, PAC
Pensioner

R W T Turner IC*, SRC
Pensioner

D W Welch AC, AUC, IC
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
5th Floor, 36-38 Botolph Lane
London EC3R 8DE

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, 3rd Floor
Greenwich, CT 06830, USA

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

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

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

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

Annuity Providers:

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

The Prudential Assurance Company
Laurence Pountney Hill, London EC4R 0HH

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

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

ICI PENSION FUND

TRUSTEE, DIRECTORS AND PROFESSIONAL ADVISERS AS AT 8 JULY 2020

CMS Cameron McKenna LLP
Cannon Place, 78 Cannon Street
London EC4N 6AF

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

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:

FTI Consulting LLP
200 Aldersgate, Aldersgate Street
London EC1A 4HD

Communication Advisers:

Like Minds UK Limited
The Media Gallery, 16 High Street
Kenilworth, Warwickshire CV8 1LZ

MHP Communications
60 Great Portland Street
London W1W 7RT

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

Company Medical Limited
6 Bramley Court, Kelsall
Tarpoley, Cheshire CW6 0RF

Member Tracing Agent:

Omega Legal Services Limited
1 Moseley Wood View, Leeds LS16 7ES

Safe Custody Adviser:

Amaces Limited
10th Floor, 88 Wood Street
London EC2V 7RS

AVC Providers:

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

Scottish Friendly Society
Scottish Friendly House,
16 Blythswood Square, Glasgow G2 4HJ

The Prudential Assurance Company
Laurence Pountney Hill, London EC4R 0HH

Utmost Life & Pensions
Walton Street, Aylesbury
Bucks. HP21 7QW

ICI PENSION FUND

REPORT OF THE TRUSTEE 31 MARCH 2020

The Trustee submits the Annual Report on the operations of the ICI Pension Fund (the "Fund"), together with the Financial Statements of the Fund for the year ended 31 March 2020.

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 has ten Directors, categorised as follows:

- one Independent Director, Law Debenture;
- four 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. The Fund is established as a trust under English law with its registered office at 5th Floor, 36-38 Botolph Lane, London, EC3R 8DE.

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 The Prudential Assurance Company (formerly 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, October 2018, October 2019 and May 2020; and from Scottish Widows Limited ("Scottish Widows") in June and October 2016 and March, October and November 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.

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 and;
- the final decision on whom to recommend for appointment is taken by this selection panel.

Directors

The Directors held five Board meetings during the Fund year from 1 April 2019 to 31 March 2020. A list of the Directors at the date of signing this report is given on page 3. During the year and subsequently, there have been no changes in Director appointments.

ICI PENSION FUND

REPORT OF THE TRUSTEE (continued)

31 MARCH 2020

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 Towers Watson Limited.

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.

Committees of the Trustee Board

The Trustee 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 three 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 twice 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, custodians and investment and professional advisors 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 six 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 performance of the administrator of the Fund, Towers Watson Limited, and deals with discretionary benefits and other administrative issues delegated to the Committee by the Board. The Policy and Administration Committee met nine 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 three times during the Fund year.

Trustee Training

The Trustee 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 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.

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REPORT OF THE TRUSTEE (continued)

31 MARCH 2020

Statement of Trustee Responsibilities for the Financial Statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the Trustee. Pension scheme regulations require the Trustee 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 the 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 consistent with the financial statements it accompanies.

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 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 15 to 28.

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 14.

COVID19

In early 2020, a new coronavirus, Covid-19, impacted a significant number of countries globally. Covid-19 has caused disruption to economic activity and falls in financial markets. The Trustee has designed and implemented the Fund's investment strategy taking a long term view and has built in resilience to withstand short term market fluctuations. The Trustee closely monitors the financial position of the Fund and maintains a regular dialogue with the sponsoring employer, which includes a quarterly review attended by Trustee representatives and the Trustee's sponsor covenant advisers.

Custodians

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 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.

ICI PENSION FUND

REPORT OF THE TRUSTEE (continued) 31 MARCH 2020

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 various aspects of the AVC arrangements is delegated to the Policy and Administration Committee.

Pension Increase

Most pensions in payment were increased by 2.8% with effect from 1 November 2019, reflecting the annual increase in RPI as at 31 July 2019. 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 2017. This was the fourth 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 12 February 2019. The contributions paid by the Principal Employer as a result of the statutory funding objective not being met at 31 March 2017 were £125million in January 2018, £125million in January 2019 and £290million on 25 March 2019. The Principal Employer made the following contributions during the year to 31 March 2020 in accordance with the Schedule of Contributions dated 12 February 2019:

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.

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

A Summary Funding Statement outlining the funding position as at 31 March 2019 was made available to members in August 2019 on the Trustee website, 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
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.

ICI PENSION FUND

REPORT OF THE TRUSTEE (continued)

31 MARCH 2020

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 by 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

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee is aware that the issue will affect the Fund and is currently working with its legal advisers and the Fund actuary to understand the implications of this ruling and how to apply it to the benefits earned by Fund members. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Internal Dispute Procedure

The Trustee 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 its authority.

Data Protection Act 2018 (incorporating the General Data Protection Regulations)

The Trustee, 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 2018. The Trustee believes that it complies with all aspects of the legislation and with regard to the new General Data Protection Regulations, work has been undertaken to bring the Fund to the position where the Trustee can be confident of compliance with all material areas of the new requirements. This is, however, a continually developing area that the Trustee will be keeping under review.

Tax Status

The Fund is registered with HMRC in accordance with the Finance Act 2004 and the Trustee knows 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

E D Byrne
for and on behalf of Pensions Secretariat Services Limited
Secretary

8 July 2020

ICI PENSION FUND

MEMBERSHIP REPORT 31 MARCH 2020

	Contributing Members	Pensions in Payment	Deferred Pensioners	Total
At 1 April 2019	155	39,847	6,801	46,803
Prior year adjustment	-3	-8	-20	-31
Additions	-	925	32	957
Cessations	-36	-2,478	-568	-3,082
At 31 March 2020	116	38,286	6,245	44,647

Prior year adjustments relate to membership changes prior to 1 April 2019 that were notified after the 31 March 2019 Report and Accounts were finalised.

The 925 additions to the Pensions in Payment comprise 4 who were former contributing members, 365 who were former deferred members and 556 dependants pensions.

Cessations of Contributing Members

Pension at early retirement	4
Deferred pensions	32
	36

Commutation of Pensions

During the year 360 members were eligible to exercise their option to commute part of their pensions and 311 (86.4%) decided to do so. The total amount of pensions commuted during the period under review amounted to £0.4million per annum. The amount of commutations paid in the year was £15.5million.

Dependants' and Spouses' Pensions

Of the 38,286 pensions in payment at 31 March 2020, 12,556 were payable to dependants or spouses.

Additional Voluntary Contributions (AVC) Schemes

AVCs are invested in individual accounts with Utmost (formerly Equitable Life) and Clerical Medical 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.

	Utmost	Clerical Medical	Prudential	Scottish Friendly
AVC Members at 1 April 2019	49	80	12	1
Less Leavers	-2	-10	-2	-
AVC Members at 31 March 2020	47	70	10	1

ICI PENSION FUND

INVESTMENT REPORT 31 MARCH 2020

Statement of Investment Principles

In accordance with the Pensions Act 1995, the Trustee has 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 Strategy and Management Structure

The value of the Fund's assets rose over the year to 31 March 2020 reflecting the fall in yields and corresponding rise in the value of the annuity contracts and the LDI portfolio.

The Trustee continued its existing investment strategy of maintaining a substantial proportion of assets in bulk annuity policies, government bonds, cash and derivatives that closely match expected future cash outflows, in order to minimise the volatility of the value of the assets relative to the Fund's liabilities. This strategy has served the Fund well in the year to 31 March 2020 where further falls in gilt yields led to an increase in the present value of the Fund's liabilities, which has been offset by an increase in the value of the Fund's assets. The Trustee relied on bulk annuity payments and income and maturities from its low-risk government bond portfolio to meet pension outgoings during the year.

Investments are managed according to remits and control limits laid down in the SIP. The Trustee has 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 Trustee Board.

The Trustee has delegated all day-to-day investment decisions to its investment managers. As at 31 March 2020 these were:

Alinda Capital Partners LLC ("Alinda")
Beach Point Capital Management LP ("Beach Point")
BlackRock Advisors (UK) Limited ("BlackRock")
Brigade Capital UK LLP ("Brigade")
Stone Harbor Investment Partners LP ("Stone Harbor")

BlackRock's remit is to manage the matching asset portfolio, being government bonds and a combination of cash and derivatives with similar economic characteristics, designed to match a substantial proportion of the Fund's non-insured liabilities. Alinda is a specialist infrastructure manager and Beach Point, Brigade and Stone Harbor are alternative credit managers. In March 2019 the Investment Committee took the decision to liquidate all the return-seeking investments, recognising that it would take some months to complete. The remaining return-seeking investments as at 31 March 2020 represented only 0.4% (£45m) of total Fund assets. Each mandate includes a benchmark against which performance is measured, however this is less meaningful for the return-seeking managers during the liquidation period since March 2019.

During the year the Trustee refined the strategic hedge ratio to 100% of the uninsured assets managed by the LDI manager. The new target translates to a hedge ratio of around 100% 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 de-risking the portfolio with the liquidation of the return-seeking investments.

The Fund's asset allocation at 31 March 2020, was as set out below.

	£m	%
Bulk Annuity Policies (L&G)	5,383	52.5
Bulk Annuity Policies (SW)	1,477	14.4
Bulk Annuity Policies (Pru)	1,313	12.8
LDI Portfolio (BlackRock)	2,045	19.9
Total liability-related investments	10,218	99.6
Total return-seeking investments	45	0.4
Total Fund investments excl. cash	10,263	100.0

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INVESTMENT REPORT (continued) 31 MARCH 2020

Investment Performance Summary

Since 1 April 2016 the Fund performance has been measured by the custodian bank, Northern Trust. The total Fund return is measured against the strategic liability benchmark, which reflects changes to the value of future benefit cashflows. The returns for the year to 31 March 2020 and for the last three, five and ten year periods were as follows:

Period	Return Seeking Investments	Liability-related Investments	Total Fund Return	Liability Benchmark
	%	%	%	%
Year to 31/03/20	-2.4	10.9	10.1	11.1
Last 3 Years Annualised	0.0	6.0	5.1	6.1
Last 5 Years Annualised	n/a	7.0	9.3	7.5
Last 10 Years Annualised	n/a	8.2	9.3	8.2

The Matching Asset portfolio as at the end of March 2020 represented 98% of the Fund's non-insured assets and the relative performance of this portfolio dominates performance. In the year to 31 March 2020, the Fund underperformed the strategic liability benchmark as a result of the return-seeking assets performance in the period. All of the return-seeking managers underperformed the strategic liability funding benchmark in the year to 31 March 2020.

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 9.3% p.a., against its strategic liability benchmark return of 8.2% p.a.

BlackRock Matching Asset (LDI) performance

The LDI portfolio targets a £ amount return of 100% of the £ amount return on the non-insured assets managed by the LDI manager (this is simply another way of stating the hedge ratio is 100%). To achieve this hedge target there has to be some modest 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.

Disclosure of Information

Further information concerning investments is detailed in Notes 9 to 11 of the Financial Statements on pages 18 to 27.

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.

Voting rights and socially responsible investment

The Trustee recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly require explicit consideration. The Trustee's policy is that the extent to which Environmental, Social and Governance (ESG) factors are taken into account in investment decisions is delegated to the discretion of its investment managers. However, the Trustee expects that the extent to which such issues may have a fundamental impact on the portfolios managed by the investment managers will be taken into account by them in the exercise of their delegated duties.

ICI PENSION FUND

INVESTMENT REPORT (continued) 31 MARCH 2020

The Fund's investments are very largely in bulk annuities, gilts, cash and various interest rate and inflation derivatives, which means that there is limited opportunity to exercise voting rights and other stewardship obligations.

The investment managers may also be requested from time to time to provide a report on the overall impact of ESG factors on investment management.

Bulk Annuity Policies

As at 31 March 2020 the Fund had three bulk annuity policies held in its name, one with Legal & General Assurance Society Limited ("L&G") one with The 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 Trustee 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 appropriate.

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

ACTUARIAL CERTIFICATIONS OF THE SCHEDULE OF CONTRIBUTIONS

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 2017 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 12 February 2019.

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

12 February 2019

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

ICI PENSION FUND FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

	Note	Year to 31 Mar 20 £m	Year to 31 Mar 19 £m
Contributions and Benefits:			
Employer contributions receivable	4	4	426
		<u>4</u>	<u>426</u>
Benefits payable	5	-480	-486
Payments to and on account of leavers	6	-65	-76
		<u>-545</u>	<u>-562</u>
Net withdrawals from dealings with members and employers:		<u>-541</u>	<u>-136</u>
Returns on investments:			
Investment income	7	452	465
Change in market value of investments	11.4	19	4
Net returns on investments:		<u>471</u>	<u>469</u>
Net change to the Fund during the year:		<u>-70</u>	<u>333</u>
Net assets of the Fund at the start of the year:		<u>10,350</u>	10,017
Net assets of the Fund at the end of the year:		<u>10,280</u>	<u>10,350</u>

The notes are shown on pages 18-29 and form part of the financial statements.

ICI PENSION FUND

**STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)
AS AT 31 MARCH 2020**

	Note	Year to 31 Mar 20 £m	Year to 31 Mar 19 £m
Investment assets			
Pooled investment vehicles	11.5	2,087	2,091
Bulk annuity policies		8,173	8,236
AVC investments	11.6	2	2
Cash		12	8
Other investment balances		12	19
Total Investments		10,286	10,356
Current assets and liabilities	13	-6	-6
Net assets of the Fund at end of the year		10,280	10,350

The notes on pages 17-28 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.

These financial statements were approved by the board of the Trustee Company on 8 July 2020 and were signed on its behalf by:

D.J.Gee Director

E.D.Byrne
for and on behalf of Pensions Secretariat Services Limited
Secretary

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2020

1. 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 with the guidance set out in the Statement of Recommended Practice (SORP) (revised 2018). The Fund's Trustee Directors have taken advantage of the option to adopt the amendments to FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017, incremental improvements and Clarification issued December 2017, and the SORP (revised 2018) early for these financial statements.

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustee considered the impact of the COVID 19 outbreak and has taken into account plausible downside assumptions of the sponsoring employer and its regulatory capital position to gain comfort that it will continue to refine the investment strategy, undertaking further buy-ins and de-risking the portfolio with the liquidation of the return-seeking investments. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the financial statements on a going concern basis.

2. Identification of the financial statements

The Fund is established as a trust under English law. The address for enquiries to the Fund is that of the Administrator shown in the list of Trustee, Directors and Professional Advisors on page 4.

3. Core Accounting Policies

Accruals Basis

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

4. Contributions receivable

Accounting policies

- i. Normal contributions relating to wages and salaries earned in the financial year were calculated at rates determined in accordance with the Schedule of Contribution dated 12 February 2019. Contributions for existing members were accounted for in the month when the corresponding wages and salaries were paid.
- ii. Additional contributions determined by the Scheme Actuary are accounted for when due in accordance with the agreed timetable.

ICI PENSION FUND

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
31 MARCH 2020**

Employers contributions receivable:

	Year to 31 Mar 20	Year to 31 Mar 19
	£m	£m
Normal	3	4
Augmentation	1	7
Deficit funding	-	415
	4	426

No deficit funding contributions were paid in the year to 31 March 2020 in accordance with the Schedule of Contributions dated 12 February 2019. Employers' normal payroll related contributions include contributions made under salary sacrifice arrangements. In addition member contributions of £15,724 (2019: £18,125) were received.

5. Benefits Payable

Accounting policies

- i. Benefits payable represent all material valid benefit claims in respect of the Fund 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.
- ii. Transfers are accounted for on the actual payment of the transfer value.

Benefits payable on or during retirement comprise:

	Year to 31 Mar 20	Year to 31 Mar 19
	£m	£m
Pensions	464	469
Commutation and lump sum retirement benefits	16	17
	480	486

6. Payments to and on account of leavers comprise:

	Year to 31 Mar 20	Year to 31 Mar 19
	£m	£m
Refunds to members leaving service	-	1
Individual transfers to other schemes	65	75
	65	76

7. Investment Income

Accounting policies

Investment income is accounted for on an accruals basis.

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

Investment income receivable comprises:

	Year to 31 Mar 20	Year to 31 Mar 19
	£m	£m
Income from pooled investment vehicles	-	1
Income from bulk annuity policies	456	468
Collateral and investment fees	-4	-4
	<u>452</u>	<u>465</u>

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.

8. Administration Expenses

Accounting policies

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

9. Foreign Currency Conversion

Accounting policies

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. The Fund's functional and presentational currency is pounds sterling.

10. Bulk Annuity Policies

Accounting 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 £8,173million (2019: £8,236million).

Net premia of £120million were paid in the year to 31 March 2020 compared with £121million paid in the year to 31 March 2019. Payments received under the policies during the year were treated as investment income (see note 6). As at 31 March 2020, 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 £12million was recognised in respect of premium adjustments due to the Fund on seven transactions completed in the period from 3 June 2016 to 7 October 2019. Interest to 31 March 2020 is included in the accrual figure.

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 financial statements.

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

11. Investment risk disclosures

11.1 Investment strategy

The Trustee's investment strategy 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 2017 valuation.

The Trustee maintains the vast majority 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 reduce the risk from interest rates and inflation changes, the Trustee enters into hedging arrangements to the value of the assets in the LDI portfolio, such that around 100% 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 and income and maturities from bonds. At the year end liability-related investments represented more than 99% of the total investment portfolio, including the bulk annuity policies, 80%.

As at 31 March 2020 the Trustee retained a relatively small proportion of its assets, 0.4% to investments exhibiting higher risk but with correspondingly higher return expectations. These assets will be liquidated as opportunities arise, to minimize market impact and reduce transaction costs, and the proceeds will be transferred to the LDI portfolio.

11.2 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:

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.

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.

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.

a) Market risk

A summary of Fund indirect market risk exposure by strategic asset allocation is shown on the following page:

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

	Market Value at 31 Mar 20	Market Value at 31 Mar 19	Interest rate	Market risk	
	£m	£m		£m	£m
LDI portfolio	10,241	10,010	10,238	-	-
Return Seeking portfolio	43	344	27	16	16
Total investments (excluding AVCs)	10,284	10,354			

i. 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.

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

Currency	31 March 2020 (£m)	31 March 2019 (£m)
US Dollar	16	24
Total	16	24

ii. Interest rate risk

The Fund is subject to interest rate risk because some of its investments are held in the form of bulk annuity contracts, bonds, interest rate swaps and cash within pooled investment vehicles. 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 100% 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 the value of the 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 value of the liabilities. As at 31 March 2020 the ratio of matching was 100%.

The indirect 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 2020 (£m)	31 March 2019 (£m)
Bulk annuity contracts	8,173	8,236
Gilts	2,036	1,512
Gilt Repo	29	288
Swap Mark to Market	-	63
Alternative Credit*	27	320
Total	10,265	10,419

* 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.

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

iii Other price risk

Other price risk arises in relation to an investment in infrastructure held through a US limited partnership pooled investment vehicle as follows:

Indirect	31 March 2020 (£m)	31 March 2019 (£m)
Infrastructure	16	24
Total	16	24

b) Credit risk

The Fund is exposed to credit risk through its holdings of pooled funds and 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 the alternative credit managers (other pooled investment vehicles (other PIVs)), which are Cayman Island Exempt Companies that invest in a wide range of credit instruments including, but not limited to, high yield bonds, loans, distressed debt, Emerging Market debt and investment grade bonds. The Fund is also indirectly exposed to credit risk through its investment in the Alinda infrastructure fund, a US limited partnership.

Credit risk in the LDI portfolio is minimised by reliance on government bonds where credit risk is considered to be minimal. 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 currently permit stock lending in relation to its segregated or sole investor pooled vehicles.

The Fund is also subject to credit risk due to holding bulk annuity contracts which make payments to the Fund that closely match the pensions (and contingent pensions) being paid to pensioners who retired prior to 31 August 2019. These are held with insurance companies which, because of strict regulation, are considered to have a very low chance of default. The Trustee has been advised that, under current rules, the benefits provided by the bulk annuity contracts would be covered by the Financial Services Compensation Scheme in the event of failure of one of the insurance companies with which the policies are held.

Analysis of credit risk – 31 March 2020

Asset class	Investment Grade (£m)	Non-investment Grade (£m)	Unrated (£m)	Total (£m)
Bulk annuity contracts			8,173	8,173
Bonds	2,036	-	-	2,036
OTC Derivatives	-	-	-	-
Repo	29	-	-	29
Alternative credit	-	-	27	27
Infrastructure	-	-	16	16
Cash	62	-	-	62
Total	2,127	-	8,216	10,343

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

Analysis of credit risk – 31 March 2019

Asset class	Investment Grade (£m)	Non-investment Grade (£m)	Unrated (£m)	Total (£m)
Bulk annuity contracts			8,236	8,236
Bonds	1,512	-	-	1,512
OTC Derivatives	63	-	-	63
Repo	288	-	-	288
Alternative credit	-	-	320	320
Infrastructure	-	-	24	24
Cash	487			487
Total	2,350	-	8,580	10,930

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. Bulk annuity contracts have been classified as investment grade based on the underlying insurance company's credit rating.

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 an 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.

11.3 Investment Fair Value Hierarchy

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

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

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

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

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

Investment Fair Value accounting policies

The Fund's investments are reported in the Financial Statements on the basis of Fair Value. Fair Value at the year end is assessed as follows:

- i. The value of each bulk annuity policy is calculated by projecting the benefits expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Due to various unobservable inputs these have been classified as level 3 investments.
- ii. 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 (continued)
31 MARCH 2020**

- iii. 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.

The Fund's investment assets and liabilities fall within the above hierarchy categories as shown below:

	Level 1 £m	Level 2 £m	Level 3 £m	Total
At 31 March 2020				
Pooled Investment vehicles	-	2,071	16	2,087
Bulk annuity policies	-	-	8,173	8,173
AVC Investments	-	2	-	2
Cash	12	-	-	12
Other investment balances	12	-	-	12
	24	2,073	8,189	10,286

	Level 1 £m	Level 2 £m	Level 3 £m	Total
At 31 March 2019				
Pooled Investment vehicles	-	2,067	24	2,091
Bulk annuity policies	-	-	8,236	8,236
AVC Investments	-	2	-	2
Cash	8	-	-	8
Other investment balances	19	-	-	19
	27	2,069	8,260	10,356

ICI PENSION FUND

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
31 MARCH 2020**

11.4 Investment reconciliation

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

	Market Value at 31 Mar 19	Purchases at cost	Sales proceeds and premium adjustments	Change in market value	Market Value at 31 Mar 20
	£m	£m	£m	£m	£m
Bonds	-	101	-101	-	-
Pooled investment vehicles	2,091	303	-508	201	2,087
Bulk annuity policies	8,236	129	-10	-182	8,173
AVC investments	2	-	-	-	2
	10,329	533	-619	19	10,262
Cash deposits	8	13	-9	-	12
Other investment balances	19	-	-7	-	12
	10,356	546	-635	19	10,286

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.

11.5 Pooled Investment Vehicles (PIVs)

The Fund's holdings of PIVs are analysed below:

	Market Value at 31 Mar 20 £m	Market Value at 31 Mar 19 £m
Inflation-linked qualifying investment fund *	2,044	1,747
Alternative Credit **	27	320
Infrastructure ***	16	24
	2,087	2,091

* Investment vehicle in which the Fund is the sole investor.

** The Fund is also the sole investor in three alternative credit funds investing in a wide range of credit instruments including, but not limited to, high yield bonds, loans, distressed debt, Emerging Market debt and investment grade bonds.

*** There is an outstanding capital commitment of USD6.6million due to the Alinda infrastructure fund which is unlikely to be drawn down.

The assets underlying the inflation linked qualifying investment fund and Alternative Credit funds are shown on the following page:

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

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

	Market Value at 31 Mar 20 £m	Market Value at 31 Mar 19 £m
Interest rate swaps	-	-89
Inflation swaps	-	46
Overnight interest swaps	-	87
Total return swaps	-	19
UK fixed interest gilts	999	732
UK fixed interest gilts repurchase agreements	-29	-288
UK index-linked gilts	1,037	780
Pooled cash funds ***	34	287
Cash & receivables/payables	3	173
	2,044	1,747

*** 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.

The Alternative Credit funds are shares in limited liability partnerships.

The assets underlying the Alternative Credit funds are:

	Beach Point		Brigade		Stone Harbor		Total Alternative Credit	
	31 Mar 20 £m	31 Mar 19 £m	31 Mar 20 £m	31 Mar 19 £m	31 Mar 20 £m	31 Mar 19 £m	31 Mar 20 £m	31 Mar 19 £m
Asset backed securites	1	5	-	-	-	3	1	8
Bank debt	6	42	-	27	-	12	6	81
Emerging market government bonds	-	-	-	1	-	19	-	20
Corporate bonds	6	74	-	30	-	28	6	132
Convertible bonds	-	-	-	1	-	-	-	1
Municipal bonds	-	-	-	2	-	-	-	2
Preferred stock	3	4	-	1	-	-	3	5
Common stock	1	5	-	1	-	-	1	6
Cash & cash equivalents	9	28	1	17	-	20	10	65
	26	158	1	80	-	82	27	320

11.6 Additional Voluntary Contributions (AVCs)

The Trustee holds assets invested separately from the main fund for those Fund members who elected to pay AVCs in the past. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held in their account and the movements in the year. The aggregate amounts of AVC investments are shown on the following page:

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

	Market Value at 31 Mar 20 £000	Market Value at 31 Mar 19 £000
Clerical Medical with profits and unit linked	972	1,234
Utmost (formerly Equitable Life) with profits	657	522
Prudential with profits	179	280
Scottish Friendly with profits	5	5
	1,813	2,041

11.7 Concentration of investment

The Fund has the following investments which represent more than 5% of the assets of the Fund:

	Market Value 31 Mar 20 £m	% of total assets	Market Value 31 Mar 19 £m	% of total assets
L&G bulk annuity policy	5,383	52.4	5,350	51.7
BlackRock LDI QIF	2,045	19.9	1,747	16.9
Scottish Widows bulk annuity policy	1,477	14.4	1,542	14.9
Prudential bulk annuity policy	1,313	12.8	1,344	13.0

12. 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.

13. Current assets and liabilities

	31 Mar 20 £m	31 Mar 19 £m
Unpaid contributions	1	-
Unpaid benefits	-7	-6
	-6	-6

Post year-end contributions have been received in accordance with the Schedule of Contributions.

14. Related Party Transactions

(a) Directors of the Trustee Company

The Fund has paid benefits to directors of the Trustee company who are also beneficiaries of the Fund. 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 as reported in the director's remuneration note on page 6.

ICI PENSION FUND

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) 31 MARCH 2020

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.

(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 is remunerated at its normal fee rates for the professional services it provides to the Trustee and which were borne by ICI.

15. 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 8, general investment management expenses are normally paid by the Principal Employer unless otherwise determined by the Trustee.

16. 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 2020 there were no direct investments in securities of AkzoNobel or ICI and any indirect investments by pooled fund securities were less than 1%.

17. Guaranteed Minimum Pensions (GMP) equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee is aware that the issue will affect the Fund and is currently working with its legal advisers and the Fund actuary to understand the implications of this ruling and how to apply it to the benefits earned by Fund members. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

18. Tax

The ICI Pension Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income.

19. COVID-19 – Impact on the Fund's assets

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets. However, the Fund's net asset value has not suffered as a result of a decline in stock market values. At the date of this Report, the latest available data outlines that the investment valuation has not declined. The Trustee has designed and implemented the Fund's investment strategy taking a long-term view and has built in resilience to withstand short-term fluctuations.

ICI PENSION FUND

AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the ICI Pension Fund ("the Fund") for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in notes 1 to 11.

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 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the 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 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the 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").

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

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

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) 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.

ICI PENSION FUND

AUDITOR'S REPORT

Trustee's responsibilities

As explained more fully in their statement set out on page 7, the Fund Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; 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; 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 it either intends to wind up the Fund, or has 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
15 Canada Square
London
E14 5GL

8 July 2020

ICI PENSION FUND

AUDITOR'S REPORT ON CONTRIBUTIONS

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

Statement about contributions

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 2020 which is set out on page 32.

In our opinion contributions for the Fund year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedule of Contribution have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 12 February 2019.

Scope of work

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.

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.

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
15 Canada Square
London
E14 5GL

8 July 2020

ICI PENSION FUND

STATEMENT OF TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS

The 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 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 2020

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 schedule of contributions certified by the actuary 12 February 2019 in respect of the Fund year ended 31 March 2020. The Fund auditor reports on contributions payable under the schedule in the Auditor's Statement about Contributions.

Contributions payable under the schedule in respect of the Fund year

	£m
Employer:	
normal payroll related contributions	3
normal early retirement related contributions	1
deficit funding contributions	-
Member:	
normal payroll related contributions	-
Total contributions payable under the schedule (as reported on by the Fund auditor and reported in the financial statements)	4

Approved on behalf of the Trustee on 8 July 2020

E.D.Byrne
for and on behalf of Pensions Secretariat Services Limited
Secretary

ICI PENSION FUND

REPORT ON ACTUARIAL LIABILITIES FORMING PART OF THE TRUSTEE REPORT

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.

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

The value of the technical provisions was: £11,042 million

The value of the assets was: £10,438 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 nominal gilt yield curve.

Future retail price inflation (RPI): term-dependent rates set by reference to a RPI inflation curve based on the relative pricing of UK nominal and index-linked gilts.

Future consumer price inflation (CPI): assumed to be 1% pa lower than RPI, set by reference to views on the expected long-term differential between RPI and CPI inflation.

Pension increases in line with RPI limited to a maximum of 5% pa: derived by reference to market swap rates plus a margin of 0.06% pa.

Pay increases: general pay increases of 1% per annum above future RPI, with allowance for the estimated impact of the Company’s stated intended cap on increases.

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

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
Male dependants	97%	Male All retirements
Female dependants	108%	Female Dependants

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
