

**Crest Nicholson Group Pension
and Life Assurance Scheme**

**Annual Report and Financial Statements for
the Scheme Year ended 31 January 2019**

Pension scheme registration number: 100113710

Crest Nicholson Group Pension and Life Assurance Scheme

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Crest Nicholson Group Pension and Life Assurance Scheme

Trustee and Advisers

Trustee	Crest Nicholson Pension Trustee Limited
Trustee directors	Duncan Charles Revolta Tim Illston (resigned 12 March 2019) Pensions Legacy Trustees represented by Jane Kola (appointed 12 March 2019) Jeremy Fry (member nominated)
Scheme actuary	Adam Stanley FIA XPS Pensions Group (previously Punter Southall Consulting Actuaries)
Independent Scheme auditors	PricewaterhouseCoopers LLP
Investment managers	M&G Investment Management Limited Ruffer LLP CQS (UK) LLP BlueCrest Capital Management LLP JO Hambro Capital Management Limited Legal & General Assurance (Pensions Management) Limited Gilliat Financial Solutions Kiltearn Partners LLP Mercer Global Investments Europe Limited BlackRock Investment Management (UK) Limited GMO UK Limited Insight Investments Funds Management Limited Ares Management LLC (from December 2018)
Annuity provider	The Prudential Assurance Company Limited
Legal adviser	Baker & McKenzie LLP
Administrators of Scheme benefits	Equiniti Pension Solutions
Bankers	Lloyds Bank Plc Barclays Bank Plc
Financial advisers	Mercer Limited (to 31 January 2019) Lane, Clark and Peacock (from 11 December 2018)
AVC providers	Phoenix Life Limited The Prudential Assurance Company Limited Zurich Assurance Limited
Principal employer	Crest Nicholson Plc

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee and Advisers - continued

Enquiries

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Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

The directors of the Trustee present their annual report and audited financial statements in respect of the Crest Nicholson Group Pension and Life Assurance Scheme ('the Scheme') for the Scheme Year ended 31 January 2019.

Constitution of the Scheme

The Scheme provides retirement benefits for Members and their Dependants. The Scheme, which is legally and financially separate from the Employers, is constituted by a Trust Deed and is administered in accordance with the Rules by the Trustee. The Scheme is a defined benefit scheme which means that the benefits under it are calculated on a pre-determined basis specified in the Scheme Rules.

The Scheme is a Registered Pension Scheme within the meaning given by section 150(2) of the Finance Act 2004. To the Trustee's knowledge, there is no reason why the Scheme's Registration should be prejudiced or withdrawn.

Members of the Scheme were contracted-out of the earnings-related part of the State scheme until 30 April 2010.

The Scheme closed to new entrants with effect from 1 October 2001. The Scheme closed to future accrual (and death in service benefits ceased) on 30 April 2010.

Management of the Scheme

The Trustee of the Scheme, together with the directors who served during the Scheme Year is listed on page 3.

In accordance with The Occupational Pension Schemes (Member-Nominated Trustees and Directors) Regulations 2006, eligible members have the opportunity to nominate and select one third of the directors.

The member-nominated director is Jeremy Fry.

The remaining directors are selected and appointed (and may also be removed) by Crest Nicholson Plc.

The sponsoring Employer is Crest Nicholson Plc (the Principal Employer) and Crest Nicholson Operations Limited is a participating employer.

The Trustee has appointed professional organisations to assist them with the management and operation of the Scheme. These organisations are listed on pages 3 and 4.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Statement of Trustee's responsibilities

Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS102'), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

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

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

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

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

Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Act 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

Financial development of the Scheme

The financial statements have been prepared and audited in accordance with section 41(1) and (6) of the Pension Act 1995.

The statement of net assets available for benefits on page 31 shows that the Scheme had net assets with a value of £203,623,068 at 31 January 2019 (2018: £202,731,981). This represents an increase of £891,087 (2018: an increase of £12,792,044) over the Scheme Year.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Report on Actuarial Liabilities

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

The most recent full actuarial valuation of the Scheme was carried out as at 31 January 2018. This showed on that date:

- The value of the technical provisions was £196.5 million
- The value of the assets was £198.7 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 dated 30 November 2018):

Method

The actuarial method used in the calculation of the technical provisions was the Defined Benefit Cost Accrued Method.

Significant actuarial assumptions

Pre retirement discount interest rate: Bank of England's Government Liability Curve at a duration of 18 years plus an addition of 3.0% per annum.

Post retirement discount interest rate: Bank of England's Government Liability Curve at a duration of 18 years plus an addition of 0.5% per annum.

Future retail price inflation: Bank of England implied Inflation Government Liability Curve at a duration of 18 years.

Future consumer price inflation: set as future retail price inflation less an adjustment equal to 0.75% per annum.

Future pension increases in payment: pensions in payment accrued after 5 April 1997 increase in line with retail price inflation subject to a cap of 5% per annum. These are derived from future retail price inflation using the Black Scholes actuarial model with price inflation volatility of 1.75% per annum. Pension accrued before this date increases at 3% per annum.

Future pension increases in deferment: set as future consumer price inflation for pension in excess of guaranteed minimum pensions.

Future mortality in retirement: standard base table of the SAPS tables (S2PA Light) with an allowance for future improvements in line with the CMI 2017 projection model (with a smoothing parameter of 8.0) with a long term annual improvement rate of 1.5%.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment management

During the Scheme Year covered by this report, main fund investments have been held with M&G Investment Management Limited ("M&G"), Ruffer LLP ("Ruffer"), CQS (UK) LLP ("CQS"), BlueCrest Capital Management LLP ("BlueCrest"), JO Hambro Capital Management Limited ("JO Hambro"), Legal & General Assurance (Pensions Management) Limited ("L&G"), Gilliat Financial Solutions ("Gilliat"), Kiltearn Partners LLP ("Kiltearn"), Mercer Global Investments Europe Limited ("MGIM"), BlackRock Investment Management (UK) Limited ("BlackRock"), GMO UK Limited ("GMO"), Insight Investments Funds Management Limited ("Insight") and Ares Management LLC ("Ares"). Further details about the investments of the Scheme are given in the notes to the financial statements (see page 35) and the investment report below.

Additional Voluntary Contributions are invested with The Prudential Assurance Company Limited, Phoenix Life Limited and Zurich Assurance Limited according to the wishes of individual members.

The Trustee confirms that the investments of the Scheme are invested in accordance with the Occupational Pensions Schemes (Investment) Regulations 1996.

Investment report

General

During 2018, the Trustee continued to monitor the Scheme's investments as markets became more volatile, and equities delivered negative returns. With assistance of their advisors, the Trustee continued to use a comprehensive risk management matrix that looks at the employer's financial strength, investment returns of the portfolio and the funding objectives of the Scheme to help shape the investment strategy for the Scheme.

In January 2018, there was £2.4m being held in the Trustee bank account that was available for investment. The Scheme was slightly underweight in its growth allocation, excluding the surplus cash, and underweight to alternatives within the growth allocation. With the recommendation from the Scheme advisor the money was split evenly and £1.2m was invested in both the CQS's convertible bonds and GMO's global macro mandates.

The Investment Sub-committee of the Trustee Board (the "ISC") met in April and it was agreed that £10m would be disinvested from the Scheme's growth portfolio due to concerns with the equity market volatility. In view of the Scheme's funding position at the time it was felt that less risk could be taken in the equity market. It was decided that the proceeds would be invested in the L&G cash fund pending discussions of new asset classes / managers later in the year. In May, £10m worth of disinvestments were taken evenly from JO Hambro, Kiltearn and Ruffer were invested in the L&G Cash fund along with £1.6m available for investment from the Trustee bank account.

In July the ISC agreed to undertake a manager selection exercise for absolute return bonds and an additional Secured Finance fund to be funded by the assets in the L&G Cash fund. The Trustee funded a £10m Secured Finance mandate with Ares at the end of the calendar year.

The Gilliat Structured Product 1 matured in December 2018 and proceeds were sent to the custodial account on 7 January 2019. The proceeds were subsequently re-invested in the L&G cash fund after the end of the accounting year, to be redeployed in new investments in due course.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report - continued

General - continued

Redemption proceeds from the BlueCrest holding continue to be distributed to the Scheme. This follows BlueCrest's decision at the end of 2015 to transition into a Private Investment Partnership and return assets to all external investors. As of 31 December 2015 all investors in the AllBlue Fund became interest creditors. The majority of the assets (which accounted for c.73% of the Scheme's holding) were returned in January 2016. As of 31 January 2019 c. 98% of the Scheme's investment, based on the 31 December 2015 valuation, had been returned.

The table below provides a high level summary of the changes to the Scheme's investment strategy:

Asset Class	Manager	31 January 2019 (%)	Change over the year (%)	31 January 2018 (%)
Growth Investments		38.0	-5.0	43.0
Global Equity		7.0	-3.0	10.0
Global	JO Hambro	3.5	-1.5	5.0
Global	Kiltearn	3.5	-1.5	5.0
Alternatives		31.0	-2.0	33.0
Alpha – Global Macro	GMO	10.0	-	10.0
Alpha – MultiStrategy	BlueCrest	-	-	-
Global – Absolute Return	Ruffer	10.0	-2.0	12.0
Beta – Convertibles	CQS	11.0	-	11.0
Fixed Income Investments		62.0	+5.0	57.0
Fixed Income Defensive		22.0	-	22.0
Index-Linked Gilts	L&G	22.0	-	22.0
Fixed Income Growth		40.0	+5.0	35.0
Secured Finance	Insight	10.0	-	10.0
Multi Asset Credit	MGIM	6.5	-	6.5
Emerging Market Debt	BlackRock	7.0	-	7.0
Secured Income	Ares	5.0	+5.0	-
Structured Products	Gilliat	11.5	-	11.5
Total		100.0	-	100.0

Note – target allocations in the above table reflect £10m transfers conducted following the April 2018 ISC meeting.

There is a degree of delegation of responsibility for investment decisions. The investment strategy is agreed by the Trustee after taking appropriate advice. The investment managers who are regulated by the Financial Conduct Authority ("FCA") have full discretion to buy and sell investments on behalf of the Scheme, subject to the constraints of their mandates.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report - continued

Investment Objective

The Trustee's overall objective is to restore and then maintain a funding level of, or in excess of, 100% on an ongoing basis through the adoption of a prudent funding and investment strategy. The Trustee's investment strategy assumes the Scheme is ongoing and therefore makes allowance for future expected excess return of certain asset classes.

The Trustee believes that, over the long term, excess return will be generated through investing in equities, other return-enhancing asset classes and through the use of active management where appropriate. Furthermore, diversification into 'alternative' asset classes is expected to provide an offset to volatile equity returns. The aim will be to earn excess returns by taking investment risk in a controlled way.

The Scheme's investments are split into two strategic portfolios: growth investments and fixed income investments. The Scheme's allocation to growth investments consists of global equities and alternative asset classes. Their purpose is primarily to enhance returns relative to the Scheme's liabilities.

The growth managers currently appointed (as at 31 January 2019) are:

Global Equity Managers	Alternative Managers		
	Alpha (Skill)	Global (Absolute Return)	Beta (Market Exposure)
<ul style="list-style-type: none">• JO Hambro• Kiltearn	<ul style="list-style-type: none">• BlueCrest*• GMO	<ul style="list-style-type: none">• Ruffer	<ul style="list-style-type: none">• CQS

*BlueCrest closed to external investors as at 31 December 2015 at which point investors in the AIBBlue Fund, including the Scheme, became interest creditors.

The fixed income investments comprise income yielding assets, including those with the objective to generate wealth (fixed income growth) and those with the aim to preserve wealth or provide returns more closely linked to the Scheme's liabilities (fixed income defensive).

The fixed income managers currently appointed (as at 31 January 2019) are:

Fixed Income Defensive Managers	Fixed Income Growth Managers	Cash Managers
<ul style="list-style-type: none">• L&G	<ul style="list-style-type: none">• BlackRock• Ares• Gilliat	<ul style="list-style-type: none">• Insight• MGIM• M&G• L&G

Investment principles

The Trustee has produced a Statement of Investment Principles ("SIP") in accordance with Section 35 of the Pensions Act 1995, the Occupational Pension Scheme's (Investment) Regulations 2005 and subsequent legislation. A copy of the SIP is available upon request from Stephanie Fleming (see page 4).

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report - continued

Investment principles - continued

The main objectives of the Trustee when considering the investment policy are:

- To make sure the Trustee can meet its obligations to the beneficiaries of the Scheme;
- To ensure that the investment arrangements are consistent with the funding policy agreed with the Scheme Actuary.

The Trustee is satisfied that the mix of assets resulting from the agreed investment strategy, together with the investment managers' approach to stock selection provides a suitably diversified portfolio of assets. The Trustee is also satisfied that the underlying assets of the Scheme are sufficiently marketable and secure.

The strategic benchmark as set out in the SIP was updated on 1 February 2017 and 1 October 2017. The Trustee made this strategic decision with advice from the Scheme's investment consultant at that time.

As at 31 January 2019, the Scheme allocations were broadly in line with the strategic benchmark, other than funding the recent new investment with Ares and the maturing of the first Gilliat Structured Product. Accordingly, the Scheme's investments are not fully in line with the Scheme's SIP at the date of the accounts – the SIP will be updated for these changes in 2019, following completion of an ongoing investment strategy review.

Responsible Investment and Corporate Governance

The Trustee believes that good stewardship, ethical and environmental social governance ("ESG") issues may have a material impact on investment returns. The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code (where appropriate).

Managers who are authorised in the UK are expected to report on their adherence to these Codes on an annual basis.

Code of Best Practice

The principles set out in the Code of Best Practice are high level principles which aid trustees in their investment and governance decision making. While they are voluntary, pension scheme trustees are expected to consider their applicability to their own scheme and report on a 'comply or explain' basis how they have used them.

The principles emphasise the essentials of investment governance, notably the importance of effective decision making, clear investment objectives and focus on the nature of each scheme's liabilities. The principles require that trustees include a statement of the Scheme's policy on responsible ownership in the SIP and report periodically to members on the discharge of these responsibilities.

The Trustee considers that its investment policies and its implementation are in keeping with these principles.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report - continued

Asset Allocation by Manager

The following table shows the bid value (where available) of assets at the start and end of the year under review.

Asset Class	Manager	31 January 2019		31 January 2018	
		£'000s	%	£'000s	%
Growth Investments		70,893	36.9	80,493	42.3
Global Equity		12,951	6.7	19,835	10.4
Global	JO Hambro	7,284	3.8	10,399	5.5
Global ¹	Kiltearn	5,667	3.0	9,436	5.0
Alternatives		57,942	30.2	60,658	31.9
Alpha – Global Macro	GMO	19,113	10.0	18,344	9.6
Alpha – MultiStrategy ²	BlueCrest	43	0.0	75	0.0
Global – Absolute Return	Ruffer	18,391	9.6	22,500	11.8
Beta – Convertibles	CQS	20,395	10.6	19,739	10.4
Fixed Income Investments		121,158	63.1	109,903	57.7
Fixed Income Defensive		40,745	21.2	39,505	20.7
Index-Linked Gilts	L&G	40,745	21.2	39,505	20.7
Fixed Income Growth		64,621	33.6	66,651	35.0
Secured Finance	Insight	19,310	10.1	18,948	10.0
Multi Asset Credit	MGIM	13,064	6.8	13,107	6.9
Emerging Market Debt	BlackRock	12,077	6.3	13,884	7.3
Secured Income	Ares	10,166	5.2	-	-
Structured Product 1 ³	Gilliat	-	-	10,319	5.4
Structured Product 2 ³	Gilliat	10,004	5.2	10,393	5.5
Cash		15,792	8.2	3,747	2.0
Cash	M&G	300	0.2	299	0.2
Cash	L&G	1,634	0.9	-	-
Trustee Bank Account	-	13,858	7.2	3,448	1.8
Total		192,051	100.0	190,396	100.0

Source: Investment managers and Trustee. Numbers may not sum due to rounding.

¹ Kiltearn converted from USD to GBP at 31 January 2019 and 31 January 2018 exchange rates.

² 31 January 2019 BlueCrest valuation as at latest available date (30 June 2018).

³ Gilliat valuations are estimated by LCP using the bid price provided by Societe Generale.

BlueCrest closed to external investors as of 31 December 2015 at which point investors in the AllBlue Fund, including the Scheme, became interest creditors (please see page 9 for more information). Proceeds are being returned to investors as and when available. All other assets are marketable. MGIM, CQS and Insight assets are valued monthly. Kiltearn is valued twice a month. L&G index-linked gilts are valued weekly. All other assets can be valued on a daily basis.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report - continued

Allocation between Asset Classes

The following table shows the split of assets by asset class at the start and end of the year under review.

The Alternatives and Global Equities allocations decreased over the year following the Trustee's decision in April 2018 to reduce the Scheme's allocation to growth investments. The allocation to cash increased over the year, as matured proceeds from the first Gilliat Structured Product are currently held in cash, awaiting redeployment.

Asset Class	31 January 2019		31 January 2018	
	£'000s	%	£'000s	%
Global Equities	12,951	6.7	19,835	10.4
Alternatives	57,942	30.2	60,659	31.9
Fixed Income Defensive	40,745	21.2	39,505	20.7
Fixed Income Growth	64,455	33.7	66,650	35.0
Cash	15,792	8.2	3,747	2.0
Total	191,885	100.0	190,396	100.0

Source: Investment managers (based on bid values of assets where available) and Trustee.
Numbers may not sum due to rounding.

Review of Investment Performance

The table below shows the individual managers' returns and total fund return for the one year, three year and since inception periods to 31 December 2018 (for those managers in place as at 31 January 2019).

Asset Class	Periods to 31 December 2018	1 Year %	3 Years % p.a.	Since Inception ¹ % p.a.	Inception Date
Growth Investments					
Global Equity					
Global	<i>JO Hambro</i>	7.2	13.2	11.2	31 Jul 2009
	<i>Benchmark</i>	4.3	14.3	11.3	
Global	<i>Kiltearn</i>	-11.7	10.6	6.5	15 Nov 2013
	<i>Benchmark</i>	-4.0	11.8	9.6	
Alternatives					
Alpha –	<i>GMO</i>	-2.8	-	-2.9	4 Oct 2017
Global Macro	<i>Benchmark</i>	0.6	-	0.5	
Alpha –	<i>BlueCrest</i> ²	n/a	n/a	n/a	31 Jul 2009
MultiStrategy	<i>Benchmark</i> ²	n/a	n/a	n/a	
Global – Absolute	<i>Ruffer</i>	-5.6	1.8	4.9	6 Aug 2009
Return	<i>Benchmark</i>	0.7	0.5	0.7	
Beta –	<i>CQS</i>	-3.1	3.1	5.6	3 Aug 2009
Convertibles	<i>Benchmark</i>	0.7	0.5	0.7	

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report - continued

Review of Investment Performance - continued

Asset Class	Periods to 31 December 2018	1 Year %	3 Years % p.a.	Since Inception ¹ % p.a.	Inception Date
Fixed Income Investments					
Fixed Income Defensive					
Index-Linked Gilts	<i>L&G*</i>	-0.4	9.2	9.0	31 Jul 2009
	<i>Benchmark</i>	-0.4	9.2	8.9	
Fixed Income Growth					
Secured Finance	<i>Insight</i>	2.1	5.1	2.8	29 Sep 2017
	<i>Benchmark</i>	0.7	0.5	0.6	
Multi Asset Credit	<i>MGIM*</i>	-1.3	4.8	3.7	2 Nov 2015
	<i>Benchmark</i>	-3.0	4.6	3.3	
Emerging Market Debt	<i>BlackRock</i>	-13.8	-	0.3	23 Nov 2016
	<i>Benchmark</i>	-8.3	-	3.5	
Structured Product 2	<i>Gilliat</i>	-4.2	7.6	5.3	4 Jul 2014
	<i>Benchmark</i>	0.7	0.5	0.2	
Cash					
Cash	<i>M&G</i>	0.5	0.3	0.8	31 Jul 2009
	<i>Benchmark</i>	0.5	0.3		
Cash	<i>L&G*</i>			0.4	1 Jun 2018
	<i>Benchmark</i>			0.3	
Total	Total Scheme³ (net of fees)	-2.6	6.4	7.3	31 Jul 2009
	Benchmark³	-0.7	4.9	5.4	

Source: Investment managers, LCP. Returns are quoted net of fees in line with individual manager performance targets unless marked with an * in which case returns are quoted gross. Gilliat returns are estimated by LCP using NAV provided by Gilliat.

¹ Since inception performance is annualised from the date of inception of the new strategy (31 July 2009), except for managers which were incepted after this date. Since inception performance for any mandate incepted less than one year ago will be cumulative from the date of its inception.

² BlueCrest performance is not shown due to unavailability of data at the time of writing.

³ Total Scheme (net of fees) performance represents a net of fees calculation over all periods shown.

Market Background

The table on the following page illustrates the returns of the major asset classes over the 12 months to 31 December 2018. The indices shown are the respective constituents of the FTSE series, unless otherwise stated.

Underneath the chart commentary is provided on the Scheme and market performance to 31 December 2018. This date has been used rather than the accounting year end (31 January 2019) as the Trustee monitors performance on a quarterly basis.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report – continued

Market Background - continued

Market	Twelve Months to 31 December 2018 (%) Sterling Return
UK Equities	-9.5
Overseas Equities	-3.1
US Equities	1.4
European (ex UK) Equities	-9.1
Japanese Equities	-7.6
Asia Pacific (ex Japan) Equities	-8.7
Emerging Market Equities	-7.6
Emerging Market Debt (JP Morgan EMBI Global)	1.2
Fixed Interest Gilts (Over 15 Years)	0.3
UK Corporate (BofA Merrill Lynch Sterling Non Gilts)	-1.6
Index-Linked Gilts (Over 5 Years)	-0.4
Cash (3 Month LIBOR)	0.7

Source: Bloomberg

Over the year to 31 December 2018, most major asset classes produced negative returns in the context of political instability and an uncertain outlook. Volatility was caused by a variety of global concerns including increased trade tensions between the US and China, rising central bank rates and uncertainty around the outcome of Brexit.

2018 was a difficult year for equity investors, with almost all major indices producing negative returns in both local currency and Sterling terms. UK equities suffered over 2018 because of the Brexit impasse and global volatility, with the UK FTSE All-Share returning -9.5%. Emerging markets were challenged by ongoing global trade tensions, country specific difficulties, strengthening of the US Dollar and a fall in oil prices. This led to negative investment returns over the year. In this context, the Scheme's global equity managers delivered mixed returns over the year as JO Hambro returned 7.2% and Kiltearn returned -11.7%. JO Hambro outperformed its benchmark while Kiltearn underperformed its benchmark over 2018.

Gilt yields remained close to historical lows and continued to be volatile over the period, despite the Bank of England raising interest rates from 0.5% to 0.75%, the highest level since 2009. The rate increase was already largely anticipated by investors, therefore having a minimal impact on markets. Falling inflation expectations over the year led to index-linked gilts underperforming their fixed counterparts. The Scheme's index-linked gilt allocation with L&G returned -0.4% over the period.

The Alternatives portfolio managers are benchmarked against cash, which returned 0.7% over the year. Ruffer, CQS and GMO underperformed this benchmark over the last year.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report – continued

Basis of the Investment Managers' Fees

Investment Manager	Base Fee	Performance Related Fee
J O Hambro	0.70% p.a.	N/A
Kiltearn	1.0% p.a. on the first \$15 million, 0.8% p.a. on the next \$10 million, 0.7% p.a. on the next \$50 million, 0.6% p.a. on the next \$75 million, 0.5% p.a. on the next \$250 million and 0.45% p.a. thereafter	N/A
GMO	1.0% p.a.	N/A
BlueCrest	2.0% p.a.	20% of any outperformance above zero.
Ruffer*	1.0% p.a. on the first £10 million, 0.9% p.a. on the next £15 million, and 0.8% p.a. thereafter	N/A
CQS	0.75% p.a.	N/A
L&G Index Linked Gilts	0.10% p.a. for the first £5m 0.075% p.a. for the next £5m 0.05% p.a. for the next £20m 0.03% p.a. thereafter	N/A
Insight	0.50% p.a. 0.2% p.a. MGIM fee	N/A
MGIM	Plus c. 0.59% p.a. manager fee (variable depending on underlying manager charges)	Plus performance related fee of underlying managers
BlackRock	0.50% p.a.	N/A
Ares	0.55% p.a.	N/A
Gilliat - Structured Product 1	The total charges should not exceed 1.1% of the money invested if held until the end date of the product (21 December 2018)	
Gilliat – Structured Product 2	The total charges should not exceed 2.8% of the money invested if held until the end date of the product (5 July 2021)	
L&G Cash	0.125% p.a. for the first £5m 0.10% p.a. for the next £5m 0.075% p.a. for the next £20m 0.05% p.a. thereafter	N/A
M&G Cash	0.10% p.a.	N/A

* For the purpose of this calculation, the funds under management exclude holdings in the Ruffer OEICs, which are charged separately. Further details available upon request.

Custodial Arrangements

All the Scheme assets, apart from those held with Ruffer and Gilliat are invested in pooled investment vehicles, and as such the Scheme does not directly own the underlying assets. Assets held with Ruffer and Gilliat are invested on a segregated basis and so the Scheme retains ownership of the underlying assets. The table on the following page shows the custodians in place as at 31 January 2019.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Investment report – continued

Custodial Arrangements - continued

Manager	Pooled or Segregated	Custodian
JO Hambro	Pooled	RBC Investor Services
Kiltearn	Pooled	The Northern Trust Company
GMO	Pooled	State Street Custodial Services (Ireland) Limited
BlueCrest*	Pooled	n/a
Ruffer	Segregated	Ruffer LLP (sub custodian RBC Investor Services)
CQS	Pooled	JPMorgan
MGIM	Pooled	State Street Custodial Services (Ireland) Limited
L&G	Pooled	HSBC Bank Plc Citibank N.A. The Northern Trust Company
Insight	Pooled	Northern Trust Fiduciary Services (Ireland) Limited
BlackRock	Pooled	Bank of New York Mellon
Ares	Pooled	Bank of New York Mellon
Gilliat	Segregated	Arbuthnot Latham
M&G	Pooled	HSBC Bank Plc

* BlueCrest closed to external investors as of 31 December 2015 at which point investors in the AllBlue Fund became interest creditors. The custodian information is not applicable. The share registry is held by the administrator, GlobeOp.

The Trustee has delegated the appointment and monitoring of the custodial function for the assets underlying the pooled funds to the investment managers of the respective funds. The custodian is responsible for the safekeeping of the documents relating to the ownership of the assets underlying the pooled vehicles.

Employer related investments

Details of employer related investments are given in note 21 to the financial statements on page 44.

Increases to pensions

(a) Deferred pensions

Deferred pensions were increased during the Scheme Year by an amount necessary to meet statutory requirements.

There were no discretionary increases to deferred pensions during the Scheme Year.

(b) Pensions in payment

Pensions in payment were increased during the Scheme Year as follows:

- (i) That part of the pension appropriate to service before 6 April 1997 was increased by 3%.
- (ii) That part of the pension appropriate to service after 5 April 1997 was increased by LPI.

There were no discretionary increases to pensions in payment during the Scheme Year.

The increases detailed above were made in accordance with the rules of the Scheme.

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

Scheme Membership

	Deferred members	Pensioners*
At 31 January 2018	827	727
Adjustments**	(7)	-
Commencement of spouse's pension	-	6
Retirements	(29)	29
Deaths	(3)	(15)
Transfers out	(9)	-
Trivial commutations	(2)	-
At 31 January 2019	<u>777</u>	<u>747</u>

Out of the 747 pensioners, 207 (2018: 210) pensioners have their pensions funded by annuity purchases only, 453 (2018: 426) pensioners are being paid pensions from the Scheme fund only and 87 (2018: 91) pensioners are being paid pensions both by annuity purchases and from the Scheme fund.

*Including 113 (2018: 107) spouses and dependants of members in receipt of a pension.

** The above adjustments are in respect of members with multiple records due to having more than one period of service.

Calculation of transfer values

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

Summary of Contributions payable in the Scheme Year

During the Scheme Year, the contributions payable to the Scheme by the Employer were as follows:

	Employer £
Required by the Schedule of Contributions	
Additional	9,000,000
Total required by the Schedule of Contributions and per the Fund account	<u><u>9,000,000</u></u>

Crest Nicholson Group Pension and Life Assurance Scheme

Trustee's Report for the Scheme Year ended 31 January 2019

The Pensions Advisory Service (TPAS)

TPAS is available at any time to help Scheme members in connection with any pension query that they may have. TPAS services are offered online, in writing, via webchat and by telephone and can be contacted at:

The Pensions Advisory Service
11 Belgrave Road
London SW1V 1RB

Pension Helpline: 0800 011 3797
Overseas Helpline: +44 207 932 5780
Website: www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman (TPO)

Any concerns connected with the Scheme should be referred to Stephanie Fleming (see page 4) who will try to resolve the problem as quickly as possible. Members and beneficiaries of pension schemes who have problems concerning their scheme which are not satisfied by the information or explanation given by the administrators or the Trustee can consult with TPO. TPO may investigate and determine any complaint or dispute of fact or law in relation to the Scheme and can be contacted at:

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
London E14 4PU

Telephone: 0800 917 4487
E-mail: enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

Contact for further information

Enquiries about the Scheme generally or about an individual's entitlement to benefit should be sent to the contact on page 4.

The Trustee's Report, including the Summary of Contributions, was approved by the Trustee on

...29 AUG 19...



Signed on behalf of the Trustee

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the trustees of schemes with money purchase benefits (other than schemes which only have money purchase benefits arising from AVCs) to include an annual statement regarding the governance of these benefits in the annual report. As the Scheme has six members who transferred into the Scheme money purchase benefits ("DC transfers-in") with an estimated current value of £65k, the Trustee has taken the decision to include a DC governance statement.

Default arrangement

When members with AVC's or DC transfers-in (referred to as "DC members") joined the Scheme there was no default fund in place, and members decided themselves how their funds were to be invested, selected from the range of funds being made available at that time. The Scheme is not designated as a qualifying scheme for the purposes of auto-enrolment and as no AVC contributions have been made since 2010, there is no requirement to establish a default fund.

Periodically the Trustee Directors have considered whether a default fund should be put in place for members, however the Trustees have concluded that offering a default fund would offer no real value to members. The reason for this is that the existing arrangement only offers a very limited fund range, and in the Trustee Directors' opinion after having reviewed reports supplied by independent advisors, none of the funds are appropriate to act as a default fund which would be suitable for the needs of all or most of the members.

The default fund position was last reviewed in September 2018, and that review included consideration of the profile of both the members with DC transfers-in and those with AVCs, the range of investment options available already in comparison to the options which could be offered in other investment arrangements and the charging structure (including the costs of realising the current investments). Balancing all of these points, the Trustee decided that member outcomes were unlikely to be improved by the introduction of a default fund or indeed any change in the range of investment options to be made available, particularly as this would remove the option of members investing within the Prudential With Profits fund, which is a fund that was selected by more than 50% of the membership.

Processing scheme transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to these members are processed promptly and accurately. In the case of the DC transfers-in and the AVCs, as the Scheme no longer accepts new contributions, the level of transactions is relatively low and mainly encompasses the administration of retirements, deaths and transfers out.

These transactions are undertaken on the Trustee's behalf by the Scheme administrator, Equiniti. The Trustee has reviewed the processes and controls implemented by Equiniti and consider them to be suitably designed to achieve these objectives. The Trustee's in-house pensions support provided by Crest Nicholson plc also monitors closely the work undertaken by Equiniti to add another layer of regular oversight which is in addition to the reports the Trustee receives at its meetings.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Processing scheme transactions - continued

In the last year, the Trustee has reviewed the specific service level agreements agreed with Equiniti for the Scheme's overall administration including the DC transfers-in and AVCs and Equiniti has completed 90.82% of the work measured within agreed service levels. Where service levels were not met, this was closely monitored by the in-house pensions team at Crest Nicholson plc and was generally as a result of individual queries needing to be referred to the Trustee for additional input/authorisation, and as a result, the Trustee has not identified any specific service standard issues that need to be addressed at this time.

The Trustee periodically reviews and compares service levels with other pension schemes where obtainable. As part of the agreed service levels, the Trustee receives quarterly service reports from Equiniti, with the last report indicating that there were zero administrative errors in the last quarter and that 98.8% of work was completed within the agreed service levels. Currently, the service standards are 10 days for illustrations, 5 days for a transfer and 3 days for a retirement settlement, with an expected accuracy of the work undertaken of 100%.

The outsourced administration of the Scheme was last reviewed in January 2018, and it was decided that no changes would be made at that time, and the administration services would be formally reviewed again within the next two years.

In the light of the above, the Trustee considers that the requirements for processing core financial transactions specified in the Administration Regulations have been met.

Investment Performance

The annualised performance of the various funds available (and their respective benchmarks), over the period ending 31 March 2019 were as follows:

Fund	12 months (%)	3 years (%)	5 years (%)
Phoenix Life With Profits (Nelex) Fund	4.8%	4.6%	4.5%
Zurich Life With Profit Fund	0%	0%	0%
Prudential With Profit Fund	2.5%	2.5%	2.5%
Discretionary Fund	4.7% (5.9%)	10.3% (9.1%)	7.7% (7.3%)
Fixed Interest	3.2% (3.7%)	3.1% (3.6%)	5.0% (5.5%)
Global Fund	5.0% (6.4%)	10.3% (8.7%)	7.1% (8.1%)
Index Linked Fund	5.1% (5.7%)	8.9% (9.1%)	9.8% (9.9%)
International Fund	3.8% (6.3%)	13.0% (14.2%)	10.3% (11.6%)
Deposit Fund	0.0% (0.5%)	-0.3% (0.3%)	-0.3% (0.3%)

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Investment Performance - continued

Fund	12 months (%)	3 years (%)	5 years (%)
UK Property Fund	5.2% (4.8%)	6.0% (6.1%)	7.2% (9.1%)
UK Equity Fund	6.0% (6.4%)	9.3% (9.5%)	5.7% (6.1%)
Managed Pension Fund	3.1% (4.0%)	8.8% (8.3%)	7.3% (6.5%)
Ex M&G Recovery	-1.0% (0.7%)	9.4% (7.9%)	2.6% (5.3%)
Ex M&G UK Select	3.9% (0.7%)	8.9% (7.9%)	5.8% (5.3%)
Ex M&G Fixed Interest	2.5% (2.5%)	2.6% (2.5%)	4.2% (3.9%)
Ex M&G Pacific Markets*	-	-	-
Ex Property	1.5% (2.5%)	3.0% (3.7%)	6.8% (6.2%)
Ex Equity	0.6% (0.7%)	8.9% (7.9%)	5.8% (5.3%)
Ex M&G Euro Select	-1.5% (-0.5%)	10.2% (10.1%)	7.1% (7.2%)

* No current performance data as fund has re-launched within the last year, as a result there is no actual performance data available

Transaction costs

The Administration Regulations require the Trustee to make an assessment of charges and transaction costs borne by members and the extent to which those charges and costs represent good value for money for members.

There have been no contributions made to the Plan since May 2010, and there is no facility for a member to make further contributions, or to transfer in additional monies, and the core financial transactions are therefore the transfer of benefits out of the Plan, switching of monies between the available funds and the payment of benefits.

The arrangement in place makes available a limited range of funds in addition to a With Profit fund, which may be chosen by members. These funds attract annual charges, and the level of charges for each fund is set out in the "Guide to Fund Options" booklet which is available from Prudential on request. These funds allow members to take a more tailored approach to managing their own pension investments.

Over the year to 31 March 2019, the charges made against member funds consist of the Annual Management Charge ("AMC") and where applicable an Additional Charge, which have not changed over the course of the Scheme year. The AMC represents the cost of managing the fund, whereas the Additional Charge represents additional costs incurred by in the running of the fund, that are not covered by the AMC, and can include fees such as any legal or custodian fees incurred by the fund. Any other costs incurred to the Scheme such as the costs of administration, governance, advice and consultancy fees are borne by the Trustee or Crest Nicholson plc directly, and not by the members themselves.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Transaction costs - continued

Fund	Annual Management Charge	Additional Charges
Discretionary Fund	0.75%	0.08%
Fixed Interest	0.75%	0.02%
Global Fund	0.75%	0.04%
Index Linked Fund	0.75%	0.01%
International Fund	0.75%	0.04%
Deposit Fund	0.75%	0.02%
UK Property Fund	0.75%	0.7%
UK Equity Fund	0.75%	0.01%
Managed Pension Fund	1%	0.07%
Ex M&G Recovery	1%	0.0%
Ex M&G UK Select	1%	0.0%
Ex M&G Fixed Interest	1%	0.0%
Ex M&G Pacific Markets	1%	0.13%
Ex Property	1%	1.16%
Ex Equity	1%	0.0%
Ex M&G Euro Select	1%	0.0%

Some illustrative examples of the cumulative effect of these costs and charges are shown below:

Projected Pension Pot in today's terms

Years	UK Equity Fund		Deposit Fund		International Fund		Ex M&G Property Fund		Prudential With Profits Fund	
	Before all costs and charges	After all costs and charges	Before all costs and charges	After all costs and charges	Before all costs and charges	After all costs and charges	Before all costs and charges	After all costs and charges	Before all costs and charges	After all costs and charges
0	£21,000	£21,000	£21,000	£21,000	£21,000	£21,000	£21,000	£21,000	£21,000	£21,000
1	£21,895	£21,735	£21,109	£20,948	£22,006	£21,840	£22,504	£22,050	£21,945	£21,735
3	£23,800	£23,283	£21,329	£20,843	£24,165	£23,622	£25,841	£24,310	£23,964	£23,283
5	£25,871	£24,941	£21,552	£20,739	£26,535	£25,550	£29,674	£26,802	£26,170	£24,941
10	£31,871	£29,623	£22,118	£20,481	£33,529	£31,085	£41,932	£34,207	£32,612	£29,623
15	£39,263	£35,182	£22,699	£20,226	£42,366	£37,820	£59,253	£43,657	£40,641	£35,182
20	£48,370	£41,786	£23,295	£19,975	£53,532	£46,014	£83,729	£55,719	£50,646	£41,786
25	£59,588	£49,628	£23,907	£19,726	£67,642	£55,983	£118,314	£71,113	£63,114	£49,628
30	£73,409	£58,943	£24,535	£19,481	£85,470	£68,111	£167,186	£90,761	£78,652	£58,943
35	£90,436	£70,005	£25,180	£19,238	£107,998	£82,868	£236,246	£115,836	£98,014	£70,005

Assumptions

- The projected pension pot values are shown in today's terms, and do not need to be reduced further for the effects of future inflation
- Inflation is assumed to be 2.5% each year
- The starting pot size is assumed to be £21,000
- No future contributions are being paid into the scheme
- The values shown are estimates, and are not guaranteed in any way
- The projected growth rate for each fund (before costs and charges) are as follows:

UK Equity Fund	4.26% above inflation
Deposit Fund	0.52% above inflation
International Fund	4.79% above inflation
Ex M&G Property Fund	7.16% above inflation
Prudential With Profits Fund	4.5% above inflation

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Transaction costs - continued

The With Profit fund does not declare all of the charges attaching to the fund, as these are factored into the declared return, or included within any surrender value calculated, but are not explicitly detailed. The Annual Management Charge amounts to 1% of assets under management for all members within the With Profit fund. In addition, an additional charge of up to 2% may be made by Prudential and would be included within any quoted surrender value. This additional charge reflects the cost of the guarantees included within the fund. This is higher than the maximum allowed of 0.75% under the new default fund charge limitations imposed as a result of auto-enrolment, but this charge cap does not apply to the Scheme given it is not required to have a default fund.

When this was last reviewed in September 2018, there was no Market Value Adjuster ("MVA") attaching to the With Profits investments, although it should be noted that an MVA can be added to a With Profit investment at any time, subject to the relevant policy conditions. The MVA position will be monitored and commented upon within future versions of this statement.

Given that the charges under the Scheme are higher than the Trustee would like, when considered on their own the Trustee does not consider the costs to be good value for members. However, when seen in the context of member benefits overall in the Scheme and the fact that members are not entirely reliant on these funds for all of their retirement provision from the Scheme, the size of the assets under management and the limited power the Trustee has to negotiate lower charges, the member borne costs of moving the funds especially from the With Profits option the Trustee considers that the costs and charges borne by members are reasonable.

It should be noted that the Trustee keeps the investment platform under periodic review but have decided that it is not appropriate to make any changes at this time. One of the key reasons for this is that there are very few comparable alternatives to the With Profit style of fund, and a significant number of members have a significant proportion of their funds invested within the With Profit fund. The Trustee does not believe that it is in the members' interests to change the investment options available to members, but members are reminded that they should review their funds, and that there are alternatives available to them.

Trustee Directors' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustee directors to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustee directors properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07.

The comments in this section relate to the Trustee Directors as a body in dealing with the whole scheme and are not restricted to the DC transfer-ins. The Trustee Directors have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. The Secretary to the Trustee reviews the self-assessments and arranges for training to be made available to individual Trustee Directors or to the whole trustee director body as appropriate. In addition, the Trustee Directors receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Trustee Directors' knowledge and understanding - continued

All of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit with new Trustee Directors required to complete this within six months of taking up office if they have not already done so. As part of their ongoing training and knowledge development, during the year Trustee Directors attended various training/conference/webinars as part of their desire to share wider experiences within the market and to be better positioned to respond to a changing economic and political landscape.

This ongoing training and development is intended to support the Trustee Directors in maintaining a working knowledge of the Trust Deed and Rules of the Scheme, the current Statement of Investment Principles, all other documents detailing the Trustee's current policies and the Trustee's understanding of the law relating to pensions and trusts as well as the relevant principles of the funding and investments related to this Scheme. The Trustee Directors have attended various training sessions and seminars relating to investments, the mechanics of buy-out and valuation presentations in this regard. It should be noted in particular as follows:

- Two of the three current Trustee Directors were involved in a complete review of the current Scheme rules including an updating exercise with the Scheme's solicitors, resulting in a high degree of familiarity with the Scheme rules. The Trustee Director who has been appointed since that project was concluded is a practicing pensions solicitor and she has undertaken her own review of the Scheme rules as a part of her induction as a Trustee Director of the Scheme;
- The Trustee has re-tendered its investment consultants recently and appointed new advisers who have conducted a full review of the investment strategy for the Scheme which has resulted in changes to the investment approach and level of risk being taken. This process has involved all of the current Trustee Directors who have used this opportunity to refresh their understanding of the principles underlying investments matters. The review has resulted in the Trustee preparing a new statement of investment principles with their investment advisers. One of the Trustee Directors is an investment professional who is particularly familiar with all aspects of investment related matters.
- The Trustee Directors receive regular updates on the funding position of the Scheme in the context of movements in the Scheme's assets and key indicators on the sponsors' covenant. Regular opportunities to refresh knowledge of the underlying principles of the funding are taken at Trustee meetings which are attended by the Scheme actuary or a representative of XPS as the Scheme's actuarial advisers. Valuation training is given before each actuarial valuation commences. Two of the Trustee Directors were involved in the negotiation of the last actuarial valuation and are fully familiar with the terms of it. The third trustee director who has been appointed since the last valuation has reviewed the funding and valuation documentation as well as meeting separately with the Scheme actuary to discuss the Scheme's funding position as a part of her induction. The Trustees receive regular updates from their advisers including the Scheme lawyers on changes in pensions law. Legal advice from the Scheme's solicitors contains elements which are training on legal matters and one of the Trustee directors is a practicing pensions solicitor and she ensures that legal matters are properly addressed as a part of trustee business and decision making.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Trustee Directors' knowledge and understanding - continued

- The Scheme has a number of policies on key areas of its operations as well as a risk register and integrated risk management report. Selected policies are reviewed once a year on rotation to ensure that all are considered as a part of an ongoing program of review and governance improvement. The risk register has recently been reviewed by the last appointed trustee director to give a fresh perspective on the Scheme risks in the context of legal matters and individual risks are reviewed at meetings to ensure that all are reviewed on rotation not just the key ones. The integrated risk management report is updated and circulated to the Trustee directors on a regular basis allowing the key financial, sponsor and investment risk to be monitored effectively.
- Two of the Trustee directors are pensions professionals, one with investment expertise and the other pensions law expertise. The member nominated trustee is an experienced business professional working within the Crest Nicholson group. Taking account of actions taken individually and as a trustee director body, along with the professional advice available to them, the Trustee Directors consider that they are enabled properly to exercise their functions as Trustee Directors.

DC governance

The Trustee of the Crest Nicholson Group Pension Scheme has reviewed and assessed that where applicable to the DC arrangements that are part of the Scheme, its systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's: Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes. These are underpinned by the DC quality features.

Based on the Trustee's assessment and subject to the explanations set out below the Trustee believes that it has adopted the standards of practice set out in the DC regulatory guidance with regards to the Scheme's DC arrangements. These help demonstrate the presence of DC quality features, which the Trustee believes will help deliver better outcomes for members at retirement. In support of this, members are provided with an annual statement each year, as well as receiving separately an annual Newsletter, both of which look to encourage members to assess and review the investment of their funds.

As the Scheme is now closed to future accrual, AVC contributions are no longer being paid and transfers-in are not accepted. While the overall choice of funds for these historic DC transfers-in and AVC's are not extensive, the Trustee believes that they meet the needs of the members and where a member wishes to transfer only their AVC funds to a more recent AVC platform, there are processes in place that allow a member to do this.

The Trustee will continue to periodically review the DC investments and when appropriate, obtain relevant advice and guidance on the appropriateness of the DC providers and the range of funds made available by the Trustee to members.

The Statement regarding DC governance was approved by the Trustee on

.....29 AUG 19..... and signed on its behalf by:



D Revolta
Chairman

Independent auditors' report to the Trustee of the Crest Nicholson Group Pension and Life Assurance Scheme

Report on the audit of the financial statements

Opinion

In our opinion, Crest Nicholson Group Pension and Life Assurance Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 January 2019, 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the annual report, which comprise: the statement of net assets available for benefits as at 31 January 2019; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the Scheme, its operations and other organisations on which it depends and the wider economy.

Reporting on other information

The other information comprises all the information in the annual report other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. 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 thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent auditors' report to the Trustee of the Crest Nicholson Group Pension and Life Assurance Scheme

Responsibilities for the financial statements and the audit

Responsibilities of the Trustee for the financial statements

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also 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.

In the preparation of the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intend to wind up the Scheme, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

Date: 29 August 2019

Independent auditors' statement about contributions to the Trustee of the Crest Nicholson Group Pension and Life Assurance Scheme

Statement about contributions

Opinion

In our opinion, the contributions required by the schedule of contributions for the Scheme Year ended 31 January 2019 as reported in Crest Nicholson Group Pension and Life Assurance Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the Scheme actuary on 6 November 2015 and 30 November 2018.

We have examined Crest Nicholson Group Pension and Life Assurance Scheme's summary of contributions for the Scheme Year ended 31 January 2019 which is set out on page 18 of the Trustee's Report.

Basis for opinion

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 in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

Responsibilities for the statement about contributions

Responsibilities of the Trustee in respect of contributions

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance with relevant requirements.

Auditors' responsibilities in respect of the statement about contributions

It is our responsibility to provide a statement about contributions and to report our opinion to you.

Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

Date: *29 August 2019*

Crest Nicholson Group Pension and Life Assurance Scheme

Fund Account for the Scheme Year ended 31 January 2019

	Notes	2019 £	2018 £
Contributions and benefits			
Employer contributions		9,000,000	9,000,000
Total contributions	4	9,000,000	9,000,000
Other income	5	3,429	-
		9,003,429	9,000,000
Benefits paid or payable	6	(5,430,707)	(4,677,387)
Transfers out	7	(969,022)	(825,966)
Administrative expenses	8	(538,227)	(594,659)
		(6,937,956)	(6,098,012)
Net additions from dealings with members		2,065,473	2,901,988
Returns on investments			
Investment income	9	2,703,111	2,843,374
Change in market value of investments	10	(3,590,876)	7,404,076
Investment management expenses	12	(286,621)	(357,394)
Net returns on investments		(1,174,386)	9,890,056
Net increase in the fund during the Scheme Year		891,087	12,792,044
Net assets of the Scheme:			
At 1 February		202,731,981	189,939,937
At 31 January		203,623,068	202,731,981

The accompanying notes on pages 32 to 44 form an integral part of these financial statements.

Crest Nicholson Group Pension and Life Assurance Scheme

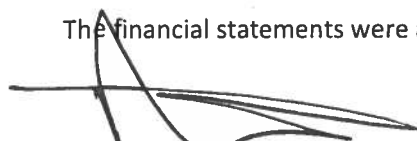
Statement of Net Assets (available for benefits) at 31 January 2019

	Notes	2019 £	2018 £
Investment assets	10		
Pooled investment vehicles	13	163,751,767	168,510,593
Equities		5,904,076	8,772,029
Bonds		7,399,886	7,393,984
Derivatives	14	167,858	334,301
Insurance policies	15	65,529	63,804
Insurance policies - Annuities	15	7,900,000	8,800,000
AVC investments	16	3,377,207	3,403,447
Interest due		5,045	6,325
Cash deposits		969,850	1,930,630
		<u>189,541,218</u>	<u>199,215,113</u>
Investment liabilities			
Derivatives	10	(4,614)	-
		<u>(4,614)</u>	<u>-</u>
Total net investments		189,536,604	199,215,113
Current assets	19	14,291,366	3,760,040
Current liabilities	20	(204,902)	(243,172)
Net assets of the Scheme at 31 January		<u><u>203,623,068</u></u>	<u><u>202,731,981</u></u>

The accompanying notes on pages 32 to 44 form an integral part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the assets at the disposal of the Trustee. They do not take into account obligations to pay pensions and benefits which fall due after the end of the Scheme Year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on page 7 of the annual report and these financial statements should be read in conjunction with it.

The financial statements were approved by the Trustee on 29 AUG 19.....



Signed on behalf of the Trustee

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

1. General information

The Scheme provides retirement benefits for Members and their Dependants. The Scheme, which is legally and financially separate from the Employers, is constituted by a Trust Deed and is administered in accordance with the Rules by the Trustee. The Scheme is a defined benefit scheme which means that the benefits under it are calculated on a pre-determined basis specified in the Scheme Rules. The address of the Scheme's principal office is disclosed on page 4.

The Scheme is a Registered Pension Scheme within the meaning given by section 150(2) of the Finance Act 2004. To the Trustee's knowledge, there is no reason why the Scheme's Registration should be prejudiced or withdrawn.

Members of the Scheme were contracted-out of the earnings-related part of the State scheme until 30 April 2010.

The Scheme closed to new entrants with effect from 1 October 2001. The Scheme closed to future accrual (and death benefits ceased) on 30 April 2010.

2. Basis of preparation

The individual financial statements of the Crest Nicholson Group Pension and Life Assurance Scheme 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 (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ('FRS 102') and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised November 2014) ('the SORP').

3. Accounting policies

The principal accounting policies applied are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

All items of income and expenditure shown in the Fund Account have been accounted for according to when they were due to be received and paid respectively, except where noted below.

- The functional and presentational currency of the Scheme is Pounds Sterling (GBP).
- Deficit funding contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.
- Transfer values are accounted for when the trustees of the receiving scheme have accepted liability for the transfer.
- Benefits payable include all valid benefit claims notified to the Trustee during the accounting period. Retirements are included in the financial statements based on the later of the date of retirement or the date the option form has been signed.
- Pensions in payment, including those funded by annuity contracts are accounted for in the period to which they relate.
- Interest and bonuses are credited / charged to the Scheme according to when the cash is physically received and paid.
- Investments are included at fair value.

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

3. Accounting policies - continued

- The values of the pooled investment vehicles at the year end date have been derived using information provided by the respective fund manager. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.
- Equities traded through the Stock Exchange Electronic Trading Service ("SETS") are valued on the basis of the bid price. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market.
- Derivative contracts are stated at fair value. The fair value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract. The fair value of the exchange traded options is determined using the exchange price for closing out the option at the reporting date. If a quoted market price is not available on a recognised exchange the over the counter ("OTC") contract options' fair value is determined by the investment manager using generally accepted pricing models.
- Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.
- Annuities have been valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions, updated for market conditions as at the year end.
- AVC investments are stated at values as at 31 January 2019 as advised by the investment managers.
- Investment management expenses that are inherent in the calculation of unit prices are not separately identified.

4. Contributions	2019	2018
	£	£
Employers		
additional	9,000,000	-
deficit funding	-	9,000,000
	<u>9,000,000</u>	<u>9,000,000</u>

Under the Schedule of Contributions in force to 29 November 2018, the employer was required to pay deficit funding contributions of £9,000,000 annually until November 2017 followed by additional contributions of £9,000,000 annually from December 2017 until August 2021.

The above Schedule was replaced with a new Schedule from 30 November 2018. Under the new Schedule of Contributions, the employer is required to pay additional contributions of £750,000 monthly until June 2022.

Crest Nicholson plc will have the option to reduce each January contribution due during this period by up to £500,000 (the liability management exercise (LME) amount) of professional or third party fees in relation to the planning and implementation of any LME that have been met by the Employers over the period since the previous 31 January. The first £250,000 of the LME amount will be at the discretion of Crest Nicholson plc and any additional amount will be with the agreement of the Trustee. No LME amount was paid during the Scheme Year.

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

4. Contributions - continued

An additional amount of £250,000 will be due to the Scheme alongside the final monthly payment in respect of June 2022.

The Trustee and Crest Nicholson plc have agreed that when the Scheme is:

- at least 95% funded on the Secondary Funding Basis for a period of 3 consecutive months then Crest Nicholson plc will have the option to pay any remaining contributions to an escrow account; or
- at least 101% funded on the Secondary Funding Basis (allowing for any monies held in escrow) for a period of 3 consecutive months then Crest Nicholson plc will have the option to cease contributions, subject to discussion with the Trustee.

5. Other income	2019	2018
	£	£
Other income	3,429	-
	<u>3,429</u>	<u>-</u>
	<u><u>3,429</u></u>	<u><u>-</u></u>
6. Benefits paid or payable	2019	2018
	£	£
Pensions payable	(4,676,568)	(4,415,591)
Commutation of pensions and lump sum retirement benefits	(673,969)	(244,222)
Lump sum death benefits	(8,954)	(12,690)
Contributions refunded on death	(623)	(4,884)
Taxation where lifetime or annual allowance exceeded	(70,593)	-
	<u>(5,430,707)</u>	<u>(4,677,387)</u>
	<u><u>(5,430,707)</u></u>	<u><u>(4,677,387)</u></u>
7. Transfers out	2019	2018
	£	£
Individual transfers out to other schemes	(969,022)	(825,966)
	<u>(969,022)</u>	<u>(825,966)</u>
	<u><u>(969,022)</u></u>	<u><u>(825,966)</u></u>
8. Administrative expenses	2019	2018
	£	£
Administration and processing	(104,233)	(106,742)
Actuarial fees	(141,785)	(92,450)
Audit fee	(20,060)	(19,540)
Legal and other professional fees	(73,282)	(161,049)
Consultant's fees	(198,867)	(214,878)
	<u>(538,227)</u>	<u>(594,659)</u>
	<u><u>(538,227)</u></u>	<u><u>(594,659)</u></u>

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

9. Investment income	2019	2018
	£	£
Dividends from equities	204,040	404,831
Income from pooled investment vehicles	1,594,820	1,627,497
Income from bonds	140,445	28,761
Annuity income	755,124	777,640
Bank interest receivable	8,682	4,645
	<u>2,703,111</u>	<u>2,843,374</u>

10. Reconciliation of investments

	Value at 1 February 2018 £	Purchases at cost and derivative payments £	Sales proceeds and derivative receipts £	Change in market value £	Value at 31 January 2019 £
Pooled investment vehicles	168,510,593	25,259,901	(27,403,649)	(2,615,078)	163,751,767
Equities	8,772,029	4,561,387	(7,210,864)	(218,476)	5,904,076
Bonds	7,393,984	4,325,875	(4,655,518)	335,545	7,399,886
Derivatives	334,301	367,589	(209,524)	(329,122)	163,244
Insurance policies	63,804	-	-	1,725	65,529
Insurance policies - Annuities	8,800,000	-	-	(900,000)	7,900,000
AVC investments	3,403,447	66,040	(226,810)	134,530	3,377,207
	<u>197,278,158</u>	<u>34,580,792</u>	<u>(39,706,365)</u>	<u>(3,590,876)</u>	<u>188,561,709</u>
Interest due	6,325				5,045
Cash deposits	1,930,630				969,850
Total investment assets	<u>199,215,113</u>				<u>189,536,604</u>

The change in market value of investments during the Scheme Year comprises all increases and decreases in the value of investments held at 31 January 2019.

Investments held in some pooled investment vehicles can include contract terms which restrict realisation such as an agreed notice period to exit. Investments in the structured product vehicle with Gilliat Financial Solutions have fixed terms which may affect the value of the amounts realised if exited before the expiry date. The product, totalling £10,004,000, has a term fixed for 7 years from July 2014.

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

10. Reconciliation of investments - continued

Concentration of investments

The following investments represented more than 5% of the net assets of the Scheme.

	2019		2018	
	£	%	£	%
L&G Over 5 yr Index-Linked Gilts Fund	40,745,043	20.0%	39,504,733	19.5%
CQS Convertible Opportunities Fund	20,394,991	10.0%	19,738,612	9.7%
IIFIG Secured Finance Fund	19,310,688	9.5%	18,947,831	9.3%
SGM Major Markets Investment Fund GBA	19,113,148	9.4%	18,343,648	9.0%
Mercer Multi Asset Credit Fund	13,064,078	6.4%	13,106,900	6.5%
BlackRock Emerging Markets Local Currency	12,076,675	5.9%	13,883,986	6.8%
Gilliat Index Dividend Generator	10,004,000	4.9%	10,393,000	5.1%
JO Hambro Global Select Fund	7,284,167	3.6%	10,398,902	5.1%
Gilliat Dual Index Income Builder Plus	-	0.0%	10,318,968	5.1%

11. Transaction costs

Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. There are no direct transaction costs.

12. Investment management expenses

	2019	2018
	£	£
Administration and management	(286,621)	(357,394)
	<u>(286,621)</u>	<u>(357,394)</u>

13. Pooled investment vehicles

	2019	2018
	£	£
Equities	15,293,211	22,554,034
Alternatives*	30,552,599	40,255,651
Bonds	115,971,976	105,401,975
Cash	1,933,981	298,933
	<u>163,751,767</u>	<u>168,510,593</u>

* Includes multi asset strategy and absolute return funds.

14. Derivatives

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme. They take the form of forward foreign exchange contracts used by Ruffer in order to reduce currency risk associated with holdings in overseas asset markets. More information can be found on page 42. Summarised details of the derivatives held at the year end are set out on the following page:

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

14. Derivatives - continued

	2019			2018		
	Assets £	Liabilities £	Total £	Assets £	Liabilities £	Total £
Forward Foreign Exchange	167,858	(4,614)	163,244	334,301	-	334,301
	<u>167,858</u>	<u>(4,614)</u>	<u>163,244</u>	<u>334,301</u>	<u>-</u>	<u>334,301</u>

The Forward Foreign Exchange contracts disclosed above are for a duration of no longer than three months. They are in Japanese Yen, US Dollars, Canadian Dollars and Euros respectively and are held to hedge currency risk rather than for performance. There were three contracts held at the year end with respective nominal values of £453,100, £37,743,000 and £8,145,500.

15. Insurance policies

The Scheme holds an insurance policy in respect of historic money purchase transfers in for certain members. This policy was issued and valued by The Prudential Assurance Company Limited.

In addition, certain pensions in payment are covered by annuities held by the Trustee. These policies specifically provide for the payment of benefits under the Scheme to those members and remain the assets of the Trustee. All of these policies were issued by Prudential and are valued by the Scheme actuary. The key assumptions used to value the insured annuity policies, based on market conditions as at 31 January 2019, are summarised in the table below.

Key assumptions	31 January 2019
Discount rate – post-retirement	2.22% p.a.
Price inflation – RPI	3.53% p.a.
Pension increases post retirement	
• Pension accrued before 6 April 1997	3.00% p.a.
• Pension accrued after 5 April 1997	3.33% p.a.
Post-retirement mortality	S2PA Light base tables projected in line with the CMI_2017 model with a long term improvement rate of 1.5% p.a. and a smoothing parameter of 8.0

16. AVC investments

AVC investments are identified and accounted for separately from the main investment of the Scheme. They are used to provide additional benefits for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 January confirming the amounts held in their AVC fund.

These funds can be further analysed as follows:

Investment Manager	Type of investment	2019	2018
		£	£
Prudential	Cash Accumulation	1,851,907	1,791,815
Prudential	Deposit AVCs	5,881	5,846
Prudential	Unitised fund	1,305,208	1,325,269
Phoenix Life	Insurance policy	10,749	10,257
Zurich	Insurance policy	2,231	2,222
Prudential (ex Scottish Amicable)	Unitised fund	201,231	268,038
		<u>3,377,207</u>	<u>3,403,447</u>

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

17. Fair value determination

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

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) 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).

The Scheme's investment assets and liabilities have been fair valued at 31 January 2019 using the above hierarchy categories as follows:

	Level 1 £	Level 2 £	Level 3 £	Total £
Investment assets				
Pooled investment vehicles	-	142,189,789	21,561,978	163,751,767
Equities	5,904,076	-	-	5,904,076
Bonds	7,399,886	-	-	7,399,886
Derivatives	-	167,858	-	167,858
Insurance policies	-	-	65,529	65,529
Insurance policies - Annuities	-	-	7,900,000	7,900,000
AVC investments	-	1,525,300	1,851,907	3,377,207
Interest due	5,045	-	-	5,045
Cash deposits	969,850	-	-	969,850
	14,278,857	143,882,947	31,379,414	189,541,218
Investment liabilities				
Derivatives	-	(4,614)	-	(4,614)
	-	(4,614)	-	(4,614)
	14,278,857	143,878,333	31,379,414	189,536,604

Analysis for the prior year end is as follows:

	Level 1 £	Level 2 £	Level 3 £	Total £
Investment assets				
Pooled investment vehicles	-	146,673,963	21,836,630	168,510,593
Equities	8,772,029	-	-	8,772,029
Bonds	7,393,984	-	-	7,393,984
Derivatives	-	334,301	-	334,301
Insurance policies	-	-	63,804	63,804
Insurance policies - Annuities	-	-	8,800,000	8,800,000
AVC investments	-	1,611,632	1,791,815	3,403,447
Interest due	6,325	-	-	6,325
Cash deposits	1,930,630	-	-	1,930,630
	18,102,968	148,619,896	32,492,249	199,215,113

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

18. Investment risk disclosures

Investment risks

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

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

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

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

The Trustee is responsible for determining the Scheme's investment strategy. The Trustee has set the investment strategy for the Scheme after taking appropriate advice. Subject to complying with the agreed strategy, which specifies the target proportions of the Scheme which should be invested in the principal market sectors, the day-to-day management of the asset portfolio of the Scheme, including the full discretion for stock selection, is the responsibility of the investment managers. A proportion of investments are allocated to investment managers to whom the Trustee delegates the decision regarding allocation across principal market sectors and/or sub funds.

The Scheme has exposure to these risks because of the investments it makes in implementing the investment strategy set out below. The Trustee, after taking appropriate advice, manage investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. The investment objectives and risk limits of the Scheme are further detailed in the SIP.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Fund	2019	2018	Credit	Currency	Interest	Other
	£	£	Risk	Risk	Rate Risk	Price Risk
Pooled investment vehicles						
- Direct	163,751,767	168,510,593	x	x		x
- Indirect			x	x	x	x
Equities	5,904,076	8,772,029		x		x
Bonds	7,399,886	7,393,984	x	x	x	
Derivatives	163,244	334,301	x	x		x
Insurance policies	65,529	63,804	x		x	
Insurance policies - Annuities	7,900,000	8,800,000	x			
AVC investments	3,377,207	3,403,447	x	x	x	x
	<u>188,561,709</u>	<u>197,278,158</u>				

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

18. Investment risk disclosures - continued

Pooled investment vehicles are subject to different indirect risks dependent on the type of funds. These funds have been classified in note 13.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the Additional Voluntary Contribution investments as these are not considered significant in relation to the overall investments of the Scheme. The Scheme has legacy annuity policies held in the Trustee's name. These will be subject to credit risk in respect of the solvency of the insurer. This risk is mitigated by the due diligence performed on the insurer when the policies were taken out. In addition, there will be a degree of protection offered by the Financial Services Compensation Scheme should the insurer have financial difficulties which threaten its ability to meet its obligations.

Investment Strategy

The Scheme's current strategy is to hold:

- 62.0% in fixed income assets which share some characteristics with the long-term liabilities of the Scheme. These are all pooled investment vehicles, except for holdings with Gilliat.
- 38.0% in growth investments comprising of 7.0% in Equity and 31.0% in Alternative assets. The mandate held with Ruffer is a segregated holding; all other growth investments are in pooled investment vehicles.

Credit Risk

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

The Scheme invests in pooled investment vehicles ("PIVS") (see note 13) and is therefore directly exposed to credit risk arising from these PIVs. This refers to the risk that the investment manager of the PIV is unable to honour the contract, or the units of the vehicle, in which it entered into with the Scheme.

The Scheme is also indirectly exposed to credit risks arising on the underlying fixed income investments held by the PIVs. The PIVs, in which the Scheme holds units, purchase financial instruments (e.g. bonds) from companies. Indirect credit risk is the risk that the counterparty to these underlying investments default on their obligation. This would result in a financial loss for the PIV, and subsequently the Scheme.

It should be noted that the above examples are only an indication of how the Scheme is exposed to credit risk; it is not an exhaustive list. Further details on how such risks arise, and how they are mitigated, are provided below.

Pooled Investment Arrangements

The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Trustee, after taking appropriate advice, manages and monitors the credit risk arising from the pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

18. Investment risk disclosures - continued

Credit Risk - continued

Direct credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

Investments backing unit-linked insurance contracts are comingled with the insurer's own assets and direct credit risk is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight. The Trustee delegates to their investment advisors the responsibility to carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager. The Trustee receives regular reports and alerts from their investment advisors with regards to these pooled investment managers.

Indirect credit risk arises in relation to underlying investments held in the fixed income investment vehicles including bonds held within CQS, GMO, BlueCrest, Insight, BlackRock, Ares and MGIM MAC funds. CQS, BlueCrest, Insight, BlackRock, Ares, and MGIM MAC may additionally hold non-investment grade credit rated instruments, with a view to generating additional returns. Indirect credit risk is mitigated through diversification of the underlying securities to minimise the impact of default by one issuer.

Some of the Scheme's pooled arrangements invest in other pooled arrangements. The Trustee, having taken appropriate advice, has considered the impact of these arrangements in relation to the Scheme's exposure to failure by the sub-funds who may have different regulatory protections compared to the pooled investment being made directly by the Scheme, and it believes that the indirect credit risk arising from these sub-funds are appropriate due to potential reward.

Segregated Investment Arrangements

The Ruffer strategy forms part of the return seeking assets of the Scheme and direct credit risk exposure of the investments is actively managed in order to optimise the risk/return profile of the portfolio. Currently, credit risk arising from directly held bonds is mitigated by investing in government bonds where the credit risk is minimal. Ruffer make this assessment using a combination of both in-house credit assessment and the use of credit ratings.

Credit risk arising from cash holdings in the Ruffer portfolio is managed by diversifying cash under management across a number of institutions once a review into the creditworthiness and quality of each bank, including due diligence required by the FCA, has been undertaken. Limits which prevent more than 40% of cash being held on deposit with any one bank are monitored daily and reported internally.

The Scheme's segregated mandate additionally exposes the Scheme to counterparty risk. In the Ruffer portfolio, Ruffer have limits to monitor the total mark-to-market exposure with each counterparty. Limits are set based upon quantitative and qualitative conditions relating to their view of each counterparty's creditworthiness, their investment approach and the general market environment. Ruffer has set procedures for the establishment and review of these limits as well as escalation procedures to identify and resolve breaches to these limits in a timely manner.

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

18. Investment risk disclosures - continued

Credit Risk - continued

Ruffer additionally holds exchange traded derivatives (see note 14). Credit risk in these instruments is mitigated through the monitoring and payment receipt of variation margin, in addition to any initial margin paid at the outset of contracts. Currency hedges in the form of Forward FX contracts are executed with the client or fund's custodian. Due diligence is performed at least annually on each of these custodians including a review of their creditworthiness as well as their procedures and controls.

In the Scheme's investments with Gilliat, credit risk is managed through two methods. The first is to select counterparties whose credit rating is no lower than A-, as rated by S&P. The second method is to diversify counterparty risk through the use of multiple counterparties.

Currency Risk

The risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Pooled Investment Arrangements

The Scheme is subject to indirect currency risk arising from the Scheme's investment in sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currencies.

The Scheme is also subject to direct currency risk through the Scheme's investment in the pooled investment vehicle with Kiltearn as this fund totalling £5.7m (2018: £9.4m) is priced in US dollars.

Segregated Investment Arrangements

The Scheme is subject to direct currency risk through the investments denominated in foreign currencies in the segregated mandate with Ruffer. Ruffer is cognisant of the sterling base currency of the Scheme, and foreign currency exposure is only sought when said currency fulfils an empirical and qualitative assessment suggesting its inclusion is beneficial to the overall risk/return profile of the portfolio. Any unwanted currency risk is mitigated within the Ruffer mandate by the use of forward foreign exchange contracts.

The Gilliat investment incurs no currency risk as it is priced in sterling.

Interest Rate Risk

The risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.

Pooled Investment Arrangements

The Scheme is subject to indirect interest rate risk on the fixed income investments held through pooled investment vehicles, and through cash holdings.

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

18. Investment risk disclosures - continued

Interest Rate Risk - continued

The Trustee has set a benchmark for total investment in fixed income defensive assets of 22.0% (as at 31 January 2019) of the total investment portfolio. Under this portfolio, if interest rates fall, the value of the investments is expected to rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the fixed income defensive assets should fall in value, as will the actuarial liabilities because of an increase in the discount rate.

The benchmark for fixed income growth assets is 40.0% (as at 31 January 2019) of the total investment portfolio. The purpose of this portfolio is to generate returns in excess of liability return through income yielding assets such as emerging market debt.

As at 31 January 2019 fixed income and cash assets represented 63.1% (2018: 56.5%) of the total actual investments portfolio. This does not include any fixed income or cash assets held within JO Hambro, Kiltearn, Ruffer, GMO, BlueCrest or CQS.

Segregated Investment Arrangements

The Scheme is subject to direct interest rate risk through the fixed income investments held within the Ruffer segregated mandate. As the Ruffer strategy forms part of the return seeking assets of the Scheme, interest rate risk is actively managed in order to optimise the risk/return profile of the portfolio. Scheme liabilities play no role in defining interest rate exposure within the Ruffer portfolio. Interest rate exposure may be tactically mitigated by the use of limited liability interest rate derivatives.

Other Price Risk

The risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes the global equities and alternative mandates.

The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

As at 31 January 2019 return seeking assets represented 36.9% (2018: 43.5%) of the total Scheme portfolio.

19. Current assets	2019	2018
	£	£
Cash balances	14,291,366	3,760,040
	<u>14,291,366</u>	<u>3,760,040</u>

Crest Nicholson Group Pension and Life Assurance Scheme

Notes to the financial statements

20. Current liabilities	2019	2018
	£	£
Unpaid benefits	(9,705)	(5,197)
Accrued expenses	(124,604)	(237,975)
Other creditors	(70,593)	-
	<u>(204,902)</u>	<u>(243,172)</u>

21. Employer-related investments

The Scheme's investments are invested in accordance with the employer-related investment regulations. As all of the investments made, with the exception of Ruffer and Gilliat, are via pooled vehicles, it is possible for the Scheme to have had indirect exposure to the employer, but the nature of pooled investments means that the Trustee has no influence on this decision.

As at 31 January 2019 the Scheme did not hold any employer related investments.

22. Related party disclosures

Certain administrative services were provided free of charge by the sponsoring employer. The sponsoring employer also paid Trustee fees/expenses totalling £47,460 (2018: £41,155) during the year.

The Trustee had an agreement with the Principal Employer regarding security against the Deficit Reduction Plan. This agreement was an arrangement with security (first charge) over a large site in the south of England (the "Land Security Package"), the value of which reduced over time on a monthly basis. This agreement was released in October 2018 in exchange for a further period of contributions towards the Trustee's secondary funding objective.

Jeremy Fry was a deferred member of the Scheme during the Scheme Year and at the Scheme Year end, and was employed by a Participating Employer.

23. Contingent liabilities

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. The Trustee is now, reviewing, with its advisers, the implication of this ruling on the Scheme and the equalisation of guaranteed minimum pensions between men and women; in the context of the rules of the Scheme and the value of any liability. As soon as this review is finalised and any liability quantified, then members will be communicated with.

Actuary's certification of schedule of contributions

Crest Nicholson Group Pension & Life Assurance Scheme ("the Scheme")

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 January 2018 to continue to be met for the period for which the schedule is to be in force.

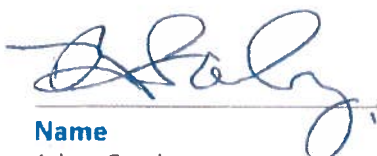
Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 30 November 2018.

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

Signature

30 November 2018



Name

Adam Stanley

Qualification

Fellow of the Institute
and Faculty of Actuaries

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Employer

Punter Southall Ltd

