



**THORNTONS PENSION SCHEME
ANNUAL REPORT
FOR THE YEAR ENDED 31 MAY 2020**
Scheme Registration Number: 10126689

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

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Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Trustee, Principal Employer and Advisers

Trustee

Employer-nominated Trustees

Independent Trustee Services Limited (ITS) - Independent Trustee

Principal Employer

Thorntons Limited

Scheme Actuary

Kath Taylor, FIA (reappointed 3 August 2020, resigned 3 December 2019)

Mercer Limited

Kathryn Taylorson, FIA (appointed 3 December 2019, resigned 3 August 2020)

Mercer Limited

Independent Auditor

BDO LLP

Scheme Administrator

Mercer Limited

Scheme Investment Consultant

Mercer Limited

Investment Managers

BlackRock Investment Management (UK) Limited

Mercer Limited

Legal & General Assurance (Pensions Management) Limited

Hermes Investment Management Limited

Aviva Investors Pensions Limited

Investec Asset Management Limited

Investment Custodians

State Street Bank Luxembourg S.A.

State Street Custodial Services (Ireland) Limited

HSBC Securities Services

Bank of New York Mellon (International) Limited

Additional Voluntary Contribution (AVC) Providers

The Equitable Life Assurance Society (until 31 December 2019)

Utmost Life and Pensions (from 1 January 2020)

The Prudential Assurance Company Limited

Bank

HSBC

Legal Advisers

Wrigleys Solicitors LLP

Gowlings WLG (UK) LLP (appointed 22 September 2020)

Thorntons Pension Scheme

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Trustee, Principal Employer and Advisers

Employer Covenant Adviser

Ernst & Young LLP (appointed 3 November 2020)

Contact for further information and complaints about the Scheme

Paul Sherman
The Secretary to the Trustees of the Thorntons Pension Scheme
Independent Trustee Services Limited
4th Floor Cannon Place
78 Cannon Street
London
EC4N 6HL
Email: paul_sherman@itslimited.org.uk

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Trustee's Report

Introduction

The Trustee of the Thorntons Pension Scheme (the Scheme) is pleased to present their report together with the audited financial statements for the year ended 31 May 2020. The Scheme is a defined benefit scheme.

Full membership of the Scheme was closed to new employees who commenced service on or after 1 August 2002. Between 6 April 2009 and 5 April 2013, the date on which the Scheme was closed to future accrual, benefits accrued on a Career Average Revalued Earnings (CARE) basis.

Constitution

The Scheme was established on 24 May 1967 and is governed by a definitive Trust Deed dated 25 April 2003 and a supplemental definitive Deed and Rules dated on 9 September 2009.

Management of the Scheme

Trustee

The Pensions Act 2004 provides for the appointment of Member nominated Trustee Directors. However, as all Directors of the Independent Trustee, Independent Trustee Services Limited (ITS), satisfy the independence conditions in the regulations, the Scheme is exempt from this requirement. The power to appoint and remove Trustee rests with the Principal Employer, Thorntons Limited.

The Directors of Independent Trustee Services Limited are:

R Croft
M Evans
H Frisby
H Kotecha
J Lovell (appointed 24 April 2020)
C Martin
B Smith (appointed 1 June 2020)
D Visavadia
P Wadsworth (resigned 10 June 2019)
J Wood

The Trustee met twice during the year on 7 August 2019 and 7 November 2019. Post the year end the Trustee met on 23 July 2020 and 22 October 2020.

Statement of Trustee's Responsibilities

The Statement of Trustee's Responsibilities is set out on page 15 and forms part of this Trustee's Report.

Governance and risk management

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

The Trustee also has a risk register which sets out the key risks to which the Scheme is subject along with the controls in place to mitigate these. This register is regularly reviewed and updated by the Trustee.

Trustee knowledge and understanding

The Pensions Act 2004 requires trustees to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Scheme documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding to assist trustees on this matter which became effective from 6 April 2006 and which was revised and reissued in November 2009.

Principal Employer

The Scheme was provided for all eligible employees of the Principal Employer whose registered address is Thorntons Limited, 889 Greenford Road, Greenford, Middlesex, UB6 0HE.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Trustee's Report

Financial development

The financial statements on pages 18 to 28 have been prepared and audited in accordance with the Regulations made under Section 41 (1) and (6) of the Pensions Act 1995. They show that the value of the fund increased from £113,423,563 at 31 May 2019 to £125,361,458 at 31 May 2020.

The increase shown above comprised net additions from dealings with members of £621,582 together with net returns on investments of £11,316,313.

Guarantee

To help secure the financial position of the Scheme the Company has entered into an agreement with the Trustee under which Ferrero International S.A. (Ferrero) has agreed that, if the Company becomes insolvent or is unable to pay such amounts as required under the Schedule of Contributions, Ferrero will pay those amounts up to £20 million to the Scheme.

Covid-19

On the 11 March 2020, the World Health Organisation officially declared COVID 19, the disease caused by novel coronavirus, a pandemic.

The Trustee has and continues to closely monitor the evolution of this pandemic, including how it may affect the Scheme, the company, financial markets, the economy and the general population.

The extent of the impact of COVID 19 outbreak on the financial performance of the Scheme's investments will depend on future developments, including the duration and spread of the outbreak and related advisories, and restrictions and the impact of COVID 19 on financial markets and the overall economy, all of which are highly uncertain and cannot be predicted. The effects of COVID 19 may materially and adversely impact the value and performance of the Scheme's assets and liabilities. Markets experienced significant negative performance and extreme market volatility in March 2020 which has had a direct impact on the performance of the Scheme in the current year.

Thorntons Limited - Covid 19

Thorntons Limited has reported in its Financial year 2019 annual accounts, that full estimates of the impact of COVID-19 are not yet available and are highly dependent on consumer demand / store re-opening (in particular for the Retail business). However, Thorntons Limited has obtained written confirmation of support from the Group (Ferrero International S.A.). This provides comfort that Thorntons Limited can continue to operate through the pandemic, and allows Thorntons Limited Financial year 2019 annual accounts to be on a going concern basis

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 Principal 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 May 2017. Updated valuations were performed on 31 May 2018 and 31 May 2019. These showed:

	31 May 2017	31 May 2018	31 May 2019
The value of Technical Provisions was	£101.4 million	£104.5 million	£113.2 million
The value of assets was	£141.1 million	£139.6 million	£150.7 million
Percentage of Technical Provisions	72%	75%	75%

The next full actuarial valuation of the Scheme will be carried out as at 31 May 2020 and is currently under preparation.

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

Method

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

Report on actuarial liabilities - continued

Significant actuarial assumptions

Principal actuarial assumptions for valuation as at 31 May 2017	
Investment return pre-retirement:	3.34% p.a.
Investment return post-retirement:	2.09% p.a.
Price inflation - Retail Prices Index:	3.38% p.a.
Deferred revaluation:	3.38% p.a.
Pension increases in payment:	
Pre 97	0.00% p.a.
Post 97	3.30% p.a.
Mortality:	109%/105% for male (non-pensioner/pensioner) members and 102%/104% for female (non-pensioner/pensioner) members of S2PA (YOB) tables 1.5% p.a. long term trend.

The derivation of these key assumptions and an explanation of the other assumptions to be used in the calculation of the technical provisions are set out below.

Derivation of actuarial assumptions for valuation as at 31 May 2017	
Discount interest rate:	<p>The majority of benefits in a pension scheme are paid many years in the future. In the period before the benefits are paid, the Trustees invest the funds held by the scheme with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as "discounting".</p> <p>The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the "discount rate" is higher.</p> <p>The Trustees' investment policy is to invest the funds held in respect of retired members in lower risk assets (which therefore have a lower expected return) than those held for members who are still some way from retirement. Therefore, the discount rate assumption is split into pre and post-retirement rates (with pre-retirement being higher).</p>
Inflation:	<p>Pensions in payment typically increase in line with price inflation, subject to a cap. Salary growth is also normally linked to price inflation. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.</p>
Life expectancy:	<p>Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.</p>

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Trustee's Report

Scheme Actuary

With effect from 3 December 2019 Kath Taylor, FIA resigned as Scheme Actuary and Kathryn Taylorson, FIA was subsequently appointed as Scheme Actuary with effect from 3 December 2019. Kathryn Taylorson of Mercer Limited replaced Kath in this role for an interim period starting 3 December 2019 whilst Kath Taylor was absent from work and therefore unable to fulfil this role. Kath Taylor has now returned to work and has been re-appointment as Scheme Actuary with effect from 3 August 2020.

The following statement was received from Kath Taylor, FIA:

"Under Regulation 5(4) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 I have considered whether there are any circumstances connected with my resignation from the appointment which significantly affect the interests of current or prospective members and beneficiaries under the Scheme. I can confirm that I know of no such circumstances".

The following statement was received from Kathryn Taylorson, FIA:

"Under Regulation 5(4) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 I have considered whether there are any circumstances connected with my resignation from the appointment which significantly affect the interests of current or prospective members and beneficiaries under the Scheme. I can confirm that I know of no such circumstances".

Membership

The membership movements of the Scheme for the year are given below:

	Deferreds	Pensioners	Total
At 1 June 2019	1,184	688	1,872
Adjustments	(4)	9	5
Retirements	(48)	48	-
Deaths	(2)	(15)	(17)
Transfers out	(5)	-	(5)
Spouses and dependants	-	5	5
Pensions commuted for cash	-	(15)	(15)
At 31 May 2020	<u>1,125</u>	<u>720</u>	<u>1,845</u>

Included within pensioners above is 42 (2019: 40) members receiving a pension upon the death of their spouse.

The adjustments to the membership shown above relate to prior year movements notified to the administrator after the completion of the membership movement report for inclusion in the financial statements.

Pension increases

Pensions in payment as at 1 May 2019 were increased in line with the Scheme rules. Pension arising from pensionable service completed post 6 April 1997 increases in line with Retail Prices Index up to a maximum of 5% per annum. During 2020 these pensions were increased by 3.3% (2019: 3.3%). Preserved pensions were increased in accordance with statutory guidelines. None of the pension increases were discretionary.

Calculation of transfer values

The cash equivalent transfer values have been calculated on the Trustees' transfer value basis. The Trustee is responsible for choosing the method and assumptions used to calculate transfer values, having taken advice from the Scheme Actuary.

The cash equivalent transfer value calculations have been reduced to reflect the funding position of the Scheme on the Trustees' transfer value basis. Therefore transfer payments will be made at less than the full cash equivalent at least until the Scheme's funding position is reviewed again. There is no allowance made for discretionary benefits when calculating transfer values.

Investment management

General

The overall investment policy of the Scheme is determined by the Trustee having taken advice from its advisers, Mercer Limited. The Trustee is responsible for determining the investment strategy and manager appointments after taking appropriate advice. The Trustee has delegated the day-to-day management of investment to professional investment managers. These managers, undertake, within restrictions in the contractual documentation, the day-to-day management of the asset portfolio, including the full discretion for stock selection

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.

The SIP was updated in September 2019 to reflect new regulatory requirements taking effect from October 2019. The update included the Trustee's policies relating to financially material considerations over an appropriate time horizon, non-financial matters, the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments.

The SIP was also updated in September 2020 to reflect additional regulations taking effect from October 2020. This update expanded upon the application of the Trustee's engagement activities as well as setting out its policy with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs.

Full information on these policies is outlined throughout the SIP, a copy of which is available at <https://www.thorntons.co.uk/legal/thorntons-pension-scheme.html>. Further information is also summarised later in this report. In addition, the Scheme's Engagement Policy Implementation Statement on page 9 outlines how, in the opinion of the Trustee, the Trustee's engagement policy has been followed during the year.

Investment Objectives and Policies

Objectives

The Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme taking into account the funding level of the Scheme and the strength of covenant of the Employer.
- To pay due regard to the interest of the Employer on the size and incidence of its contribution payments.

The Trustee understands, following discussions with the Employer, that the Employer is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

When designing the investment arrangements, the Trustee considers the requirements of legislation, the funding objectives for the Scheme and its views on the covenant of the Employer.

Financially Material Considerations

When setting objectives, investment strategy and choosing appropriate investments for the Scheme, the Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout the SIP.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

Non-Financial Matters

"Non-financial matters" (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.

Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in the SIP.

ESG, Stewardship and Climate Change

The Trustee believes that financially material factors, including environmental, social, and corporate governance (ESG) factors, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme's assets are invested predominantly in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to investment managers, including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustee engages with existing investment managers on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustee accepts that the primary role of its passive manager(s) is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set. The Trustee will periodically consider the appropriateness of the benchmark indices against which its passive manager(s) aim to track, relative to viable alternative indices.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee will challenge managers who it believes are taking insufficient account of ESG considerations in implementing their mandates. The Trustee will also monitor investment manager engagement activity (such as voting) at least annually.

The Trustee has not set any investment restrictions on the appointed investment manager(s) in relation to particular products or activities, but may consider this in future.

The Trustee will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

Alignment of Investment Manager Objectives and Incentivisation

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation, business management, timeliness and quality of reporting, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

Where relevant, the Trustee specifies the investment objectives and guidelines in an Investment Management Agreement ("IMA") and sets these so that they are in line with the Trustee's specific investment requirements. In relation to pooled investment vehicles, the Trustee accepts that they have no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee's own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

Thorntons Pension Scheme

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Trustee's Report

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at relatively short notice.

For each appointment retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve the mandated investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the mandated objectives, consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

Performance Assessment and Fees

The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and periodic presentations from the investment managers. Investment returns (and their associated volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets.

As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of the investment advisor, when assessing investment managers, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Voting and engagement activity
- Service standards;
- Operational controls; and
- The advisor's assessment of ongoing prospects based on their research ratings.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees may also be in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustee will consider introduction of performance related fees on a case by case basis where not in operation and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustee will now seek explicit reporting on ongoing costs for all appointed managers.

The Trustee does not monitor regular cashflow costs (but seeks to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via its investment consultant.

Implementation Statement for the year to 31 May 2020

Introduction

This statement sets out how, and the extent to which, the stewardship (voting and engagement) policies set out in the Statement(s) of Investment Principles ('SIPs') produced by the Trustee have been followed during the year to 31 May 2020. This statement has been produced in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 as amended and the guidance published by the Pensions Regulator.

The Trustee considers that its policies in relation to:

- (i) the exercise of the rights (including voting rights) attaching to the investments has been followed during the year; and

Trustee's Report

- (ii) undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters) have been followed during the year.

Details of how and the extent to which, in the opinion of the Trustee, these policies have been followed during the year are set out in the "Policy on ESG, Stewardship and Climate Change" and "Engagement" sections below.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustee's primary objectives are as follows:

- To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme taking into account the funding level of the Scheme and the strength of covenant of the Employer; and
- To pay due regard to the interest of the Employer on the size and incidence of its contribution payments.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

The Trustee understands, following discussions with the Employer, that the Employer is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. A further review of the Trustee's policy on ESG factors, stewardship and Climate Change has taken place after 31 May 2020, but prior to the signing of the accounts. The SIP was updated in September 2020 to reflect the revised policy.

In order to establish these beliefs and produce its policy, the Trustee undertook investment training provided by its investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. This training was provided on 7 August 2019. In its capacity as professional Trustee, ITS has also undertaken wider training on ESG matters and responsible investment. The Trustee keeps its policies under regular review, with the SIP subject to review at least triennially and without delay after any significant change in investment policy.

The following paragraphs set out the work undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change, and also how the Trustee's engagement and voting policies were followed and implemented during the year.

Engagement

- With the assistance of its investment consultant, Mercer Limited, the Trustee reviews the mandates of Legal and General Investment Management ("LGIM"), BlackRock, Aviva Investors ("Aviva"), Ninety One, Hermes Investment Management ("Hermes") and Mercer Global Investments, together the ("Investment Managers"), in relation to ESG factors, including climate change, on both an ad hoc and ongoing basis. The Trustee will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets. Further details relating to the Investment Managers are given below.
- When the Trustee received the training outlined above in August 2019, it also undertook a review of the ESG ratings (determined by the investment consultant) and policies of the Scheme's current investment mandates.
- The review included a benchmarking study, by asset class / mandate type comparing the ESG rating of the Scheme's mandates to those of the wider Mercer universe. The results showed that the ESG ratings of the Scheme's investments are generally above average. The Trustee will repeat the exercise annually and monitor developing trends.
- The review also included summary commentary from the investment consultant explaining the rationale for the ESG rating of each mandate. This was discussed during the 7 August 2019 Trustee meeting. The Trustee was encouraged by the level of ESG integration into the investment processes of its managers but acknowledged that there is scope to go further in some areas and will continue to monitor developments by its managers and in the wider market.

Trustee's Report

- The Scheme's investment consultant also produces a quarterly investment performance report which is reviewed by the Trustee and is discussed as a standing item during Trustee meetings. The report includes ratings (both general and specifically relating to ESG) from the investment consultant's manager researchers. The report also includes how each investment manager is delivering against its specific mandate.
- The Trustee does not meet with the investment managers at each meeting but will receive presentations from them periodically and if the Scheme's monitoring process identifies any significant issues that need to be addressed. Managers are expected to comment on ESG issues where relevant as part of this process.
- All of the managers remained generally highly rated during the year, taking into account the asset class / investment structure of each mandate. Where managers may not be highly rated from an ESG perspective the Trustee will continue to monitor.
- When implementing a new manager the Trustee will consider the ESG rating of the manager as part of the manager selection process (no new managers were introduced during the Scheme year).
- The Trustee expects the Scheme's investment managers to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.
- The Trustee has recently requested that the Investment Managers confirm compliance with the principles of the UK Stewardship Code. All managers confirmed that they are signatories of the current UK Stewardship Code and plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.

Voting Activity

The Scheme was invested solely in pooled funds over the year and managers have therefore voted on behalf of the Trustee. The Trustee has no legal right to the votes under these arrangements and the Trustee accepts it has limited influence on the managers. However, as noted above, the Trustee expects managers to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports will be reviewed by the Trustee to ensure that they align with the Trustee's policy.

The Scheme's equities are all managed passively by BlackRock in the following pooled funds:

- Aquila Life UK Equity Index Fund;
- Aquila Life World (ex UK) Equity Index Fund;
- Aquila Life Currency Hedged World (ex UK) Equity Index Fund;
- Aquila Life Global Minimum Volatility Fund; and
- BlackRock Emerging Markets Index Sub-Fund.

BlackRock uses the BlackRock Investment Stewardship ("BIS") team to formulate its voting policy. Voting decisions are made by members of the team with input from investment colleagues as required and in accordance with BlackRock's Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines. The BIS team subscribes to research from the proxy advisory firms Institutional Shareholder Services and Glass Lewis. There is therefore indirect use of proxy voters by the Trustee. However, BlackRock does not simply follow any single proxy research firm's voting recommendations and uses several other inputs, including a company's own disclosures, and BlackRock's record of past engagements, in its voting and engagement analysis.

The Trustee does not use the direct services of a proxy voter.

When the Trustee receives a periodic presentation from BlackRock it will ask the presenters to highlight key voting and engagement activity, as well as the impact on the portfolio.

Information on voting activity has been provided by BlackRock and is summarised below, including commentary provided by them on the most significant votes that have been undertaken on the Trustee's behalf during the Scheme year.

Trustee's Report

Aquila Life Global Minimum Volatility Fund

- There have been 411 votable meetings over the year, in which there were a total of 5,722 votable proposals. BlackRock voted on 98% of the proposals on which they were eligible, voting with management 95% of the time.
- BlackRock noted a significant vote on behalf of the Trustee in respect of Goldcorp Inc, along with other major shareholders. A proposal was put forward to enter into a merger agreement with Newmont Corporation. The proposal was passed with an overwhelming majority. Shareholders will receive \$0.02 per share in cash and 0.3280 of a Newmont share per share of Goldcorp. The merger consideration represents a premium of c25% to the closing price 60 days prior to the announcement.

Aquila Life World (ex UK) Equity Index Fund & Aquila Life Currency Hedged World (ex UK) Equity Index Fund

- There have been 2,114 votable meetings over the year, in which there were a total of 25,983 votable proposals. BlackRock voted on 94% of the proposals on which they were eligible, voting with management 89% of the time.
- BlackRock noted a significant vote on behalf of the Trustee in respect of Anadarko Petroleum Corporation (APC). The board was seeking shareholder approval to be acquired by Occidental Petroleum Corporation. The vote passed and APC shareholders will receive \$59.00 in cash and 0.2934 Occidental shares per APC share. The offer was valued at \$76.67 per share on the date of announcement (based on the 8 May 2019 closing price), approximately \$38.5 billion in aggregate. APC shareholders are expected to own approximately 16 percent of the combined company. There was unanimous Board Support with Fairness Opinion from Evercore, Goldman Sachs and Jefferies.
- Another significant vote was made on behalf of the Trustee in respect to Liberty Property Trust (LPT). LPT has entered into a merger agreement with Prologis, Inc. with approval from the shareholders. Shareholders will receive 0.675 Prologis shares per share of LPT. The merger consideration represents a premium of c21% to the closing price a day prior to announcement.

BlackRock Emerging Markets Index Sub-Fund

- There have been 2,090 votable meetings over the year, in which there were a total of 19,984 votable proposals. BlackRock voted on 97% of the proposals on which they were eligible, voting with management 88% of the time.
- BlackRock noted a significant vote on behalf of the Trustee in respect of Autohome Inc.. The board was seeking approval of a new board member Junling Liu. The vote passed without agreement from BlackRock. BlackRock voted on behalf of the Trustee against due to two reasons. Junling Liu is serving on two public company boards in addition to being a CEO, which BlackRock believes raises substantial concerns about his ability to exercise sufficient oversight on this board. They also voted against nominating Junling for failure to adequately account for diversity on the board.

Aquila Life UK Equity Index Fund

- There have been 1,104 votable meetings over the year, in which there were a total of 14,999 votable proposals. BlackRock voted on 98% of the proposals on which they were eligible, voting with management 93% of the time.
- BlackRock noted a significant vote on behalf of the Trustee in respect of Arthur J. Gallagher & Co. The Shareholders proposed the board to adopt a policy on board diversity. The vote did not pass with support from BlackRock and the board. BlackRock voted against on this occasion because the company already has policies in place to address these issues. This is reflected in the board, which is composed of ten members of whom two are women and one is racially/ethnically diverse. Whilst BlackRock voted against on this occasion, the Trustee notes (from BlackRock's Investment Stewardship Annual Report) BlackRock's clear expectations of directors to ensure boards have the diversity, capabilities, and independence to effectively oversee management and help drive long-term value creation. BlackRock opposed the re-election of over 5,100 directors during 2020 due to concerns that these characteristics were lacking or that the actions taken by the board were not aligned with the interests of long-term shareholders.

The Trustee is comfortable with the voting summaries above and has reviewed BlackRock's approach to voting during the Scheme year to 31 May 2020. The Trustee is of the view that BlackRock's approach is aligned with the policy outlined in the Scheme's Statement of Investment Principles. Going forwards, the Trustee will be more active in reviewing and, if appropriate, challenging voting activity.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Trustee's Report

Investment Strategy

All investments have been managed during the year under review by the investment managers and there is a degree of delegation in respect of investment decision making.

The Trustee has agreed, based on expert advice from Mercer, an investment strategy that is consistent with the Trustee's funding and investment objectives. The split of assets between each asset class (excluding any cash held separately to meet day-to-day cash flow requirements) is set out below.

Asset Class	Strategic Allocation (%)
Equities	19.5
Emerging Market Debt	4.5
Multi-Asset Credit	7.0
Property	12.0
Investment Grade £ Bonds	15.0
Liability Driven Investments ("LDI")*	42.0
Total Scheme	100.0

*LDI may include physical gilt and index-linked gilt holdings, as well as partially funded exposure to changes in interest rates and inflation through pooled vehicles with underlying exposure to derivative contracts including interest rate and inflation swaps, total return swaps and gilt repo. It may also include cash..

The Trustee regards all the Scheme's investments as readily marketable, during normal market conditions, as detailed below:

- BlackRock, LGIM and Ninety One (formerly Investec) pooled investment vehicles are daily priced and traded;
- Mercer and Hermes pooled investment vehicles are monthly priced and traded; and
- Aviva pooled investment vehicle is monthly priced but only has annual redemptions on 31 December.

The actual allocations will vary from the strategic allocation above due to market price movements.

Review of investment performance

The performance of the Scheme's investments to 30 June 2020 (the closest date available to the Scheme year end) is shown in the table below:

	1 Year		Last 3 Years		Last 5 Years	
	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
BlackRock (UK Equity)	(13.0)	(13.0)	(1.5)	(1.6)	-	-
BlackRock (World ex-UK Equity)	7.7	7.7	9.6	9.4	-	-
BlackRock (World ex-UK Equity (95% Hedged))	2.6	3.8	6.3	6.6	-	-
BlackRock (Global Low Volatility Equity)	1.1	0.4	7.0	6.5	12.6	12.0
BlackRock (EM Equity)	(0.5)	(0.5)	3.7	3.6	-	-
Investec (EM Debt)	0.5	0.3	2.8	2.5	-	-
Mercer (Multi-Asset Credit)	(3.8)	(1.7)	0.8	1.3	2.5	2.8
Hermes (Property)	(0.6)	(2.5)	5.8	3.8	7.6	5.2
Aviva (HLV Property)	5.6	2.5	7.2	5.8	7.2	6.3
LGIM (Sterling Non-Gilts)	12.8	11.5	7.5	6.9	8.4	8.2
BlackRock (Sterling Non-Gilts)	6.4	6.4	4.4	4.3	5.5	5.4
BlackRock (LDI)	23.9	24.1	15.1	15.2	19.7	19.9

Figures shown are based on performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream. Returns are gross of fees.

Total Scheme performance

The table below shows the performance of the combined assets of the Scheme over the one, three and five years ending 30 June 2020:

	1 Year		Last 3 Years		Last 5 Years	
	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
Total Scheme	9.4	10.2	8.4	8.6	11.2	11.6

Figures shown are gross of fees and based on performance provided by the Investment managers and Mercer estimates.

For periods to 30 June 2020 the Scheme underperformed its composite benchmark by 0.8%, 0.2% p.a. and 0.4% p.a. over one, three and five years respectively.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Trustee's Report

Asset Allocation

The Trustee invests in pooled investment vehicles, some of which make use of derivative contracts. The Trustee has authorised the use of derivatives by the investment managers for efficient portfolio management purposes, including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives is the use of interest rate and inflation swaps in the LDI portfolio.

The following table provides more detail on the distribution of the Scheme's assets (excluding cash held in the Trustee bank account and AVC's).

Pooled investment vehicles	2020 £m	2020 %	2019 £m	2019 %	Benchmark allocation %
BlackRock (Global Equity)	17.6	14.3	26.2	23.6	19.5
BlackRock (Global Low Volatility Equity)	3.5	2.8	5.6	5.0	
BlackRock (Emerging Markets Equity)	2.5	2.0	3.7	3.4	
Investec (Emerging Markets Debt)	5.0	4.1	4.9	4.4	4.5
Mercer (Multi-Asset Credit)	7.4	6.0	7.8	7.0	7.0
Hermes (Property)	4.4	3.6	4.7	4.2	4.5
Aviva (HLV Property)	7.7	6.3	7.4	6.7	7.5
LGIM (Sterling Non-Gilts)	8.0	6.5	7.1	6.4	6.5
BlackRock (Sterling Non-Gilts)	10.1	8.2	9.5	8.6	8.5
BlackRock (LDI)	43.8	35.5	30.4	27.3	42.0
BlackRock (Cash)	13.1	10.7	3.8	3.4	
Total	123.1	100.0	111.1	100.0	100.0

Custodial Arrangements

The custodian is responsible for the safekeeping, monitoring and reconciliation of documentation relating to the ownership of listed investments.

As the Scheme is invested using pooled funds, the Trustee has no direct ownership of the underlying assets. The safekeeping of the assets within the pooled funds is performed by custodian banks specifically appointed by the managers to undertake this function and whose appointment is reviewed at regular intervals by the manager.

The current custodians appointed by the Scheme's investment managers are shown in the table below.

Manager	Custodian
BlackRock	Bank of New York Mellon Europe JP Morgan Dublin
Ninety One	State Street
Mercer	State Street Custodial Services (Ireland) Limited
Hermes	NatWest Trustee and Depositary Services Limited
Aviva	RBC Jersey
LGIM	HSBC Bank Plc

In addition to the above, the Trustee has directly appointed Bank of New York Mellon (International) Limited as custodian responsible for handling any movements between BlackRock pooled funds.

Cash held on behalf of the Scheme is held in an account with HSBC Bank.

Further information

Further information about the Scheme is given in the explanatory booklet, dated October 2009, which is issued to all members.

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including 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 the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to 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.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Independent Auditor's Report to the Trustee of Thorntons Pension Scheme

Opinion

We have audited the financial statements of Thorntons Pension Scheme ('the Scheme') for the year ended 31 May 2020 which comprise the Fund Account, Statement of Net Assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and the Statement of Recommended Practice – *Financial Reports of Pension Schemes* (revised 2018) (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year 31 May 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information, including Trustee's Report and Actuarial Certificates 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Responsibilities of Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 15, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they show a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Independent Auditor's Report to the Trustee

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustee, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scheme's Trustee, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Statutory Auditor

Leeds

United Kingdom

Date:

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Financial Statements

Fund Account

	Note	2020 £	2019 £
Employer contributions	4	4,250,004	5,000,000
Other income	5	785	-
		<u>4,250,789</u>	<u>5,000,000</u>
Benefits paid or payable	6	(3,150,073)	(3,312,903)
Payments to and on account of leavers	7	(84,531)	(404,654)
Administrative expenses	8	(394,603)	(561,458)
		<u>(3,629,207)</u>	<u>(4,279,015)</u>
Net additions from dealings with members		<u>621,582</u>	<u>720,985</u>
Returns on investments			
Investment income	9	13,907,474	405,353
Change in market value of investments	10	(2,510,102)	7,707,270
Investment management expenses	11	(81,059)	(159,534)
Net returns on investments		<u>11,316,313</u>	<u>7,953,089</u>
Net increase in the fund during the year		11,937,895	8,674,074
Net assets at 1 June		113,423,563	104,749,489
Net assets at 31 May		<u>125,361,458</u>	<u>113,423,563</u>

The notes on pages 20 to 28 form part of these financial statements.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Financial Statements

Statement of Net Assets available for benefits

	Note	2020 £	2019 £
Investment assets			
Pooled investment vehicles	13	123,078,236	107,136,967
AVC investments	14	235,350	252,513
Cash	15	54,512	3,835,077
Other investment balances	16	53,855	57,728
Total investments	10	123,421,953	111,282,285
Current assets	21	2,246,398	2,565,945
Current liabilities	22	(306,893)	(424,667)
Net assets at 31 May		125,361,458	113,423,563

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the report on actuarial liabilities on pages 4 to 5 of the annual report and these financial statements should be read in conjunction with this report.

The notes on pages 20 to 28 form part of these financial statements.

1. Identification of the financial statements

The Scheme is established as a trust under English law.

The Scheme was established to provide retirement benefits to certain groups of employees of Thorntons Limited. The address of the Scheme's principal office is 889 Greenford Road, Greenford, Middlesex, UB6 0HE.

The Scheme is a defined benefit scheme.

2. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) - The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (the SORP) (Revised 2018).

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on the financial statements, although it has required certain additions to or amendments of disclosures in the financial statements.

3. Accounting policies

The principal accounting policies are set out below. Unless otherwise stated, they have been applied consistently year on year.

3.1 Accruals concept

The financial statements have been prepared on an accruals basis.

3.2 Currency

The Scheme's functional currency and presentational currency is Pounds Sterling (GBP).

3.3 Contributions

Employer deficit funding contributions are accounted for in the period to which they relate, in accordance with the Schedule of Contributions, or on receipt if earlier, with the agreement of the employer and Trustees.

3.4 Transfers

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

3.5 Other income

Income is accounted for in the period in which it falls due on an accruals basis.

3.6 Payments to members

Pensions in payment are accounted for in the period to which they relate.

Other benefits, and any associated tax liabilities, are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for on the later of the date of leaving, retirement or death and the date on which any option or notification is communicated to the Trustee. If there is no choice, they are accounted for on the date of retirement or leaving.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Notes to the Financial Statements

3.7 Administrative and other expenses

Administrative expenses are accounted for in the period in which they fall due on an accruals basis.

Investment management expenses are accounted for in the period in which they fall due on an accruals basis.

3.8 Investment income

Dividends from equities are accounted for on the ex-dividend date.

Income from pooled investment vehicles is accounted for when declared by the investment manager.

3.9 Change in market value of investments

The changes in investment market values are accounted for in the year in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.

3.10 Valuation of investments

The market value of pooled investment vehicles held with Investec Asset Management Limited, Aviva Investors and Mercer Limited is based on the single unit price operating at the year end, as advised by the investment managers.

The market value of pooled investment vehicles held with BlackRock Advisors (UK) Limited, Legal & General Assurance (Pensions Management) Limited and Hermes Investment Management Limited Property Unit Trust is based on the bid price operating at the year end, as advised by the investment managers.

The AVC investments include policies of assurance. The market value of these policies has been taken as the surrender values of the policies at the year end, as advised by the AVC providers.

4. Contributions

	2020 £	2019 £
Employer contributions:		
Regular deficit funding	<u>4,250,004</u>	<u>5,000,000</u>

In accordance with the Schedule of Contributions dated 26 October 2018 employer shall pay £354,167 per month from 1 June 2019 to 31 May 2028.

5. Other income

	2020 £	2019 £
Interest on cash deposits held by the Trustee	<u>785</u>	<u>-</u>

6. Benefits paid or payable

	2020 £	2019 £
Pensions	2,087,633	2,081,328
Commutation of pensions and lump sum retirement benefits	1,054,900	1,212,336
Lump sum death benefits	7,540	19,239
	<u>3,150,073</u>	<u>3,312,903</u>

7. Payments to and on account of leavers

	2020 £	2019 £
Individual transfers out to other schemes	<u>84,531</u>	<u>404,654</u>

8. Administrative expenses

	2020 £	2019 £
Pension consultancy fees	210,932	343,303
Other Trustee's fees and expenses	59,135	41,408
Administration fees	103,433	139,125
Audit fees	13,966	13,355
Legal fees	6,672	11,628
Miscellaneous expenses	465	152
Chairman's fees	-	12,487
	<u>394,603</u>	<u>561,458</u>

In accordance with the Schedule of Contributions the principal employer has paid the PPF levies on behalf of the Scheme.

9. Investment income

	2020 £	2019 £
Income from pooled investment vehicles	13,871,520	398,492
Interest on cash deposits	35,954	6,861
	<u>13,907,474</u>	<u>405,353</u>

10. Reconciliation of investments

	Market value at 1 June 2019 £	Cost of investments purchased £	Proceeds of sales of investments £	Change in market value £	Market value at 31 May 2020 £
Pooled investment vehicles	107,136,967	53,377,816	(34,901,085)	(2,535,462)	123,078,236
AVC investments	252,513	-	(42,523)	25,360	235,350
	<u>107,389,480</u>	<u>53,377,816</u>	<u>(34,943,608)</u>	(2,510,102)	123,313,586
Cash	3,835,077			-	54,512
Other investment balances	57,728			-	53,855
	<u>111,282,285</u>			<u>(2,510,102)</u>	123,421,953

10.1 Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Indirect transaction costs are incurred through the bid-offer spread on investments within the pooled investment vehicles. The amount of transaction costs is not separately provided to the Scheme.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Notes to the Financial Statements

11. Investment management expenses

	2020 £	2019 £
Administration, management and custody fees	87,499	167,820
Other investment management rebates	(6,440)	(8,286)
	<u>81,059</u>	<u>159,534</u>

12. Taxation

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

13. Pooled investment vehicles

	2020 £	2019 £
Bonds	74,867,426	46,971,275
Equities	23,607,111	35,471,641
Property	12,158,168	11,987,698
Multi-Asset Credit	7,404,222	7,784,228
Diversified growth	5,041,309	4,922,125
	<u>123,078,236</u>	<u>107,136,967</u>

The Aviva Investors Pensions Limited and Hermes Investment Management Limited pooled investments are held in the name of the Scheme. Income generated by these units is distributed as shown in note 9.

The remaining pooled investments are held under managed fund policies in the name of the Trustee. Income generated by these units is not distributed, but retained within the managed funds and reflected in the market value of the units.

The companies managing the pooled investments are registered in the United Kingdom.

14. AVC investments

The Trustee holds assets which are separately invested from the main fund in the form of individual policies of assurance. These secure additional benefits, on a money purchase basis, for those members who have elected to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to 31 May each year, confirming the amounts held to their account and the movements during the year.

The total amount of AVC investments at the year end is shown below:

	2020 £	2019 £
The Prudential Assurance Company Limited	182,717	195,541
Utmost Life and Pensions	52,633	56,972
	<u>235,350</u>	<u>252,513</u>

15. Cash

	Assets £	Liabilities £	2020 £	Assets £	Liabilities £	2019 £
Sterling	54,512	-	54,512	3,835,077	-	3,835,077

16. Other investment balances

	Assets £	Liabilities £	2020 £	Assets £	Liabilities £	2019 £
Investment income receivable	19,391	-	19,391	23,264	-	23,264
Tax recoverable on investments	34,464	-	34,464	34,464	-	34,464
	<u>53,855</u>	<u>-</u>	<u>53,855</u>	<u>57,728</u>	<u>-</u>	<u>57,728</u>

17. Fair value determination

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

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
Level 3	Unobservable inputs for the asset or liability. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

The Scheme's investment assets have been included at fair value using the above hierarchy levels as follows:

	2020 Level 1 £	2020 Level 2 £	2020 Level 3 £	2020 Total £
Pooled investment vehicles	-	110,920,068	12,158,168	123,078,236
AVC investments	-	-	235,350	235,350
Cash	54,512	-	-	54,512
Other investment balances	53,855	-	-	53,855
	<u>108,367</u>	<u>110,920,068</u>	<u>12,393,518</u>	<u>123,421,953</u>

Analysis for the prior year end is as follows:

	2019 Level 1 £	2019 Level 2 £	2019 Level 3 £	2019 Total £
Pooled investment vehicles	-	95,149,269	11,987,698	107,136,967
AVC investments	-	-	252,513	252,513
Cash	3,835,077	-	-	3,835,077
Other investment balances	57,728	-	-	57,728
	<u>3,892,805</u>	<u>95,149,269</u>	<u>12,240,211</u>	<u>111,282,285</u>

18. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at the end of the reporting period. These risks are set out by FRS 102 as follows:

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

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

- Currency risk: this is the risk that the fair value of 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 of 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 of 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 fund 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 manager. The Scheme has exposure to the above risks because of the investments made by the Trustee to implement the Scheme's investment strategy. The Trustee manages the Scheme's investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. The investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios. The investment objectives and risk limits of the Scheme are further detailed in the SIP and Summary of Investment Arrangements ("SIA").

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

(i) Investment Strategy

The Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme taking into account the funding level of the Scheme and the strength of covenant of the Employer.
- To pay due regard to the interest of the Employer on the size and incidence of its contribution payments.

The Scheme's current investment strategy is set out as follows:

- 19.5% of investments in global equities
- 4.5% in emerging market debt
- 12.0% in property and long lease property
- 7.0% in multi-asset credit
- 57.0% in investment grade sterling bonds and liability driven investments (LDI)

(ii) Market Risk

a. Currency Risk

Indirect currency risk arises from the Scheme's investment in Sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency. Approximately 50% of developed overseas equity exposure is hedged back to Sterling.

b. Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds through underlying investments in pooled investment vehicles. Indirect market risk arises if the underlying investments of the pooled vehicle are exposed to interest rate or other price risks. The Trustee has considered indirect risks in the context of the investment strategy.

18. Investment risks - continued

The Trustee has set a benchmark for total investment in investment grade Sterling corporate bonds and LDI funds of 57.0% of the total investment portfolio. Under this strategy, if interest rates fall, the value of these assets will rise (other things being equal) to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these assets will fall in value (other things being equal), as will the actuarial liabilities because of an increase in the discount rate.

At the year end, these assets represented 60.9% of the total investment portfolio (2019: 45.8%). This variance from the target asset allocation is deemed to be within an acceptable range and will vary depending on normal market movements.

The Trustee has an exposure to growth fixed income assets via the underlying assets in the multi asset credit fund and the emerging markets debt fund. The interest rate exposure that these asset classes introduce is taken by the investment manager as part of its investment strategy to add value.

c. Other Price Risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities, conventional property, long lease property, emerging markets debt and multi asset credit, through underlying investments in pooled investment vehicles. The Trustee has set a benchmark allocation for these assets of 43.0% of the total investment portfolio.

At the year end, these assets represented 39.1% of the total investment portfolio (2019: 54.2%). The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

(iii) Credit Risk

The Scheme is also invested in pooled investment vehicles which provide exposure to debt instruments including sovereign government bonds, corporate bonds and shorter term liquidity instruments. The value at year end amounted to 70.9% to total assets (2019: 57.2%). The Scheme is therefore directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising on the underlying investments held by these pooled investment vehicles.

The table below outlines the Scheme's exposure to these debt instruments at the start and end of the Scheme year.

Investment Type	2020 (£m)	2019 (£m)
Pooled investments vehicles (Sovereign bonds / LDI)	43.8	30.4
Pooled investments vehicles (corporate bonds)	18.1	16.6
Pooled investments vehicles (Other bonds – including emerging markets debt and multi-asset credit)	12.4	12.7
Pooled investments vehicles (liquidity funds)	13.1	3.8
Total	87.4	63.5

Indirect credit risk arising from these investments is mitigated by the Trustee through the strategic allocation, ensuring adequate diversification (non LDI assets) and investing a significant proportion of the Scheme's credit exposure in funds which hold at least investment grade credit rated investments.

Pooled investment arrangements used by the Scheme comprise unit linked insurance contracts, authorised unit trusts and Open Ended Investment Companies. The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Trustees manage and monitor the credit risk arising from its pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

Direct credit risk arising from pooled investment vehicles structured as authorised unit trusts and open ended investment companies 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.

Direct credit risk arising from pooled investment vehicles structured as unit linked insurance contracts is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight. In the event of default by the insurer, the Scheme may be protected by the Financial Services Compensation Scheme ("FSCS") and may be able to make a claim for up to 100% of its policy value, although noting that compensation is not guaranteed. The Trustee carries 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.

18. Investment risks - continued

The table below outlines the Scheme's pooled fund exposure by type of vehicle at the start and end of the Scheme year.

Investment Type	2020 (£ms)	2019 (£ms)
Unit Linked Insurance Contracts	39.2	48.4
Unit Trusts	55.9	42.2
Open Ended Investment Companies	25.5	16.5
Open Ended Unit Trust	2.5	3.7
Total	123.1	111.0

Summary

The table below shows which of that stated risks, each asset class is exposed to:

	Credit risk	Market risk			2020 £m	2019 £m
		Foreign exchange risk	Interest rate risk	Other price risk		
UK Equities	✓			✓	1.1	2.0
Overseas Equities	✓	✓		✓	22.5	33.4
Emerging Market Debt	✓	✓	✓		5.0	4.9
Multi Asset Credit	✓	✓	✓	✓	7.4	7.8
Property	✓			✓	4.4	4.7
HLV Property	✓			✓	7.7	7.4
Bonds	✓		✓		18.1	16.6
LDI inc cash	✓		✓		56.8	34.2

19. Concentration of investments

The following investments each account for more than 5% of the Scheme's net assets at the year end:

	2020		2019	
	£	%	£	%
BlackRock - Bonds - ICS GBP LIQ Agency	13,012,544	10.4	N/A	N/A
BlackRock - Bonds - LMF GBP Prof Short Real Flex	12,778,436	10.2	N/A	N/A
BlackRock - A.L. All Stocks Corporate Bond Fund	10,120,906	8.1	9,523,242	8.4
Blackrock AL Ccy Hedg Wrld Ex-Uk Eq S1	10,013,987	8.0	14,718,426	13.0
L&G - Active Corp Bond Over 10 years	7,973,856	6.4	740	N/A
AVIVA - Lime Property Fund Unit Trust	7,717,927	6.2	7,383,638	6.5
Mercer Multi-Asset Credit Fund	7,404,222	5.9	7,784,228	6.9
Blackrock - Aquila Life World Ex-Uk Eq Idx S1	6,449,546	5.1	9,580,406	8.4
Blackrock - LMF GBP 2040 IL GILT FLEX	N/A	N/A	8,676,964	7.7
Blackrock - Bonds - LMF GBP 2032 II Gilt Flex	N/A	N/A	6,382,856	5.6
Blackrock - LMF GBP 2062 IL GILT FLEX	N/A	N/A	6,322,449	5.6
Blackrock - Bonds - LMF GBP 2050 II Gilt Flex	N/A	N/A	6,173,192	5.4

20. Employer-related investments

There was no employer-related investment at any time during the year. During the prior year certain contributions were paid late which individually and collectively represent less than 5% of the scheme's net assets. This constituted an employer-related investment within the meaning of Section 40[2] of the Pensions Act 1995.

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Notes to the Financial Statements

21. Current assets

	2020	Reclassified 2019
	£	£
Contributions due from the employer in respect of:		
- Employer	354,167	354,167
Cash deposits held	1,892,231	2,211,778
	<u>2,246,398</u>	<u>2,565,945</u>

The contributions due as at 31 May 2020 were received after the year end in accordance with the due date set out in the Schedule of Contributions.

Cash held on behalf of the Scheme is held in an account with HSBC Bank.

22. Current liabilities

	2020	Reclassified 2019
	£	£
Pensions payable	-	258
Lump sums on retirement payable	56,853	55,405
Death benefits payable	3,792	5,953
Refunds of contributions payable	1,144	1,144
Taxation payable	29,117	23,960
Administrative expenses payable	104,949	153,781
Investment management expenses payable	27,704	100,832
Amounts due to Principal Employer	83,334	83,334
	<u>306,893</u>	<u>424,667</u>

23. Related party transactions

(a) Key management personnel of the Scheme or its parent (in aggregate)

During the year fees totalling £59,135 (2019: £ 25,300) were payable to Independent Trustee Services Limited (ITS).

In addition to the above related party transactions, in accordance with the Schedules of Contributions the Principal Employer has paid the PPF levies on behalf of the Scheme.

As at 31 May 2020 there were overpaid contributions amounting to £83,334 due to the Principal Employer (2019: £83,334)

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Independent Auditor's Statement about Contributions to the Trustee

Independent Auditor's Statement about Contributions to the Trustee of Thorntons Pension Scheme

Statement about contributions

We have examined the Summary of Contributions to Thorntons Pension Scheme ('the Scheme') for the year ended 31 May 2020 which is shown on page 30.

In our opinion, contributions for the year ended 31 May 2020, as reported in the Summary of Contributions and payable under the Schedule of Contributions, have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 26 October 2018.

Scope of work on statement about contributions

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

Responsibilities of Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 15, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

Auditor's responsibilities for the preparation of a Statement about Contributions

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

Use of report

This statement is made solely to the Scheme's Trustee, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our audit work, for this statement, or for the opinions we have formed.

BDO LLP

Statutory Auditor

Leeds

United Kingdom

Date:

BDO LLP is a limited partnership registered in England and Wales (with registered number OC305127).

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Summary of Contributions

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

2020
£

Contributions payable under the Schedule of Contributions:

Employer contributions:

Deficit funding

4,250,004

Contributions payable under the Schedule of Contributions (as reported on by the Scheme Auditor)
and reported in the financial statements

4,250,004

Thorntons Pension Scheme

Annual Report for the year ended 31 May 2020

Actuarial Certificate

Certification of schedule of contributions

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 May 2017 to be met by the end of the period specified in the recovery plan dated 9 October 2018.

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 9 October 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

Harry Sime

Scheme Actuary

Harry Sime

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

26 October 2018

Name of employer

Mercer Limited

Address

1 Whitehall Quay
Whitehall Road
Leeds LS1 4HR