



**B&CE**

## **Building and Civil Engineering Benefits Scheme**

Annual report and financial statements  
for the year ended 31 March 2018

---

Pension scheme registry number: 10170894

**For people,  
not profit**



# Contents

Page



Trustee Board	1
Advisers	2
Trustee's report	3
Independent auditors' statement about contributions to the Trustee of the Building and Civil Engineering Benefits Scheme	9
Summary of contributions payable	10
Independent auditors' report to the Trustee of the Building and Civil Engineering Benefits Scheme	11
Fund account	13
Statement of net assets available for benefits	14
Notes to the financial statements	15
Actuarial certificate	28

## Trustee Board

The following served as Directors of Building and Civil Engineering Benefits Scheme Trustee Limited (the Trustee) during the year, and up to the date of signing:



**Chandrasekhar Ramamurthy**  
Independent Chairman



**John Allott**  
Industry Employee Representative  
Nominated by Unite the Union



**Bob Blackman MBE**  
Industry Employee Representative  
Nominated by Unite the Union



**David Booth**  
Employer Representative  
Nominated by Build UK  
*(Appointed 2 August 2017)*



**Harry Frew**  
Industry Employee Representative  
Nominated by Unite the Union



**James Gilmour**  
Employer Representative  
Nominated by Federation of  
Master Builders



**Keir Greenaway**  
Industry Employee Representative  
Nominated by GMB



**James O'Callaghan OBE**  
Employer Representative  
Nominated by Civil Engineering  
Contractors Association



**Brian Rye**  
Industry Employee Representative  
Nominated by Unite the Union  
*(Resigned 31 May 2018)*



**David Smith**  
Employer Representative  
Nominated by Scottish Building  
Federation



**John Spanswick CBE**  
Employer Representative  
Nominated by Build UK  
*(Resigned 2 August 2017)*



**Stephen Terrell**  
Employer Representative  
Nominated by National Federation  
of Builders

---

## Advisers

### Secretary

Lydia Harratt

### Scheme administrator

B&CE Financial Services Limited

### Actuary

David Gardiner FIA, Aon Hewitt Limited

### Independent auditors

PricewaterhouseCoopers LLP

### Legal advisers

CMS Cameron McKenna Nabarro Olswang LLP

### Investment adviser

Barnett Waddingham LLP

### Investment managers

Legal & General Investment Management Limited

Partners Group (Guernsey) Limited

Schroder Investment Management Limited

BlackRock Investment Management (UK) Limited

(to December 2017)

Investec Fund Managers Limited

(from November 2017)

Invesco Asset Management Limited

Newton Investment Management Limited

### Investment custodians

J P Morgan Europe Limited

HSBC Global Investment Services Limited

### AVC investment managers

Legal & General Investment Management Limited

BlackRock Investment Management (UK) Limited

(to December 2017)

Investec Fund Managers Limited

(from November 2017)

Newton Investment Management Limited

### Bankers

HSBC Bank plc

### Name and address for enquiries

Company Secretary's Office

Building and Civil Engineering Benefits Scheme Trustee Limited

Manor Royal

Crawley

West Sussex RH10 9QP

Email: [info@bandce.co.uk](mailto:info@bandce.co.uk)

Phone number: 0300 2000 555

Website: [www.bandce.co.uk](http://www.bandce.co.uk)

There are written agreements in place between the Trustee and advisers listed above.

There is no sponsoring employer for the Benefits Scheme as it is a multi-employer scheme.

---

# Trustee's report for the year ended 31 March 2018

The Trustee of the Building and Civil Engineering Benefits Scheme (Benefits Scheme) presents its annual report for the year ended 31 March 2018.

## Scheme constitution and management

The Benefits Scheme is a registered occupational pension scheme established in 1982 by trust deed to provide death and retirement benefits to members who worked in the construction industry. The rules set out in a schedule to the trust deed, cover lump sum retirement benefits, voluntary contributions and death benefits. From 9 April 2001, the Benefits Scheme closed to new lump sum retirement benefit and voluntary contribution members and from 30 October 2010, the Benefits Scheme also closed its death benefits for deaths occurring after this date. The Benefits Scheme has never been contracted out of the State Second Pension (S2P) or its predecessor, the State Earnings Related Pension Scheme (SERPS). The Scheme consists of a 'Main fund' and a separate Additional Voluntary Contribution (AVC) fund (AVC fund).

The parties to the trust deed were the employers' side and the operatives' side of the National Joint Council for the building industry and the employers' panel and the operatives' panel of the Civil Engineering Construction Conciliation Board. Under the deed, B&CE Holdings Limited (B&CE) was appointed to act as administrator of the Benefits Scheme. From 1 April 2016, this appointment was transferred to B&CE Financial Services Limited.

The Trustee was appointed as the corporate trustee of the Benefits Scheme and has responsibility for setting the strategy and for managing the Benefits Scheme. The Trustee held four meetings during the year and decisions are passed on a majority of the Directors in attendance.

The Directors of the Trustee are appointed by those industrial parties who participate in the operation of the Benefits Scheme. The Directors of the Trustee during the year and up to the date of signing the financial statements can be found on page 1. The Independent Chairman is appointed by the Board of Directors and must be unconnected with any of the industrial parties. The industrial parties also have the power to remove the Directors and to nominate new Directors in their place.

### The industrial parties are:

Build UK	- nominating 1 Director
Civil Engineering Contractors Association	- nominating 1 Director
Federation of Master Builders	- nominating 1 Director
GMB	- nominating 1 Director
National Federation of Builders	- nominating 1 Director
Scottish Building Federation	- nominating 1 Director
Unite the Union	- nominating 4 Directors

The Benefits Scheme is exempt from the member nominated directors provisions of the Pensions Act 2004 as it is a 'relevant approved centralised scheme'.

The B&CE Investment Committee (Investment Committee) has been established to review the performance and suitability of the investments and investment managers for all B&CE entities. The Investment Committee, which meets at least quarterly, also makes recommendations to the Trustee on changes to the investment strategies and appointing new investment managers. Until the end of March 2018 four of its six members were Directors of the Trustee – and after that date three in five were.

## Trustee's report (continued)

### Scheme constitution and management (continued)

The Directors' attendance at meetings of the Trustee Board and Investment Committee is summarised below. Where a Director was not entitled to attend all the meetings in the year, the maximum number of meetings is given in brackets.

Director	Trustee Board 4 meetings	Investment Committee 4 meetings
J Allott	4	4
J O'Callaghan	3	4
C Ramamurthy	4	4
B Rye	2	0
R Blackman	4	N/A
D Booth	2 (of 2)	N/A
H Frew	4	N/A
J Gilmour	4	N/A
K Greenaway	3	N/A
D Smith	4	N/A
J Spanswick	1 (of 2)	N/A
S Terrell	4	N/A

The Directors are paid a fee and reimbursed for expenses incurred in performing their duties as Directors of the Trustee. This cost is borne by B&CE Holdings Limited.

The Trustee regularly reviews risks and conflicts to ensure that appropriate internal controls are in place and remain effective to support its governance arrangements.

The Trustee has appointed professional advisers and other organisations to support it in delivering the Benefits Scheme's objectives. These individuals and organisations are listed on page 2. The Trustee has written agreements in place with each of them.

### Financial developments and financial statements

The financial statements included in this annual report have been prepared and audited in accordance with sections 41(1) and (6) of the Pensions Act 1995.

### Membership and benefits

On 31 March 2018, there were 1,095,278 members (2017: 1,104,169), all deferred, for whom the Scheme Administrator had recorded pensionable service.

### Benefit increases

The Benefits Scheme only pays a cash lump sum benefit on retirement, it does not pay a pension. The Trustee agreed at its meeting on 15 May 2018 that the retirement benefit rate per week of service would remain at £8.50. The Trustee aspires to provide rate increases in line with the Retail Prices Index (RPI), but such increases are discretionary and can be restricted by the Trustee if the Scheme is in deficit. The retirement benefit rate has remained at the same level since 2014 given that the Scheme has been, and remains, in deficit.

Effective date	Rate per week of service	% increase
1 August 2015	£8.50	Nil
1 August 2016	£8.50	Nil
1 August 2017	£8.50	Nil
1 August 2018	£8.50	Nil

## Trustee's report (continued)

### Transfer values

Cash equivalents paid during the year for transfers have been calculated and confirmed in the manner provided by the Pension Schemes Act 1993 and do not include discretionary benefits.

### Actuarial liabilities

As required by Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective. This objective is to have sufficient and appropriate assets to cover the technical provisions, which represent the present value of benefits, members are entitled to based on their pensionable service to the valuation date. This is assessed at least every three years using assumptions agreed by the Trustee and set out in the Statement of funding principles. A copy of the Statement of funding principles is available to members on request.

The most recent triennial actuarial valuation of the Benefits Scheme was carried out as at 31 March 2015 and showed that Benefits Scheme liabilities were 90% funded resulting in a deficit of £74m. An annual funding update was performed as at 31 March 2017 while the 31 March 2018 triennial valuation is underway.

Valuation date: 31 March	2017	2016	2015
Value of technical provisions	£724m	£723m	£743m
Value of assets available to meet technical provisions	£657m	£634m	£669m
Deficit	£67m	£89m	£74m
Funding level	91%	88%	90%

The value of the technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Benefits Scheme in the future, such as the levels of investment returns and when members will retire. The following significant actuarial assumptions were used in the 31 March 2015 triennial valuation:

#### Assumption

Discount rate	The UK Nominal Swap yield curve as at 31 March 2015
RPI	UK Swap Implied Break-Even Inflation yield curve as at 31 March 2015
Retirement benefit rate increases	50% of RPI inflation
Expenses	£605k p.a. as at 31 March 2015 part increasing in line with RPI and part declining in line with membership
Claim rate	50% of members for whom no address is held are assumed to claim benefits

### Recovery plan

Following the last triennial actuarial valuation in 2015, the Trustee agreed a funding recovery plan. As there is no funding guarantee from the industrial parties, nor a sponsoring employer from which to seek further contributions to address the deficit, the recovery plan was based on future investment returns being more than the discount rate used in the valuation, and the level of increases applied to the retirement benefit rate being restricted.

The recovery plan estimated that the funding shortfall would be eliminated by 30 April 2025 based on the assumptions used in the actuarial valuation, and that the investment returns on assets would exceed the discount rate by 1.5% per annum. However, should the additional investment returns not materialise, then the Trustee may need to restrict the level of discretionary increase applied to the retirement benefit rate to address the deficit. As at 31 March 2015, the Scheme would have been 104% funded when assuming no further increases to the retirement benefit rate.

### Next actuarial valuation

The next triennial valuation is currently being produced as at 31 March 2018 and is due to be finalised in late 2018.

### Investment management

#### Investment strategy and principles

The Trustee is responsible for the investment policies and strategy of the Benefits Scheme. In accordance with Section 35 of the Pensions Act 1995, on 9 February 2016 the Trustee agreed a statement of investment principles (SIP). A copy of the SIP may be obtained from the contact for enquiries on page 2.

The Trustee's investment strategy allocates 50% of the Benefits Scheme's investments to each of the following groups:

- Return-seeking assets: mainly equities, diversified funds and property, where the objective is to achieve growth within the constraints of the risk profile set by the Trustee.
- Liability-driven assets: mainly bonds, liability-driven investment funds (LDI) and swaps, where the objective is to secure fixed or inflation-adjusted cash flows in the future, and where the investments are generally expected to be held to maturity.

Investment strategy for the AVC fund allocates 85% of the investments to in liability driven assets and 15% to return seeking assets.

As at 31 March 2018, there were some relatively small, permitted departures from the strategic asset allocation set out in the SIP. For the Main fund, property and alternatives along with the diversified growth funds were 4% and 3% above the allocation target. This was balanced against LDI funds including, a small cash holding, and UK equity funds that were 3% and 5% respectively under the allocation.

For the AVC fund the diversified growth funds are 2% over the target allocation and matching and cash is 2% under the target. The Trustee recognises that the asset allocation will vary over time as a result of market movements and the availability of appropriately priced investment opportunities. The Trustee seeks to maintain a balance between maintaining the asset allocation for both the Main fund and AVC fund in line with its benchmark and limiting the costs of rebalances. The Trustee will consider rebalancing from time to time.

### Management and custody of investments

The Trustee has delegated management of the investments to professional investment managers, which are listed on page 2. These managers, which are registered in the United Kingdom and regulated by the FCA (with the exception of Partners Group which is registered and regulated in Guernsey), manage the investments within the restrictions set out in the investment management agreements. These agreements are designed to ensure that the managers follow the objectives and policies set out in the SIP.

The investment managers make decisions about:

- selection of individual investments
- realisation of investments
- the exercise of voting and other rights attaching to individual investments.

The Trustee invests in pooled funds where the Trustee has a right to the cash value of the units rather than the underlying assets. The investment managers and their nominees have ownership and custody of the underlying investments.

All of the investments are readily available for sale with the exception of the Schroder property shares which are subject to three months' notice of redemption unless these can be matched with investor purchases on the secondary market. Market events may also cause changes to the liquidity, and, therefore, to the ease of buying and selling of underlying assets across all funds.

The Trustee recognises that it does not have control over decisions made regarding the underlying investments within pooled investment vehicles held by the Benefits Scheme. However, the Trustee has access to details of the investment managers' voting records. Where they exist, the Trustee is also provided with the managers' policies on ethical, social and corporate governance issues. In some cases, the funds are index-tracking arrangements and do not, therefore, take account of socially responsible investment considerations, since their portfolios simply reflect the structure of the benchmark indices. This is specifically permitted under the Pensions Act 1995.

## Trustee's report (continued)

### Management and custody of investments (continued)

The Trustee has considered the nature, disposition, marketability, security and valuation of the Benefits Scheme's investments and considers them to be appropriate according to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

#### Investment performance

Performance of the Benefits Scheme's investments over short and longer periods is summarised as follows:

	1 year		3 years (annualised)	
	Fund performance	Benchmark	Fund performance	Benchmark
<b>Main fund</b>	0.9%	1.8%	3.7%	1.9%
<b>AVC fund</b>	-0.3%	0.6%	3.6%	0.6%

The investment managers currently operate to the following benchmarks:

#### Main fund

- Legal & General Investment Management: no benchmark
- Partners Group: 8% – 10% p.a. absolute return, net of fees
- Schroder: 0.5% p.a. (net of fees) above the AREF/IPD UK Quarterly Property Fund Index
- BlackRock: 3 month LIBOR + 3% p.a. net of fees over rolling 3 year periods
- Investec: CPI +5% (before fees) over rolling 5 year periods
- Invesco: FTSE All Share Index
- Newton: 1 month LIBOR + 4% p.a. over 5 years before fees.

#### AVC fund

- Legal & General Investment Management: no benchmark
- BlackRock: 3 month LIBOR + 3% p.a. net of fees over rolling 3 year periods
- Investec: CPI +5% (before fees) over rolling 5 year periods
- Newton: 1 month LIBOR + 4% p.a. over 5 years before fees.

#### The principal factors affecting performance over the year were:

- Investment performance over the last 12 months has been positive if muted, when compared with previous years, as markets reacted to the uncertainty over Brexit and the global economy more broadly.
- Equity markets performed well until the first quarter of 2018 when investors started to sell as they worried about possible rises in interest rates and global trade wars.
- The same factors also contributed to first strong, then muted fixed interest market returns.

#### Employer-related investments

There are no participating employers as the Benefits Scheme is closed to future service accrual and no longer provides lump sum death benefit cover. This means employer-related investment is not possible.

### 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 ("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 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 Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

### Further information

Enquiries about the Benefits Scheme generally or about an individual's entitlement to a benefit should be made to the Trustee at the address shown on page 2.

The Trustee's report was approved by the Trustee and signed on its behalf by:

Chandrasekhar Ramamurthy  
**Chairman**  
31 July 2018

---

# Independent auditors' statement about contributions to the Trustee of the Building and Civil Engineering Benefits Scheme

## Statement about contributions

### Opinion

In our opinion, the contributions required by the schedule of contributions for the Scheme year ended 31 March 2018 as reported in Building and Civil Engineering Benefits Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedule of contributions certified by the Scheme actuary on 23 March 2016.

We have examined Building and Civil Engineering Benefits Scheme's summary of contributions for the Scheme year ended 31 March 2018 which is set out on the following page.

### 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**

Chartered Accountants and Statutory Auditors  
London  
31 July 2018

---

## Summary of contributions payable for the year ended 31 March 2018

During the year, the contributions payable to the Scheme were as follows:

	31 March 2018 £000
<b>Required by the schedule of contributions</b>	
Normal contributions	-
<b>Total contributions required by the schedule of contributions</b>	-
<b>Total (as per Fund account)</b>	-

Signed for and on behalf of the Trustee:

**David Booth**

**Stephen Terrell**

31 July 2018

---

# Independent auditors' report to the Trustee of the Building and Civil Engineering Benefits Scheme

## Report on the audit of the financial statements

### Opinion

In our opinion, Building and Civil Engineering Benefits Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2018, 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 March 2018; 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

### 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 Building and Civil Engineering Benefits Scheme (continued)

## **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 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 intends 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](http://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  
London  
31 July 2018

## Fund account for the year ended 31 March 2018

	Note	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
Contributions		-	-	-	-	-	-
Benefits	4	(25,674)	(799)	(26,473)	(27,146)	(903)	(28,049)
Transfers to other plans	5	(496)	(2,720)	(3,216)	(320)	(2,579)	(2,899)
Administrative expenses	6	(3,773)	-	(3,773)	(3,670)	-	(3,670)
		<u>(29,943)</u>	<u>(3,519)</u>	<u>(33,462)</u>	<u>(31,136)</u>	<u>(3,482)</u>	<u>(34,618)</u>
<b>Net withdrawals from dealings with members</b>		<u>(29,943)</u>	<u>(3,519)</u>	<u>(33,462)</u>	<u>(31,136)</u>	<u>(3,482)</u>	<u>(34,618)</u>
<b>Net returns on investments</b>							
Investment income	7	970	-	970	913	1	914
Change in market value of investments	8	653	(170)	483	54,490	4,749	59,239
Investment management expenses	9	108	3	111	(241)	-	(241)
		<u>1,731</u>	<u>(167)</u>	<u>1,564</u>	<u>55,162</u>	<u>4,750</u>	<u>59,912</u>
<b>Net increase/(decrease) in the fund</b>		<b>(28,212)</b>	<b>(3,686)</b>	<b>(31,898)</b>	24,026	1,268	25,294
Opening net assets		<u>656,888</u>	<u>49,809</u>	<u>706,697</u>	<u>632,862</u>	<u>48,541</u>	<u>681,403</u>
<b>Closing net assets</b>		<u>628,676</u>	<u>46,123</u>	<u>674,799</u>	<u>656,888</u>	<u>49,809</u>	<u>706,697</u>

The notes on pages 15 to 27 form part of these financial statements.

## Statement of net assets available for benefits as at 31 March 2018

	Note	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
<b>Investment assets</b>							
Pooled investment vehicles	10	<b>622,373</b>	<b>44,843</b>	<b>667,216</b>	651,326	49,512	700,838
Cash	11	<b>3,882</b>	-	<b>3,882</b>	2,946	-	2,946
Other investment balances	11	<b>80</b>	-	<b>80</b>	75	-	75
<b>Total net investments</b>		<b>626,335</b>	<b>44,843</b>	<b>671,178</b>	654,347	49,512	703,859
Current assets	17	<b>3,114</b>	<b>1,306</b>	<b>4,420</b>	3,466	311	3,777
Current liabilities	18	<b>(773)</b>	<b>(26)</b>	<b>(799)</b>	(925)	(14)	(939)
<b>Net assets available for benefits</b>		<b>628,676</b>	<b>46,123</b>	<b>674,799</b>	656,888	49,809	706,697

The financial statements summarise the transactions of the Benefits 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 Benefits Scheme year. The actuarial position of the Benefits Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the report on Actuarial liabilities on page 5 of the Annual report and these financial statements should be read in conjunction with this report.

The notes on pages 15 to 27 form part of these financial statements.

The financial statements were approved by the Trustee on 31 July 2018 and signed on its behalf by:

**David Booth**

**Stephen Terrell**

---

# Notes to the financial statements for the year ended 31 March 2018

## 1. General information

Building and Civil Engineering Benefits Scheme (Benefits Scheme) is a defined benefit occupational pension scheme established under trust.

The Benefits Scheme was established to provide death and retirement benefits for people working in the construction industry. The address of the Benefits Scheme's registered office is Manor Royal, Crawley, West Sussex RH10 9QP. From 9 April 2001 the Benefits Scheme closed to new lump sum retirement benefit and voluntary contribution members and from 30 October 2010 the Benefits Scheme closed for death benefits in respect of deaths occurring after this date.

The Benefits Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that income and capital gains earned by the Benefits Scheme receive preferential tax treatment.

## 2. Statement of compliance

The individual financial statements of Building and Civil Engineering Benefits 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. Summary of significant accounting policies

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

### (a) Currency

The Benefits Scheme's functional currency and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

### (b) Benefits and payments to and on account of leavers

Lump sum death and retirement benefits are accounted for on an accruals basis at the later of the crystallisation event or notification to the Benefits Scheme.

### (c) Transfers to other plans

Transfer values represent the capital sums payable to the pension schemes of new employers for members who have left the Benefits Scheme. They are accounted for on an accruals basis, which is normally when cash is paid unless the receiving trustees have agreed to accept the liability in advance of receipt of funds in which case they are accounted for from the date of the agreement. In the case of individual transfers, this is normally when the payment of the transfer is made.

### (d) Administrative expenses

Administrative expenses are accounted for on an accruals basis.

---

## Notes to the financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### (e) Investment income and expenditure

Income from pooled investment vehicles which distribute income is accounted for on an accruals basis on the date the dividend is declared. Interest on cash and short-term deposits is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Benefits Scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

#### (f) Valuation and classification of investments

Investment assets and liabilities are included in the financial statements at fair value. 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.

The methods of determining fair value for the principal classes of investments are:

- Certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days, are included at the last price provided by the manager at or before the year end.
- The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value.

## Notes to the financial statements (continued)

	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
<b>4. Benefits</b>						
Lump sum retirement benefits	23,786	73	23,859	24,784	742	25,526
Death benefits	1,888	726	2,614	2,362	161	2,523
	<u>25,674</u>	<u>799</u>	<u>26,473</u>	<u>27,146</u>	<u>903</u>	<u>28,049</u>

### 5. Transfers to other plans

Individual transfers out to other plans	<u>496</u>	<u>2,720</u>	<u>3,216</u>	<u>320</u>	<u>2,579</u>	<u>2,899</u>
---	------------	--------------	--------------	------------	--------------	--------------

### 6. Administrative expenses

Administration fees	3,219	-	3,219	3,266	-	3,266
Regulatory fees	387	-	387	339	-	339
Actuarial fees	136	-	136	22	-	22
Legal fees	13	-	13	-	-	-
Trustee fees	-	-	-	17	-	17
Audit fees	17	-	17	23	-	23
Other costs	1	-	1	3	-	3
	<u>3,773</u>	<u>-</u>	<u>3,773</u>	<u>3,670</u>	<u>-</u>	<u>3,670</u>

Administration fees are charged monthly and based on 0.5% per annum of the value of assets of the Benefits Scheme. The Benefits Scheme bears the cost of all other legal and professional fees.

### 7. Investment income

Income from pooled investment vehicles	970	-	970	906	-	906
Interest on cash deposits	-	-	-	7	1	8
	<u>970</u>	<u>-</u>	<u>970</u>	<u>913</u>	<u>1</u>	<u>914</u>

## Notes to the financial statements (continued)

### 8. Reconciliation of net investments

	Opening value £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Closing value £000
<b>Main fund</b>					
Pooled investment vehicles:	651,326	<b>110,954</b>	<b>(140,560)</b>	<b>653</b>	<b>622,373</b>
	651,326	<b>110,954</b>	<b>(140,560)</b>	<b>653</b>	<b>622,373</b>
Cash	2,946				<b>3,882</b>
Other investment balances	75				<b>80</b>
	<u>654,347</u>				<u><b>626,335</b></u>
<b>AVC fund</b>					
Pooled investment vehicles:	49,512	<b>3,981</b>	<b>(8,480)</b>	<b>(170)</b>	<b>44,843</b>
	49,512	<b>3,981</b>	<b>(8,480)</b>	<b>(170)</b>	<b>44,843</b>
Cash	-				-
	<u>49,512</u>				<u><b>44,843</b></u>

Indirect transaction costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustee to quantify such indirect transaction costs.

### 9. Investment management expenses

The investment in pooled investment vehicles has an impact on investment managers' fees. These types of funds suffer periodic charges levied against the value of the fund. Agreements negotiated by the Trustee ensure that where appropriate these charges are fully recovered by the Benefits Scheme. The amounts recovered are offset against investment management fees. Some investment management fees are collected by adjustment of the unit price and are not included below as they are not quantified.

The analysis of fees paid and recovered is as follows:

	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
Fees charged by investment managers	<b>1,000</b>	-	<b>1,000</b>	1,445	-	1,445
Fee rebates recovered from investment managers	<b>(1,204)</b>	<b>(3)</b>	<b>(1,207)</b>	(1,336)	-	(1,336)
Custody fees	<b>36</b>	-	<b>36</b>	31	-	31
Performance and advisory fees	<b>60</b>	-	<b>60</b>	101	-	101
	<u><b>(108)</b></u>	<u><b>(3)</b></u>	<u><b>(111)</b></u>	<u>241</u>	<u>-</u>	<u>241</u>

## Notes to the financial statements (continued)

### 10. Pooled investment vehicles

	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
Equity	27,624	-	27,624	41,459	-	41,459
Diversified growth	272,922	7,705	280,627	270,620	7,754	278,374
Property	29,327	-	29,327	27,337	-	27,337
Qualifying investment funds (QIFs)	292,500	37,138	329,638	311,910	41,758	353,668
	<u>622,373</u>	<u>44,843</u>	<u>667,216</u>	<u>651,326</u>	<u>49,512</u>	<u>700,838</u>

The Benefits Scheme is the sole investor in the individual Main fund and AVC fund QIFs. The underlying assets and liabilities in the QIFs are:

#### Assets

	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
Bonds	354,306	36,732	391,038	360,723	39,940	400,663
Pooled investment vehicles – cash	16,307	275	16,582	10,747	1,683	12,430
Cash	2,127	-	2,127	20,439	-	20,439
Accrued income	1,076	131	1,207	1,498	135	1,633
	<u>373,816</u>	<u>37,138</u>	<u>410,954</u>	<u>393,407</u>	<u>41,758</u>	<u>435,165</u>

#### Liabilities

Derivatives – swaps	(2,583)	-	(2,583)	(19,258)	-	(19,258)
Repurchase contracts	(78,733)	-	(78,733)	(62,239)	-	(62,239)
	<u>(81,316)</u>	<u>-</u>	<u>(81,316)</u>	<u>(81,497)</u>	<u>-</u>	<u>(81,497)</u>
	<u>292,500</u>	<u>37,138</u>	<u>329,638</u>	<u>311,910</u>	<u>41,758</u>	<u>353,668</u>

#### Objectives and policies for holding derivatives

The Trustee has authorised the use of derivative financial instruments by their investment managers as part of its investment strategy. By using swaps, the Trustee aims to match the liability-driven element of the investment portfolio with the Benefits Scheme's long-term liabilities, particularly in relation to their sensitivities to interest rate movements. Due to the lack of available long-dated bonds, the Trustee holds inflation swaps to extend the duration and match more closely with the Benefits Scheme's liability profile.

Bonds of £78.4m (2017: £64.8m) have been sold subject to repurchase contracts and therefore continue to be recognised in the financial statements.

## Notes to the financial statements (continued)

### 10. Pooled investment vehicles (continued)

Outstanding swaps at the year end are summarised as follows:

Swaps	Number of contracts	Expires within	Notional principal £000	Fair value asset £000	Fair value liability £000
<b>Inflation swaps</b>					
Pay fixed for RPI	3	10 years	59,730	-	(2,344)
Pay fixed for RPI	1	20 years	17,756	-	(2,952)
Pay RPI for fixed	2	10 years	27,501	-	235
Pay RPI for fixed	2	20 years	17,756	-	2,952
				-	(2,109)
<b>Interest rate swaps</b>					
Pay fixed for variable interest rate	2	10 years	70,810	-	950
Pay variable for fixed interest rate	7	10 years	228,020	-	(999)
				-	(49)
<b>Total return swaps</b>					
Pay fixed for total bond return	1	10 years	32,148	-	(815)
Pay total bond for fixed return	1	10 years	33,005	-	390
				-	(425)

The notional principal of the swap is the amount used to determine the swapped receipts and payments. The collateral pledged for these contracts is held in the form of cash in a segregated account with the Benefits Scheme's custodian. Collateral of £3.1m is held for the unrealised losses on the swaps.

### 11. Cash and other net investment balances

	2018 Main fund £000	2018 AVC fund £000	2018 Total £000	2017 Main fund £000	2017 AVC fund £000	2017 Total £000
Cash – sterling	3,882	-	3,882	2,946	-	2,946
Accrued investment income	80	-	80	75	-	75
	<u>3,962</u>	<u>-</u>	<u>3,962</u>	<u>3,021</u>	<u>-</u>	<u>3,021</u>

---

## Notes to the financial statements (continued)

### 12. AVC fund assets

AVC fund investments held by the Benefits Scheme provide benefits for the individuals on whose behalf the corresponding voluntary contributions were paid. The investment manager holds the investments on a pooled basis for the Trustee. Each year on the advice of the Benefits Scheme actuary, and where funds permit, the Trustee determines annual and final bonus rates. The Benefits Scheme administrator maintains the contribution records for each member and any annual bonus payable is added to each member's contribution record. When a member takes their benefit, the final bonus is calculated and added to their contribution record before payment. The Trustee holds an investment reserve which is not allocated to members from which the annual and final bonuses are paid.

	<b>2018</b>	2017
	<b>£000</b>	£000
Allocated to members	<b>37,694</b>	41,212
Not allocated to members	<b>7,149</b>	8,300
Market value at 31 March	<b><u>44,843</u></b>	<u>49,512</u>

The AVC fund assets in the table above are not part of a common pool of assets available to meet defined benefit liabilities.

### 13. Fair value of investments

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

- Level 1: Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
- Level 2: Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
- Level 3: Inputs are unobservable, i.e. for which market data is unavailable.

## Notes to the financial statements (continued)

### 13. Fair value of investments (continued)

The Benefits Scheme's investment assets and liabilities have been included at fair value within these categories as follows:

Category	Level 1 £000	Level 2 £000	Level 3 £000	2018 Total £000
<b>Main fund</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	536,145	86,228	622,373
Cash	3,882	-	-	3,882
Other investment balances	80	-	-	80
	<u>3,962</u>	<u>536,145</u>	<u>86,228</u>	<u>626,335</u>
<b>AVC fund</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	44,843	-	44,843
	<u>3,962</u>	<u>580,988</u>	<u>86,228</u>	<u>671,178</u>

Analysis for the prior period end is as follows:

Category	Level 1 £000	Level 2 £000	Level 3 £000	2017 Total £000
<b>Main fund</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	570,801	80,525	651,326
Cash	2,946	-	-	2,946
Other investment balances	75	-	-	75
	<u>3,021</u>	<u>570,801</u>	<u>80,525</u>	<u>654,347</u>
<b>AVC fund</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	49,512	-	49,512
	<u>-</u>	<u>49,512</u>	<u>-</u>	<u>49,512</u>
	<u>3,021</u>	<u>620,313</u>	<u>80,525</u>	<u>703,859</u>

## Notes to the financial statements (continued)

### 14. Investment risks

#### Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

**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 determines the investment strategy after taking advice from a professional investment adviser. The Benefits Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Benefits Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Benefits Scheme's investment managers and monitored by the Investment Committee and Trustee by regular reviews of the investment portfolio.

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

	Credit risk	Market risk			2018	2017
		Currency	Interest rate	Other price	£000	£000
<b>Main fund</b>						
Pooled investment vehicles	Yes	Yes	Yes	Yes	<b>622,373</b>	651,326
Cash deposits and other investment assets	Yes	No	No	No	<b>3,962</b>	3,021
<b>Total Main fund investments</b>					<b>626,335</b>	654,347
<b>AVC fund</b>						
Pooled investment vehicles	Yes	Yes	Yes	Yes	<b>44,843</b>	49,512
<b>Total AVC fund investments</b>					<b>44,843</b>	49,512

Further information on the Trustee's approach to risk management, credit and market risk is set out below.

#### Main fund

##### Investment strategy

The investment objective of the Main fund is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet the benefits of the Main fund payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy for the Main fund taking into account the long-term liabilities of the Main fund.

The current investment strategy is:

- 50% protection assets in a matching portfolio that is designed to move broadly in line with the long-term liabilities of the Main fund. This is referred to as LDI and comprises UK and overseas government and other permitted bonds, interest rate swaps and inflation swaps, the purpose of which is to hedge against the impact of interest rate and inflation movements on long-term liabilities;
- 50% growth assets split into 31% diversified growth, 9% UK equity and 10% in alternatives and property.

---

## Notes to the financial statements (continued)

### 14. Investment risks (continued)

#### Main fund (continued)

##### Credit risk

The Main fund is subject to credit risk directly, through its cash balances and investments held in the pooled investment vehicles. The Main fund is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles and bonds, over-the-counter (OTC) derivatives (investments purchased or sold through a dealer rather than via an exchange) and repurchase agreements held through the QIF.

The following table summarises exposures to credit risk and the notes below which explain how this risk is managed for different asset classes:

<b>Main fund investments exposed to credit risk</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Pooled investment vehicles	<b>622,373</b>	651,326
Cash and other net investment assets	<b>3,962</b>	3,021
	<b>626,335</b>	654,347

Credit risk arising on bonds held indirectly through the QIF is managed by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Credit risk arising on other investments is managed by investment mandates requiring all counterparties to be at least investment grade credit rated.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and the Main fund is subject to risk of counterparty failure. The credit risk for OTC swaps is reduced by collateral arrangements (see note 10).

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is managed 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. 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.

##### Market risk: currency risk

The Benefits Scheme is subject to currency risk because some of its investments are held in overseas markets via pooled investment vehicles (indirect exposure). The Main fund's liabilities are denominated in sterling and the majority of the assets are denominated in sterling; to the extent that there is significant exposure to non sterling currencies, the Trustee will consider whether to hedge this risk.

##### Market risk: interest rate risk

The Main fund is subject to indirect interest rate risk because some of its investments, through pooled investment vehicles, are held in bonds and can be held in interest rate swaps. The Trustee has set a benchmark for total investment in bonds and interest rate swaps of 50% of the total investment portfolio, as part of the LDI investment strategy. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate.

Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year end the LDI portfolio represented 46.9% of the total investment portfolio (2017: 47.7%).

##### Market risk: other price risk

Other price risk arises principally in relation to the Main fund's return seeking portfolio which includes equities held in pooled vehicles, diversified growth funds and pooled property. The Main fund has set a target asset allocation of 50% of investments being held in return seeking investments.

The Trustee manages the Main fund's exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

---

## Notes to the financial statements (continued)

### 14. Investment risks (continued)

#### AVC fund

##### Investment strategy

The Trustee's objective is designed to generate income and capital growth which will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product).

The Trustee sets the investment strategy for the AVC fund taking into account the long-term liabilities of the AVC fund.

The current investment strategy is:

- 84% protection assets in a matching portfolio
- 15% diversified growth assets and
- 1% cash.

##### Credit risk

The AVC fund is subject to credit risk directly, through its cash balances and investments held in the pooled investment vehicles. The AVC fund is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles and indirectly invests through the QIF in index linked government bonds, pooled investment vehicles and cash balances.

The following table summarises exposures to credit risk and the notes below which explain how this risk is managed for different asset classes:

<b>AVC fund investments exposed to credit risk</b>	<b>2018</b>	2017
	<b>£000</b>	£000
Pooled investment vehicles	<b>44,843</b>	49,512
	<b><u>44,843</u></b>	<u>49,512</u>

Credit risk arising on bonds held directly, through a QIF, is managed by investing in government bonds where the credit risk is minimal. Credit risk arising on other investments is managed by investment mandates requiring all counterparties to be at least investment grade credit rated.

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is managed 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. 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.

## Notes to the financial statements (continued)

### 14. Investment risks (continued)

#### AVC fund (continued)

##### Market risk: currency risk

The AVC fund is subject to currency risk because some of its investments are held in overseas markets via pooled investment vehicles (indirect exposure). The AVC fund's liabilities are denominated in sterling and to the extent that there is exposure to non-sterling currencies the Trustee will consider whether to hedge this risk.

##### Market risk: interest rate risk

The AVC fund is subject to interest rate risk because some of its investments are held in bonds through pooled vehicles, and cash. The Trustee has set a benchmark for total investment in bonds of 83% of the total investment portfolio, as part of the LDI investment strategy. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year end the LDI portfolio represented 80.5% of the total investment portfolio (2017: 84.3%).

##### Market risk: other price risk

Other price risk arises principally in relation to the AVC fund's return seeking portfolio which includes assets held in diversified growth funds. The AVC fund has set a target asset allocation of 15% of investments being held in return seeking investments.

The AVC fund manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

### 15. Concentration of investments

Investments accounting for more than 5% of the net assets of the Benefits Scheme were:

	2018 Value £000	%	2017 Value £000	%
<b>Main fund</b>				
L&G QIF Fund*	292,500	43.3	311,910	44.1
Newton Real Return Exempt*	109,981	16.3	112,410	15.9
Investec Diversified Growth Fund*	106,034	15.7	-	-
BlackRock BLIF Dynamic Diversified*	-	-	105,023	14.9
The Partners Fund*	56,901	8.4	53,187	7.5
Invesco IP Income Fund*	27,624	4.1	41,459	5.9
	<b>593,040</b>	<b>87.9</b>	623,989	88.3
<b>AVC fund</b>				
L&G QIF Fund*	37,138	5.5	41,758	5.9
	<b>630,178</b>	<b>93.4</b>	665,747	94.2

\* These investments are pooled investment vehicles which have multiple underlying assets none of which exceeds 5% of the net assets of the Benefits Scheme.

### 16. Employer-related investments

There were no employer-related investments during the year.

## Notes to the financial statements (continued)

### 17. Current Assets

	<b>2018</b>	<b>2018</b>	<b>2018</b>	2017	2017	2017
	<b>Main fund</b>	<b>AVC fund</b>	<b>Total</b>	Main fund	AVC fund	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Cash balances	<b>3,012</b>	<b>1,305</b>	<b>4,317</b>	3,427	311	3,738
Other debtors	<b>85</b>	<b>1</b>	<b>86</b>	3	-	3
Amount due from the Employee Life Cover from B&CE Scheme	<b>17</b>	<b>-</b>	<b>17</b>	36	-	36
	<b><u>3,114</u></b>	<b><u>1,306</u></b>	<b><u>4,420</u></b>	<u>3,466</u>	<u>311</u>	<u>3,777</u>

### 18. Current liabilities

Tax deducted from benefits	-	<b>2</b>	<b>2</b>	6	-	6
Unpaid benefits	<b>532</b>	<b>8</b>	<b>540</b>	580	14	594
Accrued expenses	<b>177</b>	-	<b>177</b>	117	-	117
Amounts owed to the Administrator	<b>64</b>	<b>8</b>	<b>72</b>	222	-	222
Amounts owed to the Main fund / AVC fund	-	<b>8</b>	<b>8</b>	-	-	-
	<b><u>773</u></b>	<b><u>26</u></b>	<b><u>799</u></b>	<u>-</u>	<u>92514</u>	<u>939</u>

### 19. Related party transactions

The Benefits Scheme has the following related party transactions:

- Administration fees paid to the Administrator (see note 6).
- Amounts transferable from the Employee Life Cover from B&CE Scheme to reimburse amounts paid by the Benefits Scheme on its behalf (see note 18 for details of the balance outstanding at the year end).
- Directors' fees and expenses are paid by B&CE Holdings Limited and totalled £18k for 2018 (2017: £13k). This cost is not recharged to the Benefits Scheme.

### 20. Contingencies and commitments

In the opinion of the Trustee, the Benefits Scheme had no contingent liabilities (2017: nil) or commitments (2017: nil) at 31 March 2018.

### 21. Events after the reporting period

There were no events requiring disclosure or adjustment occurring after the end of the reporting period.

## Certification of schedule of contributions

*Name of scheme:* **Building & Civil Engineering Benefits Scheme**

### **Adequacy of rates of contributions**

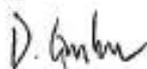
1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2015 to be met by the end of the period specified in the recovery plan dated 23 March 2016.

### **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 23 March 2016.

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 deferred lump sums, if the Scheme were to be wound up.

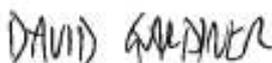
Signature



Date

23 March 2016

Name



Qualification

Fellow of the Institute and Faculty of Actuaries

Address

Parkside House  
Ashley Road  
Epsom  
Surrey  
KT18 5BS

Name of employer

Aon Hewitt Limited

For more information:

 **0300 2000 555**

 **info@bandce.co.uk**



**Building and Civil Engineering Benefits Scheme Trustee Limited**

Manor Royal, Crawley, West Sussex, RH10 9QP. Tel 0300 2000 555 Fax 01293 586801 [www.bandce.co.uk](http://www.bandce.co.uk)

Registered in England and Wales No. 1201576. To help us improve our service, we may record your call. Building and Civil Engineering Benefits Scheme Trustee Limited is the custodian and corporate trustee of the Building and Civil Engineering Benefits Scheme and of the Employee Life Cover from B&CE arrangement. Appointed representative of B & C E Insurance Limited which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority Ref: 177791.

