

Rolls-Royce UK Pension Fund

Trustee's Annual Report & Financial Statements
for the year ended
31 March 2020

Pension Scheme Registration Number: 12001014

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Trustee & advisors

Trustee:	Rolls-Royce UK Pension Fund Trustees Limited
Trustee directors:	<p>Company appointed directors Liz Airey – Chairman Jo Durkan Iain Foster Steve Hibbert (<i>resigned 31 December 2019</i>) Steve Jones (<i>appointed 1 January 2020</i>) Will Mansfield Mark McIntosh</p> <p>Member nominated directors Paul Butler - Pensioner (<i>appointed 13 December 2019</i>) Craig Gibson (<i>re-appointed 1 November 2019</i>) Stuart Hedley John Keenan – Pensioner (<i>resigned 1 December 2019</i>) Mark Porter</p>
Secretary:	Caroline Veitch, Rolls-Royce Pensions Department
Sponsoring employer:	Rolls-Royce plc, Kings Place, 90 York Way, London N1 9FX
Administrator:	Rolls-Royce Pensions Department, Jubilee House, Pride Park, Derby, DE24 8JY
Banker:	National Westminster Bank
Investment managers:	Capital Dynamics Limited Hg Capital LLP The Rohatyn Group Asian Infrastructure & Related Resources Opportunity Fund UK LP Insight Investment Management (Global) Limited Legal & General Assurance (Pensions Management) Limited M&G Investment Management Limited Pantheon Ventures (UK) LLP Royal London Asset Management Limited Ruffer LLP (<i>terminated on 5 February 2020</i>)
Bulk annuity provider:	Legal & General Assurance Society Limited (<i>annuity held from 1 July 2019 to 1 February 2020</i>)
Custodian and performance measurement:	State Street Bank and Trust Company
Investment consultant:	Mercer Limited, Tower Place, London, EC3R 5BU
Scheme Actuary:	Richard Whitelam FIA (<i>resigned 30 June 2019</i>). Alastair McIntosh FIA (<i>appointed 1 July 2019</i>). Both of Aon plc, The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AN
Legal advisor:	Linklaters LLP, One Silk Street, London, EC2Y 8HQ
Auditor:	KPMG LLP, One Snowhill, Snow Hill Queensway, Birmingham B4 6GH
Covenant advisor:	Penfida Limited, One Carey Lane, London, EC2V 8AE

Annual report

Establishment

The Rolls-Royce UK Pension Fund (the “Fund”) provides retirement and life assurance benefits for employees of Rolls-Royce plc and related, participating companies (the “Company”). The Fund was originally established on 23 December 2008 but was significantly revised on 31 October 2016 when four of the Company’s other defined benefit pension schemes were consolidated into the Fund. The Fund is governed by a Trust Deed and Rules as amended by supplementary deeds. The Trustee is a UK limited company, Rolls-Royce UK Pension Fund Trustees Limited (the “Trustee”).

The Fund’s assets are held in the name of the Trustee and are entirely separate from the assets of the Company. The Fund is registered with Her Majesty’s Revenue & Customs for tax purposes. Consequently, the majority of the Fund’s income and investment gains are free of taxation. However, the Fund cannot reclaim certain amounts of withholding taxes relating to overseas investment income.

The Fund was contracted-out of the State Second Pension until 5 April 2016.

Management of the Fund

The Trustee board

The directors of the Trustee are appointed and removed in line with the provisions of the Trustee’s Articles of Association. There are currently ten directors comprising six directors appointed by the Company (including a Chairman and a director nominated by the Company’s Central Negotiating Committee) and four directors nominated by members.

The directors regularly meet four times a year and more frequently as required. All directors have the same function except that the Chairman (or, if they are not present at any meeting the director appointed as Chairman of the meeting) will have a casting vote. Attendance at the four regular Trustee meetings during the year is shown in the table below (several additional Trustee meetings were held throughout the year to address particular developments):

Director	Meetings attended	Meetings applicable
Liz Airey – Chairman	4	4
Paul Butler	2	2
Jo Durkan	4	4
Iain Foster	4	4
Craig Gibson	4	4
Stuart Hedley	4	4
Steve Hibbert	2	3
Steve Jones	1	1
John Keenan	2	2
Will Mansfield	4	4
Mark McIntosh	4	4
Mark Porter	4	4

Each director has been provided with relevant documentation required to perform their role as a pension scheme trustee and pension scheme trustee training is undertaken on a regular basis. These training arrangements are designed to meet The Pensions Regulator’s pension scheme trustee training requirements, which were established by the *Pensions Act 2004*.

Changes to the Fund

Directors

There were several changes of directors during the year. John Keenan and Steve Hibbert resigned as directors on 1 December 2019 and 31 December 2019 respectively and Paul Butler and Steve Jones were appointed as directors on 13 December 2019 and 1 January 2020 respectively. Craig Gibson was re-appointed to serve a further term in office on 1 November 2019. The Trustee would like to place on record its thanks to John Keenan and Steve Hibbert for their services to the Fund.

GMP equalisation

Following a ruling by the High Court in 2018 in the case of *Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC and others*, the Trustee has decided to include a liability in the financial statements (see notes 8 and 29 of the financial statements) to reflect equalisation payments that should have been made to pensioners in relation to Guaranteed Minimum Pensions (GMP) up to 31 March 2020. The liability has reduced following most of the payments being made before the end of 2019. Payments to other members will be addressed over a longer timeframe.

Transfer of liabilities to Legal & General Assurance Society

In June 2019, the Trustee announced that it had entered into an agreement to insure the benefits of 31,390 pensioners with a UK insurance company, Legal & General Assurance Society (LGAS). This transaction involved the transfer of £4.8 billion of the Fund's assets to LGAS, including the sole investor unit linked insurance policies (see note 16 of the financial statements). The longevity swap was also terminated as part of the transaction (see note 18 of the financial statements). The benefits insured include guaranteed increases of 2% a year on pension earned before 6 April 1997 in excess of GMP. The Trustee and its advisers concluded that this transaction provides improved security for:

- The insured pensioners, given the financial strength of LGAS and the strict regulatory environment in which UK insurance companies operate; and
- Remaining members of the Fund given the transaction did not adversely affect the ongoing funding position of the Fund but significantly reduced the overall size of the Fund's liabilities, reducing the risk that the Company will be unable to support benefits already accrued in the Fund in future.

The transaction was structured as a purchase of a bulk annuity by the Trustee (a buy-in) that was subsequently converted to individual annuity policies for the insured pensioners (a buy-out) before the end of the Fund year. To facilitate the transaction the Company made a special contribution to the Fund of £34.5 million in July 2019. The Trustee and Company also agreed to amend the basis set out in the Trust Deed and Rules by which contingent increases are awarded to pensions in payment, to reflect a minimum surplus of 4% instead of 5%. This amendment will be implemented after the Fund year end.

Deeds of amendment

Two deeds of amendment dated 24 July 2019 were executed during the year. The deeds provided for members that take sabbatical leave and additional flexibility in relation to lump sum death benefits. A deed of amendment was agreed in February 2020 to make certain changes to the future accrual of benefits for management grade members. The provisions of that deed are effective from 1 March 2020.

Formal actuarial valuation at 31 March 2020

The next formal actuarial valuation in accordance with Pensions Act 2004 will be as at 31 March 2020. Further information is provided in the report on actuarial liabilities on page 6.

Covid-19

As a result of the impact of the Covid-19 virus on the financial position of the Company, the Company requested in March 2020 that the Trustee amend the schedule of contributions certified by the Scheme Actuary on 19 December 2017 to enable it to defer payment of the employer contributions due for the quarter ending 31 March 2020 from April 2020 to July 2020. In accordance with advice from its professional advisers, the Trustee agreed to the request and a new schedule of contributions was agreed and certified by the Scheme Actuary after the end of the Fund year, on 7 April 2020. Subsequently the Company requested that these contributions, and those due for the quarter ending 30 June 2020, are deferred to October 2020. Again, in accordance with advice from its professional advisers, the Trustee agreed to the request and a new schedule of contributions was agreed and certified by the Scheme Actuary after the end of the Fund year, on 6 July 2020.

Strategic review of the Fund

In May 2020 the Company announced a strategic review of the Fund. It is currently unclear what the result of the review will be. The review is subject to statutory consultation between the Company and active members. The benefits of members that have accrued to the date the review is concluded are subject to legislative protection.

The Audit Committee

The Trustee has established an Audit Committee (the “Committee”) to oversee a range of activities, pursuant to ensuring the integrity of the Fund’s financial statements, identifying, monitoring and controlling risks, and monitoring the cost and performance of service providers. The Trustee sets the terms of reference for the audit committee. The current terms of reference require a minimum of three directors appointed by the Trustee and for the audit committee to meet at least twice a year and more frequently as required. In recent years the audit committee has met regularly four times a year. The members of the Committee and their attendance at the four regular meetings during the year are shown in the table below (several additional meetings were held throughout the year to address particular developments):

Director	Meetings attended	Meetings applicable
Will Mansfield – Chairman	4	4
Jo Durkan	3	4
Craig Gibson	4	4
Mark McIntosh	1	1

The Committee had oversight of the following significant business during the year:

- Following the year end, the Committee reviewed the Trustee’s annual report and financial statements prepared by management and a report produced by the Fund’s external auditor (KPMG LLP). The Committee was satisfied that appropriate judgements and estimates had been made by management and that the disclosures were appropriate. The Committee was also satisfied with the quality of the audit undertaken by KPMG. In particular the Committee was satisfied that key developments in the year including the purchase of a bulk annuity with LGAS, associated changes to the Fund’s investments and the inclusion of a liability for equalisation payments in relation to GMP had all been appropriately reflected. The Committee recommended approval to the Trustee Board.
- At each meeting the Committee reviews a compliance report, prepared by management, which identifies key governance activities undertaken. No significant issues were identified. Twice a year the committee reviews the Fund’s risk register to consider whether the risks identified, and the associated risk mitigation activities remain appropriate. The Committee is also working with management to restructure the risk register to be consistent with the strategic priorities established as part of a review of strategic objectives being undertaken by the Trustee.

- During the year, in conjunction with management, the Committee reviewed the performance of, and the fees paid to, the Trustee's appointed service providers. The Committee was satisfied that the performance and fees were appropriate, although it requested that management formalise the delegated authorities for the payment of fees. In addition, the Committee received presentations from the provider of the Fund's administration system (Procentia Limited) and independent financial advisors (WPS Advisory Limited), with particular focus on their approach to cyber security. The Committee was satisfied that both providers have appropriate processes in place. It was pleased to note that Procentia Limited achieved the ISO 27001 information security standard certification during the year and that WPS Advisory Limited are in the process of obtaining the same certification.
- KPMG has been the Fund's auditor for over 10 years. In line with good governance practice, the Committee considers that the external auditor should be periodically rotated. Accordingly, the Committee commenced a review and appointment process during the year. Following this process, the Trustee agreed to appoint Deloitte as auditor with effect for the year ending 31 March 2021. In addition, the Committee expects that the implementation of an EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP II) will require Funds such as this one to have an internal audit function. In anticipation of this, and in parallel with the above review and appointment process, the Committee also initiated a similar process for a provider of additional business assurance services to support the Committee. Following this process Ernst & Young was appointed to support the Committee.

For the 2020/21 year, the Committee's key areas for focus will be:

- Monitoring of the control environment and effectiveness of controls, specifically considering the impact of COVID-19 on the Trustee's appointed administrator.
- Further development of the risk register and mitigating activities in line with the strategic objectives agreed by the Trustee.
- Establishing the appointments of Deloitte and Ernst & Young as external auditor and provider of additional business assurance services respectively.

The Trustee had established an Investment Executive comprising investment specialists and professional advisors. This group met as required to provide the Trustee with investment advice and implement the Trustee's agreed investment strategy. During the year the Trustee agreed a new investment governance framework. More information is provided on page 12.

Report on actuarial liabilities

Under Section 222 of the Pensions Act 2004, every pension 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 receive, based on pensionable service to the valuation date. The present value of those benefits is assessed using assumptions agreed between the Trustee and the Company and set out in a Statement of Funding Principles, which is available to members on request. A formal actuarial valuation of the Fund is carried out by the Scheme Actuary at least every three years.

The latest formal actuarial valuation was undertaken as at 31 March 2017 by the then Scheme Actuary, Richard Whitelam FIA of Aon plc. The results of this valuation and an updated position as at the end of the year using equivalent assumptions are shown below. The fall in the funding level was primarily driven by significant market movements during March 2020 as a result of the Covid-19 virus which led to a fall in the value of the Fund's equity and credit investments. The updated position reflects the purchase of individual annuities for 31,390 pensioners described on page 4.

	31 March 2017	31 March 2020
The value of the assets was:	£13,484 million	£9,336 million
The value of the technical provisions was:	£12,055 million	£8,905 million
Surplus / (deficit):	£1,429 million	£431 million
Funding ratio:	111.9%	104.8%

The funding position in the above table had recovered to an estimated 106.6% as at 31 July 2020. However, the new Scheme Actuary is currently undertaking a formal actuarial valuation as at 31 March 2020 which will reassess all the assumptions used to value the Fund's liabilities as well as taking into account updated details of the Fund's membership at the valuation date. The figures above will be superseded by the results of this valuation, which is expected to be finalised in 2021.

The method and significant actuarial assumptions used to determine the technical provisions for the formal actuarial valuation on 31 March 2017 were as follows:

Method

The actuarial method that was used in the calculation of the technical provisions was the Projected Unit Method with a five-year control period.

Significant actuarial assumptions

Discount rate: Term structure derived from the yields on conventional UK Government bonds appropriate to the date of each future cashflow plus an additional 0.5% per annum to reflect the allowance the Trustee has agreed for additional investment returns based on the investment strategy as set out in a Statement of Investment Principles, which was adopted by the Trustee on 19 September 2017.

Future Retail Price inflation: Term structure derived from the difference between the yield on conventional and index-linked UK Government bonds at the date of each future cash flow.

Future Consumer Price inflation: Derived from the RPI inflation assumption with an appropriate adjustment to recognize the difference between expectations of future RPI increases and future CPI increases. At the 31 March 2017 valuation the adjustment was a deduction of 0.99% per annum.

Salary increases: Salary increases in excess of increases in RPI inflation are assumed to be 0.25% per annum. No additional allowance has been made for promotional increases.

Pension increases in payment: Term structure derived from price inflation annual forward rates allowing for the maximum and minimum annual increase entitlements or fixed increases where known and guaranteed. In addition to guaranteed increases, if the Fund retains a surplus of at least 5% on a basis set out in the Trust Deed and Rules, contingent increases of up to 2% a year apply to pensions earned before 6 April 1997 and that receive no guaranteed increases under the Trust Deed and Rules or legislation. The Trustee and Company have agreed to amend this minimum surplus to 4% after the Fund year end as explained on page 4. The value of these contingent increases is not included in the above technical provisions.

Mortality: SAPS S2 year of birth tables adjusted as follows:

	Male	Female
Active members	97%	98%
Deferred members	99%	101%
Pensioners	96%	103%

The allowance for improvements is based on the actuarial profession's Continuous Mortality Investigation 2016 model with a long-term improvement rate of 1.5% p.a.

Membership

The changes in membership during the period 1 April 2019 to 31 March 2020 are shown in the table below. Opening balance adjustments take account of any retirements, leavers and deaths that occurred before the last Fund year end but were not processed until after the Trustee's report and financial statements had been signed for that year.

Active members	
Members at 1 April 2019	11,085
Adjustments for movements prior to 1 April but processed after that date	(60)
	11,025
Less: Active members retiring	(427)
Active members leaving service	(253)
Deaths	(10)
Transfers out	(420)
Members at 31 March 2020	9,915
Deferred members	
Members at 1 April 2019	19,759
Adjustments for movements prior to 1 April but processed after that date	(196)
	19,563
Add: Active members leaving service	253
Less: Deferred members retiring	(460)
Deaths	(155)
Trivial commutations	(6)
Transfers out	(264)
No further liability	(26)
Members at 31 March 2020	18,905
Pensioners	
Pensioners at 1 April 2019	45,008
Adjustments for movements prior to 1 April but processed after that date	83
	45,091
Add: Active members retiring	427
Deferred members retiring	460
Dependants pensions commencing	237
Less: Deaths	(1,737)
Transferred to Legal & General Assurance Society	(31,390)
Pensioners at 31 March 2020	13,088

Financial development of the Fund

The financial statements of the Fund for the year are set out on pages 17 to 34. The financial statements have been prepared and audited in accordance with Sections 41(1) and (6) of the *Pensions Act 1995*. A summary of the Fund's financial statements is set out in the table below:

	31/03/2020	31/03/2019
	£'000	£'000
Member related income	172,694	144,846
Member related payments	(5,377,920)	(616,327)
Net (withdrawals) from dealings with members	(5,205,226)	(471,481)
Net returns on investments	848,773	675,411
Net (decrease)/increase in Fund	(4,356,453)	203,930
Net assets at start of year	13,692,017	13,488,087
Net assets at end of year	9,335,564	13,692,017

The significant increase in member related payments compared to the previous Fund year is due to the agreement with LGAS described on page 4.

Statement of Trustee's responsibilities for the annual report and financial statements

The audited annual report and financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited financial statements for each Fund year which:

(i) show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the annual report and financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Fund, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Fund prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal controls as it determines is necessary to enable the preparation of the annual report and financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that

adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

Statement of Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable to the Fund by or on behalf of the sponsoring employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Fund in accordance with the schedule of contributions.

Summary of contributions payable under the schedule of contributions in respect of the year ended 31 March 2020

This summary has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Fund under the schedule of contributions certified by the Scheme Actuary on 19 December 2017.

The auditor reports on contributions payable under the schedule of contributions in the auditor's statement about contributions. The contributions payable under the schedule of contributions in respect of the year ended 31 March 2020 are shown below:

	£'000
Employer:	
Normal contributions	105,591
PaySave contributions made by employee salary sacrifice	27,220
Employer contributions in respect of sickness absence, career breaks, maternity absences and disability benefits	1,411
Member:	
Normal contributions	2,491
Contributions payable under the schedule of contributions (as reported by the auditor)	136,713
Special contribution	34,500
Total contributions reported in the financial statements	171,213

Included in the contributions payable under the schedule of contributions above is £32.6 million that was due to be paid by the Company after the end of the Fund year in April 2020 and has been accrued in the Fund's financial statements. As a result of the impact of Covid-19 on the Company, payment of this amount was deferred until July 2020, and subsequently October 2020, by agreement between the Trustee and the Company as described on page 5.

In addition to the contributions payable under the schedule of contributions, a special contribution of £34.5 million was made by the employer in July 2019 to facilitate the agreement with LGAS described on page 4. The total contributions payable by the employer during the year was therefore £171.2 million.

The option for active members to pay AVCs into the Fund was removed from 1 November 2016. Active members can pay AVCs outside of the Fund to a different Company pension arrangement, the Rolls-Royce Retirement Savings Trust.

Transfer Payments

As a minimum, all cash equivalent transfer values (CETVs) paid during the year were calculated as prescribed by legislation and represented the value of the member's preserved benefits. No allowance for discretionary pension increases was included. CETVs paid to active members who have reached the UK minimum retirement age are provided with a transfer value calculated as a share of Fund, based on advice from the Scheme Actuary. Authorised financial advice is also provided to active members to enable them to consider their retirement options.

Pension Increases

Deferred pensions are increased in line with statutory requirements when deferred members retire. Pensions in payment were increased on 1 April 2020 as shown in the following table:

Legacy Scheme	Pension Element	Increase
Rolls-Royce Pension Fund / Rolls-Royce Ancillary Benefits Plan	Pension earned before 6 April 1997	2% (1)
	Pension earned between 6 April 1997 and 5 April 2005	1.7% (2)
	Pension earned after 5 April 2005	1.7% (3)
Rolls-Royce Group Pension Scheme / Vickers Group Pension Scheme	Pension earned before 6 April 1997	2.2% (4)
	Pension earned between 6 April 1997 and 5 April 2005 (31 March 2007 for former members of the Vickers Group Pension Scheme)	2.2% (5)
	Pension earned after 5 April 2005 (31 March 2007 for former members of the Vickers Group Pension Scheme)	2.2% (6)
Rolls-Royce Engine Control Systems Pension Scheme – Closed, SRBS and Open Sections	Pension earned before 1 April 2008	2.7% (7)
	Pension earned after 31 March 2008	2.7% (9)
	Temporary Pension	3.9% (10)
Rolls-Royce Engine Control Systems Pension Scheme – 2004 Section	Pension earned before 1 April 2008	2.7% (8)
	Pension earned after 31 March 2008	2.7% (9)
	Temporary Pension	3.9% (10)

Guaranteed Minimum Pension (GMP)

GMP earned between 6 Apr 1978 and 5 Apr 1988	N/A (11)
GMP earned between 6 Apr 1988 and 5 Apr 1997	1.7% (12)

Notes:

- (1) Guaranteed 2% increases on 1 April in the years 2020, 2021, 2022 and 2023. From 1 April 2024, contingent increases of up to 2% a year will apply if the Fund retains a surplus of at least 5% on a basis set out in the Trust Deed and Rules (the minimum surplus is expected to reduce to 4% as explained on page 4).
- (2) Annual CPI increase (September 2019) up to maximum of 5%
- (3) Annual CPI increase (September 2019) up to maximum of 2.5%
- (4) Annual RPI increase (December 2019) up to maximum of 3%
- (5) Annual RPI increase (December 2019) up to maximum of 5%
- (6) Annual RPI increase (December 2019) up to maximum of 2.5%
- (7) Annual RPI increase (January 2020) up to maximum of 7%
- (8) Annual RPI increase (January 2020) up to maximum of 5%
- (9) Annual RPI increase (January 2020) up to maximum of 4%
- (10) Increases in line with Basic State Pension.
- (11) All increases are provided by the State.
- (12) Annual CPI increase (September 2019) up to a maximum of 3%. Additional inflationary increases are provided by the State.

Pensions Act 1995/2004

The following appointments have been made in accordance with statutory requirements:

- Scheme Actuary – Richard Whitelam FIA and Alastair McIntosh FIA. Both of Aon plc*
- Auditor – KPMG LLP
- Legal advisor – Linklaters LLP
- Investment consultant – Mercer Limited

*Mr Whitelam resigned as Scheme Actuary on 30 June 2019 and was replaced by Mr McIntosh from 1 July 2019. This change was part of a planned succession. As required by Regulations made under the Pensions Act 1995, Mr Whitelam confirmed in his notice of resignation that he knew of no circumstances connected with the resignation that significantly affected the interests of the members, prospective members or beneficiaries of the Fund. The Trustee would like to place on record its thanks to Mr Whitelam for his service to the Fund.

The Trustee regularly reviews the performance of its appointed advisors and service providers (including those mentioned above).

Investments

Governance

The Trustee had delegated certain investment powers to an Investment Executive comprising its professional advisers and any other specialists required from time to time. During the year, the Trustee agreed a new investment governance framework. In accordance with this framework, significant investment matters are reserved for the Trustee to enable it to consider, agree and monitor implementation of its investment strategy, monitor investment management expenses and review the performance of its appointed investment consultant. The framework also provides a clear role for the Trustee's appointed investment consultant and formally delegates other operational and administrative matters to the Trustee's appointed service providers. Day-to-day management of investments is delegated to appointed investment managers in written agreements with those investment managers.

The Trustee maintains a statement of investment principles (SIP) in accordance with the *Pensions Act 1995*, which documents the principles governing the Trustee's decisions about investment. A copy of the latest SIP is appended to this annual report and financial statements. Copies are also available from the Trustee Secretary on written request. The Trustee can confirm that there were no breaches of the SIP during the year.

Custody

The Fund's assets are owned directly or indirectly by the Trustee and are entirely separate from the assets of the Company. The Trustee has appointed State Street Bank and Trust Company (State Street) to provide custody services for the safekeeping of segregated assets. The Fund's segregated assets are separately identified in State Street's records as belonging to the Trustee and State Street requires its sub-custodians to segregate the Trustee's assets from their own assets. State Street's records of securities and cash are reconciled to the Trustee's appointed investment managers' records on a monthly basis. Custody of the underlying investments in pooled investment vehicles is arranged by the managers of the pooled investment vehicles. Cash is normally held in liquid, diversified pooled investment vehicles managed by the investment managers.

Part of the Fund's liability-hedging strategy (see below) was implemented through two sole investor unit-linked insurance policies with Legal & General Assurance (Pensions Management) Limited (L&G PMC), which had separate custody arrangements. These policies were transferred to LGAS as part of the agreement described on page 4.

Investment strategy

The Trustee's primary objective is to meet the Fund's liabilities as and when they fall due. In pursuit of this objective, the Trustee seeks to invest the Fund's assets at an appropriate level of risk relative to the Fund's liabilities.

In seeking to achieve the primary objective, the Trustee follows a low-risk investment strategy in pursuit of excess return relative to the Fund's liabilities by investing a proportion of assets in:

- A Liability-Driven Investment (LDI) portfolio, expected to match or “hedge” closely the interest rate and inflation risk profile of the Fund's liabilities.
- A credit portfolio expected to generate excess returns relative to the Fund's liabilities primarily by harvesting credit spreads above yields on “pure” hedging assets. The credit portfolio may contribute to the LDI strategy through investment in fixed interest assets but may also hold floating rate or non-matching assets. The credit portfolio may also hold a mixture of public and private assets.
- A Return-Seeking Asset (RSA) portfolio, expected to generate excess returns relative to the Fund's liabilities through investment in other non-matching assets such as equities.

Within these portfolios the Trustee invests in segregated assets and pooled investment vehicles. A summary of the assets contained in these portfolios at the end of the year is shown below:

Asset Class	Segregated	Pooled investment vehicles	Total	
	£'000	£'000	£'000	%
Liability-Driven Investment (LDI) Portfolio	5,104,223	42,803	5,147,026	55
UK Government bonds - fixed interest	2,920,729	-	2,920,729	31
UK Government bonds - index-linked	3,748,604	-	3,748,604	40
Gilt repurchase agreements	(1,633,550)	-	(1,633,550)	(18)
Derivatives	(41,282)	-	(41,282)	0
Cash, liquidity funds and other net investment assets	109,722	42,803	152,525	2
Credit Portfolio	3,160,460	718,534	3,878,994	41
Global non-government (public and private)	3,148,634	620,884	3,769,518	40
Derivatives	(56,850)	-	(56,850)	(1)
Cash, liquidity funds and other net investment assets	68,676	97,650	166,326	2
Return-Seeking Asset (RSA) Portfolio	(43,158)	334,708	291,550	4
Global equities	-	257,334	257,334	3
Private equity funds	-	77,374	77,374	1
Derivatives	(43,250)	-	(43,250)	0
Cash, liquidity funds and other net investment assets	92	-	92	0
Total net investment assets	8,221,525	1,096,045	9,317,570	100

The segregated UK Government bonds are quoted on recognised stock exchanges. The pooled investment vehicles are valued and traded daily or weekly by the investment managers. All other assets are traded in “over the counter” markets.

The Trustee has authorised the use of derivatives by the investment managers to reduce certain investment risks and for efficient portfolio management purposes. The principal investments in derivatives are:

- Collateralised interest rate swap, inflation swap and futures contracts within the LDI and credit portfolios.
- Forward foreign exchange contracts to hedge assets denominated in overseas currencies back to Sterling.

A summary of the derivative contracts held within the Fund’s segregated investments for this purpose at the end of the year is included under note 17 to the financial statements.

Performance

The level and type of assets in the Fund was significantly changed by the transfer of assets and liabilities from three other Company pension arrangements into the Fund on 31 October 2016. Annual performance data is therefore only available for the Fund’s assets and liabilities (technical provisions described on page 7) from the Fund year ending 31 March 2018 and is shown below:

Year ending 31 March	Assets	Liabilities
2020	8.25%	11.80%
2019	5.03%	5.70%
2018	1.68%	1.50%

In the first quarter of 2020 the Fund’s investments were impacted by Covid-19. Any changes in the value of the Fund’s LDI portfolio were broadly offset by changes in the value of the Fund’s liabilities. The value of the Fund’s credit and RSA portfolios were negatively impacted but gradually recovered in the second quarter of 2020. The long-term impact of Covid-19 on the investee companies underlying these portfolios is unknown. The credit quality of the companies underlying the credit portfolio is a particular focus for the Trustee and its advisors in any circumstances and the Trustee’s appointed investment managers have been monitoring the credit quality of the investee companies. The Fund’s credit and RSA portfolios had broadly recovered by 30 June 2020.

Stewardship and responsible investment

The Trustee has considered how Environmental, Social and Governance (ESG) factors should be integrated into the Fund’s investment management processes and stewardship practices, taking into account the expected time horizon of the Fund. The Trustee’s policy is that the Fund’s investment managers have full discretion in integrating ESG and sustainability factors into their investment processes to assess the potential impact on financial performance in deciding on the selection, retention and realisation of investments.

The Trustee supports the UK Stewardship Code. The Trustee has given the appointed investment managers, both segregated and pooled, full discretion when undertaking engagement activities in accordance with their own corporate governance policies and current best practice.

The Trustee is open to engaging directly through written communication with debt or equity issuers on a range of issues including, but not limited to, performance, strategy, risks, ESG and sustainability factors. This might take place if the manager requests the engagement and if the Trustee believes that this may be more effective than the investment manager’s stewardship engagement activity on its own. Before engaging the Trustee will seek advice from its appointed investment consultant and other appointed advisers.

The Trustee has commissioned its investment consultant to undertake an annual responsible investment monitoring framework exercise covering ESG integration, stewardship activities and carbon footprinting analysis. Stewardship monitoring will expand in the future to include investment managers’ adherence to the 2020 UK Stewardship Code. The Trustee will engage with its investment managers on the key findings as necessary, particularly where a manager is judged to be lagging its peers. The Trustee will use this assessment and the investment

consultant’s ESG ratings in decisions around selection, retention and realisation of manager appointments.

The Trustee supports the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) as a best-practice framework to manage and report on the actions being taken to identify climate change related risks and incorporate climate change risk management into investment processes. Therefore, from 2020, the Trustee will adopt the TCFD framework recommendations and report against them on an annual basis. The Fund’s investment managers are expected to adopt these recommendations. Since 2019 the investment managers have been required to provide portfolio carbon risk metrics consistent with the framework and the Trustee reports these metrics on an annual basis. A copy of the current TCFD report is appended to this annual report and financial statements.

In addition to requiring all managers to adhere to the UK Stewardship Code all managers are expected to be signatories to the UN supported Principles for Responsible Investment (PRI).

The Trustee does not currently have a policy of taking into account “non-financial matters” when considering the selection, retention and realisation of assets. For this purpose “non-financial matters” means the views of the members and beneficiaries, including their ethical views and views in relation to social and environmental impact and their present and future quality of life.

Internal Disputes Procedure

The Trustee operates an Internal Disputes Procedure for resolving complaints by members in accordance with statutory requirements. All complaints should be made in writing to:

*The Trustee Secretary
Pensions Department
Rolls-Royce plc
PO Box 31 (JH-19)
Derby
DE24 8BJ*

The Money and Pensions Service

The Money and Pensions Service (MAPS) is an independent voluntary organisation that provides free, impartial guidance to members and beneficiaries of pension schemes on a range of issues. MAPS can be contacted at:

*120 Holborn
London
EC1N 2TD*

The Pensions Ombudsman

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. The Ombudsman can be contacted at:

*10 South Colonnade
Canary Wharf
London
E14 4PU*

Pension Tracing Service

The Pension Tracing Service has been established to help individuals to keep track of benefits they may have as a result of service with former employers. The Pension Tracing Service can be contacted at:

*The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU*

The registration number of The Rolls-Royce UK Pension Fund is 12001014.

The Pensions Regulator

The Pensions Regulator (TPR) is the regulatory body for occupational pension schemes in the UK. TPR can be contacted at:

*Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW*

Information to Members

Further information about the Fund can be requested by writing to:

*The Trustee Secretary
Pensions Department
Rolls-Royce plc
PO Box 31 (JH-19)
Derby
DE24 8BJ*

Information can also be requested by e-mailing pensions.web@rolls-royce.com.

This report or other information about the Fund can be provided in large print or Braille formats upon request. The Trust Deed and Rules is available for inspection by members by writing to the same address.

Individual benefit statements are available to active members online at www.rolls-roycepensions.com. Further information about all members' benefits and the Fund in general, is also available at www.rolls-roycepensions.com.

Approval of Trustee's Annual Report and Financial Statements

The Trustee's Annual Report and the Financial Statements were approved at a meeting of the Trustee held on 17 September 2020.



Caroline Veitch
Trustee Secretary

17 September 2020

Financial Statements

Fund account

	Note	31st March 2020	31st March 2019
		£'000	£'000
Contributions and benefits	5		
Employer contributions		168,722	141,701
Employee contributions		2,491	2,548
Total contributions		171,213	144,249
Transfers in	6	981	451
Other income	7	500	146
		172,694	144,846
Benefits payable	8	(271,075)	(364,005)
Payments to and on account of leavers (including bulk annuity premium)	9	(5,100,752)	(247,094)
Other payments	10	(680)	(440)
Administrative expenses	11	(5,413)	(4,788)
		(5,377,920)	(616,327)
Net withdrawals from dealings with members		(5,205,226)	(471,481)
Returns on investments			
Investment income	12	307,789	192,945
Change in market value of investments	15	552,215	495,681
Investment management expenses	13	(11,174)	(13,222)
Taxation	14	(57)	7
Net returns on investments		848,773	675,411
Net (decrease)/increase in the Fund during the year		(4,356,453)	203,930
Net assets of the Fund at 1 April		13,692,017	13,488,087
Net assets of the Fund at 31 March		9,335,564	13,692,017

Statement of net assets (available for benefits)

	Note	31 March 2020	31 March 2019
		£'000	£'000
Investment assets			
Bonds	15	9,817,967	9,670,546
Pooled investment vehicles	16	1,096,001	6,195,273
Derivatives	17	325,382	240,509
Cash	15	146,162	30,770
Other investment balances	15	109,836	66,182
		11,495,348	16,203,280
Investment liabilities			
Derivatives	17	(466,764)	(671,067)
Longevity swap	18	-	(204,700)
Other investment balances	15	(1,711,014)	(1,634,627)
		(2,177,778)	(2,510,394)
Total investments		9,317,570	13,692,886
Current assets	25	33,828	34,626
Current liabilities	26	(15,834)	(35,495)
Total net assets of the Fund as 31 March		9,335,564	13,692,017

The notes on pages 19 to 34 form part of these financial statements.

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 6 and these financial statements should be read in conjunction with that report.

Signed for and on behalf of the Trustee of the Rolls-Royce UK Pension Fund


Director

17 September 2020



Director

1. Basis of preparation

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

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Fund has adequate resources to realise its assets and meet accrued benefit payments in the normal course of affairs (continue to operate) for at least the next twelve months.

Whilst the Fund currently has surplus net assets to meet pension payments that have been accrued to date on an ongoing basis, if the Principal Employer, Rolls-Royce plc, became insolvent then the Fund would nevertheless be subject to an assessment by the Pension Protection Fund and the deferred contributions described on page 5 might not be recoverable (the Pension Protection Fund is a statutory fund in the United Kingdom, intended to protect members if their defined benefits pension fund becomes insolvent. It was created under the Pensions Act 2004). This could potentially result in the Fund being wound up and its assets and liabilities transferred to the Pension Protection Fund. In such circumstances members would receive at least the level of benefits provided by the Pension Protection Fund. Alternatively, if the Fund was allowed to continue to provide members' benefits outside the Pension Protection Fund, it is possible that the Trustee would decide to wind-up the Fund and secure members' benefits immediately.

Rolls-Royce plc is a significant part of the Rolls-Royce group of companies which are ultimately owned by Rolls-Royce Holdings plc (the "Group"). The outbreak of the Covid-19 virus has created significant challenges and high levels of uncertainty for the Group given its significant exposure to the civil aerospace industry. The Trustee has been closely monitoring the strength of the Group and the action it is taking to mitigate the impact of Covid-19, with the support of its appointed professional advisers. The Trustee has considered the going concern statement included in the Group's 2020 half-year results published on 27 August 2020. This concluded that the Group is a going concern, albeit that the inherent uncertainty over the severity, extent and duration of the disruption caused by the Covid-19 pandemic and therefore the timing of recovery of commercial aviation to pre-crisis levels and the availability of sufficient funding, represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. The Trustee also considered the assessment that, in the event of a severe but plausible downside involving a "second wave" of COVID-19 infections that results in further stringent lockdown restrictions, the Group would need to refinance £1.9bn of borrowing facilities maturing in October 2021. On this basis, whilst the impact of Covid-19 on the Group cannot be accurately predicted, the Trustee currently considers that the Group will nevertheless continue to operate for the next twelve months, and therefore the Trustee believes that it remains appropriate to prepare the Fund's financial statements on a going concern basis. However, the circumstances of the possible impact on the Group of a possible second wave of COVID 19 and associated government action to limit the spread of the virus constitute a material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern and hence to realise its assets and meet accrued benefit payments in the normal course of affairs. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate. It should also be noted that investments in the financial statements are £9,318m within total net assets of £9,336m. Investments are recognised at fair value, which would not change if the financial statements were not prepared on a going concern basis.

2. Identification of the financial statements

The Fund is established as a trust under English law. The address for enquiries to the Fund is included in the annual report.

3. Transition to FRS 102

Annuity policies were previously included in the statement of net assets at nil value as permitted by the regulations and the previous Statement of Recommended Practice. Under FRS 102 annuity policies are reported at the value of the related obligation to pay future benefits funded by the annuity policy. The Trustee has reviewed the value of any annuity policies held by the Fund and has chosen to exclude them on the basis that they are not material to the financial statements as a whole. See note 12 for a list of annuity providers.

4. Accounting policies

The principal accounting policies of the Fund are as follows:

- a) Investments
 - i. Investments are included at fair value.
 - ii. Listed investments are stated at the bid price at the date of the statement of net assets, except as noted below.
 - iii. Fixed interest securities are stated at their clean prices (i.e. without accrued interest). Accrued interest is accounted for within investment income.
 - iv. Unquoted securities are included at fair value estimated by the Trustee based on advice from the investment managers.
 - v. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads are provided by the investment manager.
 - vi. Annuities purchased in the name of the Trustee which fully provide the pension benefits for certain members are excluded in these financial statements on grounds of materiality.
 - vii. Derivatives are stated at fair value.
 - Exchange traded derivatives are stated at fair value determined using market quoted prices.
 - Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
 - Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the reporting date
 - Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
 - All gains and losses arising on derivative contracts are reported within change in market value in the fund account.
 - Receipts and payments arising from derivatives are reported as sale proceeds or purchases of investments.
 - viii. Repurchase and reverse repurchase agreements:
 - Under repurchase agreements, the Fund continues to recognise and value the securities that are delivered out as collateral and includes them in the financial statements. The cash received is recognised as an asset in the financial statements and the obligation to pay it back is recognised as a liability.
 - Under reverse repurchase agreements, the Fund does not recognise the value of securities received as collateral in its financial statements. The cash delivered to the counterparty is recognised as a receivable in the financial statements.
 - ix. The longevity swap was valued on a fair value basis based on the expected future cash flows arising under the swap discounted using market interest rates and taking into account the risk premium inherent in the contract.
- b) Investment income
 - i. Dividends from quoted securities are accounted for when the security is declared ex-dividend.
 - ii. Interest is accrued on a daily basis.
 - iii. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

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- iv. Investment income arising from the underlying investments of pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within change in market value.
 - v. Receipts from annuity policies held by the Trustee to fund benefits payable to members are included within investment income on an accruals basis.
- c) Foreign currencies
- i. The functional and presentational currency of the Fund is Sterling.
 - ii. Balances denominated in foreign currencies are translated into Sterling at the rate ruling at the reporting date. Asset and liability balances are translated at the bid and offer rates respectively.
 - iii. Transactions denominated in foreign currencies are translated at the rate ruling at the date of a transaction.
 - iv. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.
- d) Contributions
- i. Employee normal contributions are accounted for when deducted from pay. Employer normal contributions are accounted for in the period they are due under the schedule of contributions.
 - ii. Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid.
 - iii. If relevant, employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the schedule of contributions and any recovery plan under which they are being paid.
- e) Payments to members
- i. Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.
 - ii. Opt outs are accounted for when the Trustee is notified of the opt out.
 - iii. Individual transfers in/out are accounted for when paid/received which is normally when member liability is accepted/discharged.

5. Contributions receivable

	2020	2019
	£'000	£'000
Employer:		
Normal	105,591	110,909
PaySave	27,220	29,181
Other	34,500	-
Augmentation	-	127
Sickness, maternity and career break absences, and disability benefits	1,411	1,484
	168,722	141,701
Members:		
Normal	2,491	2,548
	171,213	144,249

Employer normal contributions shown above were payable in accordance with the schedule of contributions certified by the Scheme Actuary on 19 December 2017. Included in the contributions payable under the schedule of contributions above is £32.6 million that was due to be paid by the Company after the end of the Fund year in April 2020 and has been accrued in the Fund's financial statements. As a result of the impact of Covid-19 on the Company, payment of this amount was deferred until July 2020, and subsequently October 2020, by agreement between the Trustee and the Company as described on page 5.

PaySave contributions relate to members participating in an employee salary sacrifice arrangement. Such members accept a reduced salary, do not pay member pension contributions and instead, the Company pays the pension contributions that would otherwise have been due from the members.

The other contribution of £34.5 million shown above was made by the employer in July 2019 to facilitate the agreement with LGAS described on page 4.

If the Fund is less than 107% funded at the 31 March 2020 on the Technical Provisions basis agreed between the Trustee and the Company for the formal actuarial valuation as at 31 March 2020, the employer will make additional contributions (capped at £145m) to the Fund over the period 1 January 2021 to 31 December 2023. The results of the formal actuarial valuation will be confirmed no later than 30 June 2021.

6. Transfers in

	2020	2019
	£'000	£'000
Individual transfers	981	451
	981	451

The individual transfers above relate to certain AVC's in the Rolls-Royce Retirement Savings Trust, which members can transfer back into the Fund to provide additional benefits at retirement.

7. Other income

	2020	2019
	£'000	£'000
Other income	500	146
	500	146

The other income in 2020 relates to a contribution from LGAS towards legal fees incurred as part of the agreement described on page 4. The figure for the prior year was a refund of life assurance premiums in relation to members of the Fund prior to the 2016 merger.

8. Benefits payable

	2020	2019
	£'000	£'000
Pensions	(228,726)	(293,363)
Commutations and lump sum retirement benefits	(39,042)	(39,638)
Lump sum death benefits	(2,540)	(4,871)
Taxation where lifetime or annual allowance exceeded	(767)	(1,133)
Back payments relating to GMP equalisation (see note 29)	-	(25,000)
	(271,075)	(364,005)

9. Payments to and on account of leavers

	2020	2019
	£'000	£'000
Refund of contributions	(1)	(29)
Individual transfers out to other schemes	(326,046)	(247,065)
Bulk annuity premium paid to LGAS	(4,774,705)	-
	(5,100,752)	(247,094)

The bulk annuity premium paid to LGAS relates to the agreement described on page 4.

10. Other payments

	2020	2019
	£'000	£'000
PPF levies	(680)	(440)
	(680)	(440)

11. Administration expenses

	2020	2019
	£'000	£'000
Actuarial fees	(902)	(615)
Audit fee	(84)	(75)
Legal and other professional fees	(1,233)	(719)
Administration and processing	(3,194)	(3,379)
	(5,413)	(4,788)

12. Investment income

	2020	2019
	£'000	£'000
Income from bonds	168,776	177,940
Income from pooled investment vehicles	16,906	14,658
Annuity income	121,826	272
Interest on cash deposits	281	75
	307,789	192,945

Investment income in unit-linked insurance policies and other pooled investment vehicles where income is not distributed, is accumulated, reinvested and included under change in market value in these financial statements. Overseas investment income is stated gross of withholding taxes. Irrecoverable withholding taxes are reported under taxation in the fund account.

Annuity income relates to annuities provided by Clerical Medical, Prudential, Zurich Assurance, Aviva Life and Pensions UK, ReAssure, Rothesay Life and Legal & General Assurance Society.

The increase in annuity income compared to the prior year reflects payments received from LGAS following the purchase of a bulk annuity by the Trustee (a buy-in) described on page 4, but before it was subsequently converted to individual annuity policies for the insured pensioners (a buy-out).

13. Investment management expenses

	2020	2019
	£'000	£'000
Administration, management and custody fees	(9,049)	(10,484)
Performance measurement and advisory fees	(2,107)	(2,656)
Performance related fees	(18)	(82)
	(11,174)	(13,222)

In addition to the investment management expenses charged directly to the Fund and disclosed above, the Fund incurred indirect investment management expenses through pooled investment vehicles as follows:

	2020	2019
	£'000	£'000
Administration, management and custody	(3,478)	(3,322)
Performance related fees	-	(10,288)
	(3,478)	(13,610)

The performance related fees shown above are in respect of fees paid to the Founder Partner in accordance with the Limited Partner Agreement with HG Capital L.P.

14. Taxation

The Fund is a registered pension scheme for tax purposes under the *Finance Act 2004*. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas income. Tax charges are accrued on the same basis as the investment income to which they relate (see note 4 (b) (iii) and note 12 above).

15. Investment reconciliation

	Market value as at 01/04/2019	Purchases and derivative payments	Sales and derivative proceeds	Change in market value	Market value at 31/03/2020
	£'000	£'000	£'000	£'000	£'000
Bonds	9,670,546	4,476,728	(5,188,773)	859,466	9,817,967
Pooled investment vehicles	6,195,273	5,055,396	(9,621,528)	(533,140)	1,096,001
Derivatives	(430,558)	16,755,900	(16,689,890)	223,166	(141,382)
Longevity Swap	(204,700)	3,736	206,967	(6,003)	-
	15,230,561	26,291,760	(31,293,224)	543,489	10,772,586
Bulk annuity with LGAS	-	4,774,705	(4,774,705)	-	-
Cash deposits	30,770			8,726	146,162
Other investment balances	(1,568,445)				(1,601,178)
	13,692,886			552,215	9,317,570

16. Pooled investment vehicles

The Fund's investments in pooled investment vehicles is analysed below:

	2020	2019
	£'000	£'000
Sole investor unit linked insurance policies	-	4,793,434
Unit linked insurance policies	257,334	325,241
Overseas open-ended investment companies	761,294	955,801
Shares in limited partnerships	77,373	120,398
Other pooled investment vehicles	-	399
	1,096,001	6,195,273

The Fund was the sole investor in a number of sole investor unit linked insurance policies. The assets underlying these sole investor pooled investment vehicles were:

	2020	2019
	£'000	£'000
UK Government bonds (fixed interest)	-	1,234,856
UK Government bonds (index-linked)	-	1,568,496
Non-government bonds	-	427,452
Overseas open-ended investment companies	-	30,669
Derivatives	-	1,523,215
Cash	-	80
Other investment balances	-	8,666
	-	4,793,434

The Fund's sole investor unit linked insurance policies were part of the assets transferred to LGAS in June 2019 as part of the agreement described on page 4.

The asset classes for the other pooled investment vehicles are summarised in the following table:

	2020	2019
	£'000	£'000
Credit	620,875	553,934
Equities	257,334	325,241
Private equity	77,373	120,398
Multi-asset	-	399
Cash and liquidity	140,419	401,867
	1,096,001	1,401,839

17. Derivatives

The Trustee has authorised the use of derivatives by its investment managers as part of the investment strategy described in the Trustee's report. Derivatives are primarily used to provide returns in line with changes in the value of the Fund's liabilities as a result of changes in interest rates and inflation – a strategy known as Liability Driven Investment (LDI). These assets include collateralised interest rate and inflation swap contracts.

(i) Total derivatives

The total derivatives in the Fund are summarised below:

	2020			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Swaps	321,092	(396,650)	(75,558)	223,960	(657,056)	(433,096)
Futures	1,805	(31,173)	(29,368)	3,994	(5,929)	(1,935)
Foreign exchange forwards	2,485	(38,941)	(36,456)	12,555	(8,082)	4,473
	325,382	(466,764)	(141,382)	240,509	(671,067)	(430,558)

ii) Swaps

Swaps are used as part of the LDI strategy described in the Trustee's report. The swaps in the Fund are summarised below:

Nature	Latest maturity	Nominal amount	Asset value at year end	Liability value at year end
		£'000	£'000	£'000
Interest rate swap	31/05/2047	2,151,786	59,572	(52,208)
Inflation rate swap	19/01/2034	1,163,000	-	(43,287)
Total return swap	30/09/2020	261,520	261,520	(301,155)
Total 2020		3,576,306	321,092	(396,650)
Total 2019		13,588,495	223,960	(657,056)

(iii) Futures

Futures are used as part of the LDI strategy described in the Trustee's report. The futures in the Fund are summarised below:

Nature	Notional Amount	Term	Asset value at year end	Liability value at year end
	£'000		£'000	£'000
Euro Bund – Euro	(2,400)	3 Months	42	-
Euro Buxl – Euro	(5,500)	3 Months	1,095	-
US 5 year note – USD	(23,600)	3 Months	-	(782)
US 10 year note – USD	(2,000)	3 Months	2	-
US 10 year ultra – USD	(20,800)	3 Months	-	(983)
US Ultra Bond – USD	(106,800)	3 Months	-	(15,402)
US Ultra Bond – USD	1,100	3 Months	2	-
US Long Bond – USD	(92,100)	3 Months	-	(10,330)
Long Gilt – GBP	(236,600)	3 Months	-	(3,676)
Long Gilt – GBP	31,700	3 Months	664	-
Total 2020	(457,000)		1,805	(31,173)
Total 2019	(62,300)		3,994	(5,929)

The futures are structured as exchange traded contracts, are centrally cleared and require margin to be posted by the Fund.

iv) Foreign exchange (FX) forwards

FX forwards are used as part of the investment strategy described in the Trustee's report. The FX forwards in the Fund are summarised below:

Contract	Settlement date within	Currency bought	Currency sold	Asset value at year end	Liability value at year end
		000's	000's	£'000	£'000
FX Forward	1 to 3 months	2,458 GBP	4,768 AUD	106	-
FX Forward	1 to 3 months	3,691 GBP	6,338 CAD	101	-
FX Forward	1 to 3 months	3,609 GBP	4,439 CHF	39	(135)
FX Forward	1 to 3 months	90,709 GBP	103,669 EUR	347	(1,471)
FX Forward	1 to 3 months	4,622 GBP	45,940 HKD	20	(173)
FX Forward	1 to 3 months	9,016 GBP	1,251,110 JPY	80	(422)
FX Forward	1 to 3 months	1,001 GBP	12,348 SEK	5	(10)
FX Forward	1 to 3 months	859,007 GBP	1,101,793 USD	1,296	(30,026)
FX Forward	1 to 3 months	1,622 GBP	Various	31	(31)
FX Forward	1 to 3 months	7,030 EUR	6,436 GBP	-	(210)
FX Forward	1 to 3 months	254,210 JPY	1,957 GBP	3	(59)
FX Forward	1 to 3 months	179,589 USD	150,585 GBP	453	(6,336)
FX Forward	1 to 3 months	Various	3,088 GBP	4	(68)
Total 2020				2,485	(38,941)
Total 2019				12,555	(8,082)

The table above includes separate detail for FX forwards where the amount of GBP bought or sold is £1 million or more. All other FX forwards have been combined into two "various" lines.

v) Collateral and margin

The swaps and FX forwards are structured as "over the counter" contracts. Some of these contracts are "bilateral" agreements that require daily collateral to be posted by one of the counterparties to each swap. In aggregate, £107.3 million of collateral had been posted to counterparties at the end of the year. The Fund retains economic exposure to collateral posted to counterparties.

The remaining contracts and futures are "cleared" agreements that require margin to be paid to a central clearing house to support changes in the valuation of the contracts. Margin is typically paid in cash. The Fund does not retain economic exposure to cash paid to a clearing house.

18. Longevity swap

The value of a longevity swap that was transferred into the Fund from the Rolls-Royce Pension Fund in 2016 was terminated as part of the agreement with LGAS in June 2019 as described on page 4.

19. Transaction costs

Included within purchases and sales are direct transaction costs of £53,414 (2019: £38,367) comprising, commissions and stamp duty. These costs are summarised below and relate to equities.

				2020	2019
	Fees	Commission	Stamp Duty	Total	Total
	£'000	£'000	£'000	£'000	£'000
Equities	-	53	-	53	38
2020	-	53	-	53	-
2019	-	38	-	-	38

Transaction costs are also borne by the Fund in relation to transactions in pooled investment vehicles. These costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

20. Repurchase and reverse repurchase agreements

The value of repurchase and reverse repurchase agreements are reported at the end of the year within other investment assets and liabilities. The amount payable under repurchase agreements as at 31 March 2020 was £1,633.6 million (£1,570.6 million as at 31 March 2019).

Repurchase and reverse repurchase agreements are structured as “over the counter” contracts and require daily collateral to be posted by one of the counterparties. Under these contracts, the counterparties had deposited £377.9 million of collateral at the end of the year. The collateral is not reported within the Fund’s net assets.

21. Concentration of investment

With the exception of UK Government bonds, the Fund did not hold any other investments in securities from a single issuer that represents 5% or more of the Fund’s net assets. As at 31 March 2020, 72% of the Fund’s net investment assets were invested in UK Government bonds (68% as at 31 March 2019).

22. Investment fair value hierarchy

The fair value of the Fund’s investment assets has been determined using the following fair value hierarchy:

- **Level 1** - the quoted price for an identical asset in an active market.
- **Level 2** - when quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary or observable market data.
- **Level 3** - where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined by using a valuation technique which uses non-observable data.

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The Fund's investment assets and liabilities have been allocated to the fair value hierarchy as follows:

2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Bonds	6,669,333	3,148,634	-	9,817,967
Pooled investment vehicles	-	1,018,627	77,374	1,096,001
Derivatives	(29,368)	(112,014)	-	(141,382)
Cash	146,162	-	-	146,162
Other investment balances	(1,601,178)	-	-	(1,601,178)
Total	5,184,949	4,055,247	77,374	9,317,570

2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Bonds	6,442,768	3,227,778	-	9,670,546
Pooled investment vehicles	-	6,074,476	120,797	6,195,273
Derivatives	(1,934)	(428,624)	-	(430,558)
Longevity swap	-	-	(204,700)	(204,700)
Cash	30,770	-	-	30,770
Other investment balances	(1,568,445)	-	-	(1,568,445)
Total	4,903,159	8,873,630	(83,903)	13,692,886

23. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. 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 defaulting on 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 Fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee’s report. The Trustee manages investment risks, including credit risk and other market risks, within agreed risk limits which are set taking into account the Fund’s strategic investment objectives relative to its liabilities. These investment objectives and risk limits are implemented and monitored through the agreements in place with the Trustee’s appointed investment managers, investment consultant and other professional advisors.

Further information about the Trustee’s approach to risk management and the Fund’s exposures to credit and market risks are set out below. This does not include annuity policies because these are not considered significant in relation to the Fund’s overall investments.

(i) Credit risk

The Fund is subject to credit risk as it invests in bonds, “over the counter” derivatives, money market instruments and cash deposits. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the investment in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

A summary of direct credit risk is shown in the following table (investments are categorised as rated or unrated based upon the rating of an issuer rather than a counterparty or deposit institution):

2020	Investment grade	Non-investment grade	Unrated	Total
	£'000	£'000	£'000	£'000
Bonds	9,693,888	20,561	103,518	9,817,967
Over the counter derivatives	-	-	(141,382)	(141,382)
Longevity swap	-	-	-	-
Cash	-	-	146,162	146,162
Other investment balances	-	-	(1,601,178)	(1,601,178)
Pooled investment vehicles	-	-	1,096,001	1,096,001
	9,693,888	20,561	(396,879)	9,317,570

2019	Investment grade	Non-investment grade	Unrated	Total
	£'000	£'000	£'000	£'000
Bonds	9,521,742	32,278	116,526	9,670,546
Over the counter derivatives	-	-	(430,558)	(430,558)
Longevity swap	-	-	(204,700)	(204,700)
Cash	-	-	30,770	30,770
Other investment balances	-	-	(1,568,445)	(1,568,445)
Pooled investment vehicles	-	-	6,195,273	6,195,273
	9,521,742	32,278	4,138,886	13,692,886

Credit risk arising on bonds is mitigated by investing in government bonds of developed countries (mainly the UK) where the risk of default is minimal or in non-government bonds that are mostly rated as “investment grade”.

Credit risk arising on “over the counter” derivatives is mitigated by daily collateralisation (see note 17).

Credit risk arising on repurchase agreements is mitigated by daily collateralisation (see note 20).

Credit risk arising on cash deposits is mitigated by investing surplus cash in liquid and diversified pooled investment vehicles.

Credit risk on repurchase agreements is mitigated through collateral arrangements. Included in Other Investment Balances are amounts of £(1,663.6) million (£(1,570.6) million) as at 31 March 2019) payable under repurchase agreements.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the vehicles being ring-fenced from those of the related investment managers and by the regulatory environments in which the vehicles are operated. Accordingly, the Trustee and its advisors undertake due diligence when investing in new pooled investment vehicles and then continue to monitor the position. Indirect credit risk arises in relation to the underlying assets in the pooled investment vehicles. These risks are mitigated as described above for direct credit risks. The pooled investment vehicles in the Fund are summarised in note 16.

(ii) Currency risk

The Fund is subject to currency risk because some of its assets are denominated in overseas currencies. Foreign exchange forwards are used to hedge currency risk where it is both desirable and practical. The Fund's exposure to currency risk at the year end is shown below:

2020	Gross Exposure	Hedged Exposure	Net Unhedged Exposure
	£'000	£'000	£'000
Bonds	836,585	836,585	-
Derivatives	(104,932)	(104,932)	-
Cash	(12,503)	(12,503)	-
Pooled investment vehicles	108,942	50,179	58,763
	828,092	769,329	58,763

2019	Gross Exposure	Hedged Exposure	Net Unhedged Exposure
	£'000	£'000	£'000
Bonds	813,609	813,609	-
Derivatives	(8,478)	(8,478)	-
Cash	8,762	8,762	-
Pooled investment vehicles	112,502	33,618	78,884
	926,395	847,511	78,884

The net unhedged exposure above is to USD.

In addition, the Fund invested in a unit-linked insurance policy that whilst denominated in Sterling, invested in underlying assets denominated in different currencies. The currency exposure of this investment was hedged within the policy. The value of the policy was £257.3 million as at 31 March 2020 (£325.2 million as at 31 March 2019).

(iii) Interest rate risk

The Fund maintains controlled exposure to interest rate risk through bonds and interest rate swaps as part of its LDI strategy. The assets in the Fund that are subject to interest rate risk as part of the LDI strategy are shown below:

2020	Segregated	Pooled investment vehicles	Total
	£'000	£'000	£'000
Bonds	9,817,967	-	9,817,967
Interest rate derivatives	(104,926)	-	(104,926)
	9,713,041	-	9,713,041

2019	Segregated	Pooled investment vehicles	Total
	£'000	£'000	£'000
Bonds	9,670,546	3,230,803	12,901,349
Interest rate derivatives	(435,031)	1,523,215	1,088,184
	9,235,515	4,754,018	13,989,533

(iv) Other price risk

Other price risk arises principally in relation to the Fund's return seeking assets, which includes publicly listed equity, private equity and a pooled, diversified growth fund. The Fund's exposure to other price risk is mitigated by constructing a diverse portfolio of investments across various markets. The Fund's exposure to other price risk is shown below:

2020	Segregated	Pooled investment vehicles	Total
	£'000	£'000	£'000
Publicly listed equity	-	257,334	257,334
Private equity	-	77,374	77,374
Other pooled funds	-	-	-
	-	334,708	334,708

2019	Segregated	Pooled investment vehicles	Total
	£'000	£'000	£'000
Publicly listed equity	-	325,241	325,241
Private equity	-	120,398	120,398
Other pooled funds	-	399	399
	-	446,038	446,038

24. Self-investment

The Fund's holding in employer-related investments at the end of the year was less than 0.01% of the Fund's net assets (less than 0.01% as at 31 March 2019).

25. Current assets

	2020	2019
	£'000	£'000
Contributions due from Employer	32,839	34,209
Cash held by the Trustees	6	80
Sundry debtors	983	337
	33,828	34,626

Contributions receivable from the employer are disclosed in note 5. The contributions due at the end of the year are shown above. These contributions were to be paid in April 2020 in accordance with the schedule of contributions certified by the Scheme Actuary on 19 December 2017. As a result of the impact of Covid-19 on the Company, £32.6 million of this amount was deferred until July 2020, and subsequently October 2020, by agreement between the Trustee and the Company as described on page 5.

26. Current liabilities

	2020	2019
	£'000	£'000
Amount due to Employer	(337)	(662)
Unpaid benefits	(10,004)	(26,860)
Sundry creditors	(884)	(1,547)
Investment manager expenses payable	(4,609)	(6,426)
	(15,834)	(35,495)

27. Related parties

At 31 March 2020 the companies participating in the Fund were:

- Rolls-Royce plc;
- Rolls-Royce Power Engineering plc;
- Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited);
- Ross Ceramics Limited; and
- Vinters Engineering Limited.

At 31 March 2020 the directors of the Trustee included:

- 1 Trustee director who is a director of a trustee of another pension arrangement related to Rolls-Royce plc;
- 7 Trustee directors who are contributing members of the Fund;
- 1 Trustee director who is in receipt of a pension from the Fund;
- 1 Trustee director who is a deferred member of the Fund; and

Contributions in respect of the Trustee directors are payable in accordance with the schedule of contributions.

In the year ending 31 March 2020 the following Trustee directors were paid fees for their services:

- Liz Airey - £60,000 a year

The Fund is administered by the Pensions Department of Rolls-Royce plc. From 1 January 2018 all costs of managing and administering the Fund have been paid by the Fund.

Amounts due from and payable to the Company are included in notes 25 and 26. As at 31 March 2020 a net amount of £32,502,000 is due from the Company. This amount is currently due to be paid to the Fund in July 2020.

28. Commitments

The Fund has commitments in respect of private equity investments amounting to approximately £18.7m at 31 March 2020 (£19.8 million as at 31 March 2019).

29. Guaranteed Minimum Pensions

As explained on page 4, on 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to Guaranteed Minimum Pension (GMP) benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. Under the judgement schemes are required to backdate benefit adjustments in relation to GMPs accrued between 17 May 1990 and 5 April 1997 and provide interest on the backdated amounts. The Trustee has obtained an estimate of the backdated benefit adjustments and related interest. The amount is £7m. This estimate is based on the Trustee's view of the most likely equalisation methodology to be adopted and a top down assessment of the likely impact on members. This has been recognised as a current liability in note 26 to the Fund's financial statements for the year ended 31 March 2020 (the prior year amount was £25m and has reduced as a result of back payments completed before the end of 2019).

30. Covid-19 impact on valuations

The impact of Covid-19 on the valuation of investments was most significant around the 31 March 2020 reporting date. The impact is likely to have been reflected in the financial statements for most investments given they are traded frequently in liquid markets. The value of the Fund's investments had broadly recovered to pre Covid-19 levels by 30 June 2020.

Independent auditor’s report

Independent auditor’s report to the Trustee, of the Rolls-Royce UK Pension Fund

Opinion

We have audited the financial statements of Rolls-Royce UK Pension Fund (“the Fund”) for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Asset (available for benefits) and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund during the Fund year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Fund in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that the sponsoring employer has disclosed the existence of a material uncertainty related to going concern as a result of a possible second wave of COVID-19 and associated lockdown measures introduced to limit the spread of the virus. The ability of the sponsoring employer to continue as a going concern may have an effect on both the Fund’s funding position and on contributions from the Principal Employer. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Fund’s ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The Trustee is responsible for the other information, which comprises the Trustee’s report (including the Report on Actuarial Liabilities and the Summary of Contributions), and the Actuarial Certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee’s responsibilities

As explained more fully in its statement set out on page 9, the Fund Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Fund, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Fund Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Fund Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund Trustee, for our audit work, for this report, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

September 2020

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Independent Auditor’s Statement about Contributions

Independent Auditor’s Statement about Contributions to the Trustee of Rolls-Royce UK Pension Fund

Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions to the Rolls-Royce UK Pension Fund in respect of the Fund year ended 31 March 2020 which is set out on page 10.

In our opinion contributions for the Fund year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 19 December 2017.

Scope of work on statement about contributions

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

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee’s Responsibilities set out on page 10, the Fund’s Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedule of Contributions.

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

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Fund’s Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Fund Trustee those matters we are required to state to it in an auditor’s statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund’s Trustee, for our work, for this statement, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

September 2020

for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Actuarial certification of the Schedule of Contributions

Name of scheme: Rolls-Royce UK Pension Fund

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 2017 to continue to be met for the period for which the schedule is to be in force.

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

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 19 December 2017.

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 wound up.

Signature:	<i>A G McIntosh</i>	Date:	7 April 2020
Name:	Alastair McIntosh	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	122 Leadenhall Street London EC3V 4AN	Name of Employer:	Aon Hewitt Limited