Registered number: 10098233

AA PENSION SCHEME

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

CONTENTS

TRUSTEE AND ITS ADVISERS
YEAR ENDED 31 MARCH 2021

Trustee	A.A. Pensions Trustees Limited
Company Appointed Directors	Mr T Bonnin-Barkham (resigned 4 September 2020) Mr L Jones Mr J Stewart Mr M Sullivan
Member-Nominated Directors	Mr P Foster (resigned 31 October 2020) Mr D Glover (resigned 3 September 2021) Mr S Millman Mr L Sayers (appointed 1 November 2020)
Independent Director	Mr S Delo representing PAN Trustees UK LLP (Chairman)
Principal Employer	Automobile Association Developments Limited
Secretary to the Trustee	Mrs L Birks
Actuary	Mr D Eteen, FIA Aon Solutions UK Limited
Administrator	Aon Solutions UK Limited
Independent Auditor	Crowe U.K. LLP
Banker	Bank of Scotland plc
Covenant Adviser	RSM Restructuring Advisory LLP ('RSM')
Investment Advisers	Aon Solutions UK Limited Valuation Consulting LLP
Investment Managers	Aon Investments Limited ('AIL') Arcmont Asset Management ('Arcmont') Ares Management LLC ('Ares') BlackRock Investment Management (UK) Limited ('BlackRock') BlackRock Private Equity ('BlackRock Quellos') Blackstone Capital Holdings L.P. ('Blackstone') Bluebay Asset Management ('Bluebay') (removed 3 April 2020) Brockton Capital LLP ('Brockton') BV Partners ('BV') Clearbell Capital LP ('Clearbell') DRC Capital LLP ('DRC') EMK Capital Fund II (appointed 12 June 2020) ('EMK') Invesco Real Estate Finance Fund (GBP), SLP (formerly GAM Fund Management Limited ('Invesco')) Insight Investment Management (Global) Limited ('Insight') Keyhaven Capital Partners Limited ('Keyhaven') Legal & General Investment Management Limited ('LGIM') Mesirow Advanced Strategies Inc. ('Mesirow') Nuveen Real Estate Limited (formerly TH Real Estate) ('Nuveen') Threadneedle Asset Management Limited ('Threadneedle') Warburg Pincus Global Growth-E, L.P. ('Warburg')
Fiduciary Managers	Aon Solutions UK Limited Kempen Capital Management (UK) Limited (appointed 2 October 2021)

TRUSTEE AND ITS ADVISERS
YEAR ENDED 31 MARCH 2021

Fiduciary Overseer	Hymans Robertson LLP
AVC Providers	Utmost Life and Pensions (‘Utmost’) The Prudential Assurance Company Limited (‘Prudential’)
Insurance Providers (annuity)	Canada Life Limited (‘Canada Life’) Just Retirement Limited (‘Just’)
Custodian	Bank of New York Mellon Corporation (‘BNYM’)
Legal Advisers	Burness Paul LLP Hogan Lovells LLP Squire Patton Boggs (UK) LLP
Data Consultant	ITM Limited
Contact Details	Mrs L Birks Trustee Services Manager The AA Fanum House Basing View Basingstoke Hants, RG21 4EA pensions@theaa.com 01256 648806

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Introduction

The Trustee of AA Pension Scheme (the 'Scheme') is pleased to present the annual report together with the audited financial statements for the year ended 31 March 2021.

Constitution and management

The Scheme is a Defined Benefit ('DB') scheme. The Scheme is governed by a Trust Deed as amended from time to time and is administered by Aon Solutions UK Limited in accordance with the establishing document and Rules solely for the benefit of its members and other beneficiaries.

The Scheme has five categories of benefits:

- Staff Section
- Management (Sections 1, 2 and 3)
- Career Average Revalued Earnings Section ('CARE')

The Scheme was closed to future accrual with effect from 1 April 2020.

The Trustee is shown on page 1.

Each Trustee Director is eligible to vote, whether Member-Nominated or Company Appointed and the Memorandum of Association and Scheme Rules set out the basis on which decisions are made.

The Principal Employer may appoint Trustee Directors and may remove any Trustee Director it has appointed at any time. Member-Nominated Trustee Directors ('MNTDs') are appointed for four years but can be re-selected for a further term of office provided they are still eligible. A Trustee Director can resign by giving written notice to the Secretary to the Trustee at any time. The power of removing and/or appointing the Corporate Trustee rests with the Principal Employer.

In accordance with the Pensions Act 2004 at least one third of the total number of Trustee Directors must be nominated by Scheme members. The Member-Nominated Trustee Directors are selected from the membership.

The Trustee has appointed professional advisers and other organisations to support it in delivering the Scheme objectives. These individuals and organisations are listed on pages 1 and 2. The Trustee has written agreements in place with each of them.

In addition to the professional advisers, the Trustee is supported by the AA Pensions Department, from which secretarial services are provided.

Trustee meetings

The Trustee Board met formally four times during the year to consider the business of the Scheme. During the year, the Audit, Risk and Compliance Committee, Administration Committee, Investment Committee and a regulatory involvement committee continued to operate.

Scheme changes

It was agreed by the Principal Employer and the Trustee to close the Scheme for future accrual effective 1 April 2020.

After the Scheme year-end, the Trustee made the decision to appoint Kempen as an additional Fiduciary Manager. During the 2021/22 Scheme year, it is expected that c10% of the assets currently managed by Aon Investments Limited will be transferred to Kempen, to be managed to a comparable mandate.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Financial statements

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

Membership

Details of the membership changes of the Scheme in the year are as follows:

	Actives	Deferreds	Pensioners	Total
Members at the start of the year	2,784	12,971	8,657	24,412
Adjustments to members	(38)	(27)	33	(32)
New spouses and dependants	-	-	109	109
Retirements	(12)	(468)	480	-
Members leaving with preserved benefits	(2,734)	2,734	-	-
Deaths	-	(18)	(296)	(314)
Trivial commutations	-	(2)	(26)	(28)
Cessation of pension	-	-	(21)	(21)
Transfers out	-	(100)	-	(100)
Members at the end of the year	-	15,090	8,936	24,026

	Actives	Deferreds	Pensioners	Total
Staff	-	9,429	8,244	17,673
Management Section 1	-	167	64	231
Management Section 2	-	57	113	170
Management Section 3	-	6	-	6
CARE	-	5,431	515	5,946
Members at the end of the year	-	15,090	8,936	24,026

These membership figures do not include movements notified to the Administrator after the completion of the annual renewal.

The adjustments to members shown above are the result of retrospective updating of member records.

Included in the above are 3,466 (2020: 3,476) pensioners and 650 (2020: 643) beneficiaries whose benefits are financed by insurance (annuity) policies.

Pensioners include 1,340 (2020: 1,305) individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 88 (2020: 95) child dependants in receipt of a pension in respect of the following Sections:

	Widows	Child Dependents	Total
Staff	1,305	67	1,372
Management Section 1	5	-	5
Management Section 2	-	1	1
CARE	30	20	50
Members at the end of the year	1,340	88	1,428

TRUSTEE’S REPORT
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Pension increases

Pensions in payment are increased in April each year in line with the increase in the Consumer Prices Index (‘CPI’) up to a maximum of 5.0% for pre-1 July 2010 service and up to a maximum of 2.5% for post 1 July 2010 service. Proportional increases are applied to new pensioners during the year.

A history of recent non-CARE, Jersey and Guernsey pension increases are summarised below:

April 2015	2.3% on pre-1 July 2010 accrued pension: 2.3% on post 1 July 2010 accrued pension
April 2016	0.8% on pre-1 July 2010 accrued pension: 0.8% on post 1 July 2010 accrued pension
April 2017	2.0% on pre-1 July 2010 accrued pension: 2.0% on post 1 July 2010 accrued pension
April 2018	3.9% on pre-1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension
April 2019	3.3% on pre-1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension
April 2020	2.4% on pre-1 July 2010 accrued pension; 2.4% on post 1 July 2010 accrued pension

As the CPI was less than 5.0% for the purposes of the April 2020 pension increases, increases were not capped in accordance with the Scheme Rules. Certain limited elements of members' pensions are not subject to a cap and received full increases in line with the Retail Prices Index (‘RPI’) or CPI in accordance with the Scheme Rules.

A different level of pension increase, in excess of Guaranteed Minimum Pension (‘GMP’), was awarded to CARE pensioners:

Pre-1 July 2010 accrued pension	1.7% increase on 1 April 2020 (CPI capped at 5.0% and floored at 0.0%)
Post 1 July 2010 accrued pension	1.7% increase on 1 April 2020 (CPI capped at 2.5% and floored at 0.0%)

Different levels of pension increase, in excess of GMP, are awarded to pensioners whose service accrued in Jersey and Guernsey:

Jersey	
Pre-23 September 1999:	2.7% increase on 1 April 2020 (Jersey cost of living index floored at 0.0%)
Post 23 Sept 1999:	2.7% increase on 1 April 2020 (Jersey cost of living index capped at 5.0% and floored at 0.0%)
Guernsey	
Pre-23 September 1999:	2.0% increase on 1 April 2020 (Guernsey retail price index floored at 0.0%)
Post 23 Sept 1999:	2.0% increase on 1 April 2020 (Guernsey retail price index capped at 5.0% and floored at 0.0%)

There were no discretionary pension increases in the year.

Deferred benefits are increased in line with legislation and the Scheme Rules.

Transfers

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary increases.

Transfers into the Scheme are not allowed.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Contributions

Contributions were paid in accordance with the Schedule of Contributions certified by the Scheme Actuary on 24 February 2020.

No normal Employer or Employee contributions were due as the Scheme closed for future accrual effective 1 April 2020.

Deficit contributions are payable as follows:

- Asset Backed Funding ('ABF') contributions are payable monthly by the Employer at a rate of £1,212,863. The Schedule of Contributions specifies that these deficit contributions are increased annually in line with RPI and be offset against monthly payments received by the Scheme from the ABF arrangement.

- Additional cash deficit funding contributions are receivable as follows:

  - from the Employer at an amount of £833,333 per month from April 2020 to March 2021;

  - from the Employer at an amount of £916,667 per month from April 2021 to March 2022; and

  - from the Employer at an amount of £1,000,000 per month from April 2022 to July 2025.

TRUSTEE'S REPORT
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Going concern and COVID-19

On 9 March 2021, the Principal Employer's ultimate and controlling parent undertaking AA Limited (previously AA plc), was acquired by Basing Bidco Limited, a company controlled by two private equity firms – Warburg Pincus International LLC and TowerBrook Capital Partners (U.K.) LLP (the 'Consortium'). AA Limited's ordinary shares were de-listed from the London Stock Exchange on 10 March 2021 and on 17 March 2021 was re-registered as a private limited company. The change in ownership has been seen as beneficial to the AA Limited covenant and has enabled the Principal Employer to continue successfully with its refinancing timetable – no problems or issues were experienced. At the request of the Pensions Regulator, a new information sharing protocol has been put into place to ensure a two-way flow of information continues between the Principal Employer/Consortium and the Trustee. All parties have also met to discuss pension strategy over the longer term.

The Trustee, at the date of signing ,is of the view that while there is no going concern issue at present, there could be challenges in the future if the Consortium planned any significant change to the Scheme benefit.

The Trustee has been considering the impact of COVID-19 on the Scheme and its covenant since early 2020. Operations have proven robust and Aon, as Scheme administrator, has been able to maintain an acceptable level of service and has demonstrated a robust approach to having many staff operating from home. There has been no evidence of significant member issues emerging during this period that would suggest the administration service has been compromised. The Scheme has been employing a well-diversified (sectorally and internationally) investment strategy and has maintained a high level of interest rate and inflation hedging - this strategy has therefore been resilient in the face of market fluctuations and should continue to be robust in the future. The Trustee continues to have ongoing dialogue with the Principal Employer on how the business is faring and continues to be reassured that the business is faring well in the face of COVID adversity. The end of year results reported earlier this year were encouraging. The Trustee has also sought covenant advice from RSM which has provided reassurance regarding the ability of the Company to trade successfully following COVID 19 impacts. The Trustee, including sub-committees, continues to meet virtually on an on-line/videoconference basis and is continues to operate the governance of the Scheme in a rigorous and comprehensive manner.

The Trustee does not believe that COVID-19 and the changes to the Principal Employer's refinancing programme will give rise to a material uncertainty on the Scheme's going concern status for the next 12 months from the date of signing the annual report.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Report on 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, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2019. A further update was carried out as at 31 March 2020 – this update is not as detailed as a triennial valuation but allows monitoring of any changes in funding level. The position as at both dates is set out below. All figures quoted exclude AVC investments from both the assets and liabilities.

	Technical provisions	
	31 March 2019 (triennial valuation date)	**31 March 2020 (update)**
The Scheme's assets	£2,404 million	£2,500 million
The amount needed to provide members' benefits (the 'funding target')	£2,535 million	£2,695 million
The shortfall (or 'deficit')	£131 million	£195 million
The funding level	95%	93%

The Scheme's assets increased in value over the year to 31 March 2020. This was due mainly to the assets that are held to match the Scheme's benefits increasing as a result of falling long term interest rates and the contributions the Principal Employer paid during this period.

However, the amount needed to provide members' benefits rose by a greater amount, mainly because of falling long-term interest rates.

The result is that at 31 March 2020, the Scheme's funding level had gone down to an estimated 93%.

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") at the valuation date, 31 March 2019, as set out below:

Value of solvency liabilities	£3,886 million
Value of assets available to meet solvency liabilities	£2,405 million
As a percentage of solvency liabilities	62.0%

The value of technical provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and price inflation, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Report on Actuarial Liabilities (continued)

Method

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

Significant actuarial assumptions

Pre-retirement discount rate: The term dependent rates on the Aon Solutions UK Limited gilt yield curve based on the Bank of England gilt yield curve at the actuarial valuation date plus 2.75% p.a.

Post-retirement discount rate: The term dependent rates on the Aon Solutions UK Limited gilt yield curve based on the Bank of England gilt yield curve at the actuarial valuation date.

Future Retail Price Inflation ('RPI'): The term dependent rates on the Aon Solutions UK Limited RPI yield curve based on the Bank of England RPI curve. No allowance is made for any inflation risk premium.

Future Consumer Price Inflation ('CPI'): The assumption is derived at the actuarial valuation date by deducting 1.1% p.a. from the RPI inflation assumption.

The difference between the long term assumption for RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.

Pension increases: Inflation-linked pension increase assumptions are derived from the RPI inflation assumption (except in respect of post 5 April 1988 GMP and CARE pension increases which are derived from the CPI inflation assumption) on the advice of the Scheme Actuary, allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year.

Deferred revaluations:

- <u>Final Salary Sections:</u> revaluation of deferred pensions in excess of GMP are in line with the CPI inflation assumption. Where the total inflation over the period from date of leaving to retirement is higher than the cap applied to the increase for a certain tranche of pension benefit (for example, the 2.5% p.a. compound cap for pensions accruing after 5 April 2009), the assumption for revaluations of deferred pensions in excess of GMP will instead revert to the relevant cap.

- <u>CARE Section:</u> Derived from CPI inflation assumption in a similar manner to that used to derive the pension increase assumptions i.e. on the advice of the Scheme Actuary, allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year. The same approach is applied to derive the assumption for in service revaluations for active members of the CARE Section.

Pay increases: Each member's salary is assumed to increase in line with the assumed rate of RPI inflation plus 1.1% p.a. together with an allowance for promotional increases.

Accrual in the Final Salary Sections ceased on 30 June 2017. As a result, benefits accrued up to 30 June 2017 are treated as deferred benefits and assumed to increase in future in line with deferred revaluations rather than salary increases.

All active members have accrued CARE benefits from 1 July 2017 to 31 March 2020. Accrual in the CARE Section ceased on 31 March 2020. All pension benefits accrued from 1 July 2017 to 31 March 2020 are treated as deferred benefits and will increase in future in line with appropriate deferred revaluations.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Report on Actuarial Liabilities (continued)

Mortality: for the period in retirement, standard tables S3PMA for male members and S3PFA for female members, adjusted for year of birth with an allowance for improvements between 2013 and 2018. Applicable average scaling factors for each member category are set out below:

Member category	Males	Females
Active members	116%	116%
Deferred members	113%	111%
Pensioner members	111%	110%

An allowance for future improvements has been made in line with the CMI_2018 with an A parameter of 0.25, a Sk parameter of 7 and a long-term annual rate of improvement in mortality rates of 1.5% for men and women.

These arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 24 February 2020. A copy of this certificate is included on page 49.

Next actuarial valuation

The next actuarial valuation is due as at 31 March 2022.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Investment matters

Management and custody of investments

As required by Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles ('SIP') setting out its policy on investment, which includes the Trustee's policy on Socially Responsible Investment. A copy of the SIP can be found on the Scheme's website at: aapensions.com and is available on request from Mrs L Birks.

The Trustee has delegated management of investments to the investment managers shown on page 1. These managers, who are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments in line with the investment managers' agreements which are designed to ensure that the objectives and policies captured in the SIP are followed.

Some of the Scheme's assets are invested in insurance contracts with Just and Canada Life both of, which are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Trustee has considered environmental, social and governance factors ('ESG') for investments (including but not limited to climate change) and has delegated to the investment managers the responsibility for taking these considerations into account when assessing the financial potential and suitability of an investment and for exercising the rights (including voting rights) relating to the Scheme's investments.

The investment managers are paid fees for their services. The fees are calculated as a percentage of the market value of the part of the Scheme that they manage. Where applicable some managers are paid a performance-based fee in addition.

Where a custodian is required to hold the Scheme assets, the Trustee has appointed BNYM as custodian. Pooled investment vehicles managers make their own arrangements for the custody of underlying investments.

The Custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Investments are held in the name of the Custodian's nominee company, in line with common practice for pension scheme investments.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and believe them to be appropriate relative to the reasons for holding each class of investments.

Statement of Investment Principles

With effect 30 September 2020, the Trustee updated their SIP for their policies in relation to: 'Arrangements with asset managers'; 'Monitoring of Investment Manager Costs'; and 'Evaluation of Investment Manager Performance and Remuneration'. The Trustee policies in these areas are covered in detail in the SIP, dated September 2020, but broadly summarise as:

Arrangements with asset managers: The Trustee, with support from their Investment Advisers, monitor the Scheme investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee policies. This extends to existing investment managers and on the appointment of any new investment manager. The policies are aligned by amending the appropriate governing documentation or where this is not possible, expressing the expectation to the investment managers by other means. There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

Monitoring of Investment Manager Costs: The Trustee will receive annual cost transparency reports from their Investment Adviser which will monitor the total cost and the impact these costs can have on the overall value of the Scheme's assets. The Scheme's investment advisers monitor total investment manager costs on behalf of the Trustee as part of the ongoing manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Statement of Investment Principles (continued)

Evaluation of Investment Manager Performance and Remuneration*:* The Trustee will assess the (net of all costs) performance of their investment managers on a rolling three-year basis against the Scheme's investment objectives as per the investment strategy review following triennial actuarial valuation.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the Trustee's appointed investment managers to make decisions that align with the Trustee's policies, and are based on assessments of medium- and long-term financial performance.

Investment strategy

The Trustee is responsible for determining the Scheme's investment strategy.

The Trustee sets the investment strategy taking into account considerations such as the strength of the Principal Employer covenant, the long term liabilities, the level of overall risk (called value at risk) and the funding agreed with the Principal Employer. The Investment strategy is set out in its SIP.

The investment strategy as at 31 March 2021 is to hold:

- 19.0% in a diversified portfolio (core property and illiquid) of pooled funds which hold return seeking investments comprising UK commercial property, opportunistic property, property debt, direct lending and private equity.
- 30% in leveraged and un-leveraged index linked gilts and fixed interest gilts (cashflow matching), where the market value moves in line with the long term liabilities of the Scheme, the purpose of which is to hedge against the impact of interest rate movement and inflation on long term liabilities, and two bulk annuity policies to match the benefit payments to selected members.
- 50% in a delegated investment portfolio where the investment manager AIL invests in a diversified portfolio of pooled funds which hold return seeking investments comprising UK and overseas equities, investment property, hedge funds, various credit instruments, infrastructure and liability hedging investments. The market value of the liability hedging assets moves in line with the actuarial value of the long term liabilities of the Scheme, as their purpose is to hedge against the impact of adverse movements in interest rates and inflation on the Scheme's funding position.
- 1.0% in cash to meet pension and other payments.

Investment transitions

During the year the following investment transitions took place:

- 100% redemption (c. £37m) from LGIM equities
  This was a strategic overweight allocation and was sold to fund Scheme cashflows including capital commitments within the illiquid portfolio.

- In February 2021, c. £109m switched from non-leveraged LGIM Index-Linked Gilt Funds, into leveraged LGIM Index-Linked and Fixed Interest Gilt Funds. These switches were made to adjust the level of interest and inflation protection of the assets vs the Scheme liabilities.

Employer related investments

The investments of the Scheme are invested in accordance with Section 40 of the Pensions Act 1995. Details of any Employer related investments are disclosed in note 23 to the financial statements.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Investment report

Investment performance

The Trustee assesses the performance of the Scheme's investments by reference to benchmarks and performance targets set and agreed with each manager. The Trustee receives monthly reports from its performance measurer ('BNYM') showing actual performance by investment manager and fund. Investment managers regularly present to the Investment Committee ('IC'), to report on compliance with their agreements and to be questioned by the IC members. Performance of the Scheme's investments (after fees excluding annuities) over short and longer periods to 31 March 2021 is summarised as follows:

Period	Scheme return (% p.a.)	Benchmark return (% p.a.)
1 year	6.4	2.3
3 years	5.0	6.4
5 years	8.6	9.1

Scheme performance

Over the year to 31 March 2021, the Scheme returned 6.4%, outperforming its benchmark return of 2.3%, as reported by BNY Mellon.

After severe disruption in global markets in early 2020 from the Coronavirus pandemic, equity markets rebounded in Q2 and Q3 2020 as a slowdown in new cases and the relaxation of lockdown measures resulted in a sharp economic rebound. A second wave outbreak at the onset of winter, however, dampened economic optimism over Q4 2020. Equity markets continued to rally as huge fiscal and monetary stimulus and optimism over Covid-19 vaccine rollouts led to investor willingness to overlook the sharpest economic recession in generations.

The delegated investment portfolio returned 7.5% over the year, outperforming the investment objective[1] by 9.0%. Quarterly returns contributing to the 7.5% return on the delegated portfolio were as follows; 11.4% in Q2 2020 (rally in markets follow sell off in Q1 2020); -0.2% in Q3 2020 (negative return driven by rising gilt yields reducing the value of assets and liabilities); 3.7% in Q4 2020 (equity market rally boosted by optimism over Covid-19 vaccine roll-outs) and -6.7% in Q1 2021 (negative return driven by rising gilt yields driven by boosted economic outlook and Brexit developments).

The Scheme held a tactical overweight allocation (relative to strategic benchmark) to LGIM passive equities over the year and the funds performed within accepted tolerance levels over the year. In Q1 2021 the residual allocation was redeemed to help meet Scheme benefits as well as capital commitments on the illiquids sub-portfolio.

LGIM passive gilts performed within accepted levels over the year.

Core property returns were mixed over the year, but both funds returning positive returns, with BlackRock returning 4.0% and Threadneedle returning 1.6% against their shared benchmark of 2.5%.

Within the established private equity funds, BlackRock Quellos returned -2.5%, Keyhaven returned -8.8% and Warburg returned -3.4%, as reported by BNY Mellon.

Within the opportunistic property funds Brockton returned 2.1%, Clearbell II and III returned -1.1% and -4.0% respectively, as reported by BNY Mellon.

Within the Property Debt funds, DRC returned 0.9% in absolute terms, and Invesco returned -4.1% in absolute terms, as reported by BNY Mellon.

[1] To outperform the liability benchmark by 3% per annum over rolling three-year periods.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Investment report (continued)

Scheme performance (continued)

Within the Direct Lending funds, Ares returned 6.1% in absolute terms, and Arcmont returned 5.1% in absolute terms, as reported by BNY Mellon.

Hedge fund performance was also weak over the year. For the year ending 31 March 2021, Mesirow returned absolute negative performance of 0.4% with a relative underperformance of 2.8%, as reported by BNY Mellon.

Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual implementation statement which outlines the following:

- Explain how, and the extent to which, it has followed its engagement policy, which is outlined in the Statement of Investment Principles ("SIP").
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast) during the scheme year, and state any use of the services of a proxy voter.

The Engagement Policy Implementation Statement ("EPIS") for the AA Pension Scheme ("the Scheme") has been prepared by the Trustee and covers the Scheme year 1 April 2020 to 31 March 2021.

Scheme Stewardship Policy Summary

This statement has been prepared in line with the Trustee's stewardship policy as set out in the SIP, effective September 2020.

The relevant extracts from the SIP are in relation to 'Stewardship – Voting and Engagement' are 6.2-6.7.
The SIP can be found on the AA website at www.aapensions.com and is included as an Appendix to the accounts.

The below bullet points detail the Scheme's Stewardship Policy in force over the majority of the reporting year to 31 March 2021.

Through this report, the Trustee reviews how the actions of its investment managers (and sub-investment managers within its fiduciary arrangement) have aligned with its expectations and principles set out in the SIP. The Trustee will set out where it expects more information or engagement to be undertaken by its managers.

Scheme Stewardship Activity Over the Year

Training

Over the year, the Trustee had responsible investment training sessions with their investment advisor, which provided updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making. In addition, the Trustee has received training on the Task Force on Climate-related Financial Disclosures (TCFD) requirements which the Scheme will need to comply with by 1 October 2022.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Updating the Stewardship Policy

During the training sessions and throughout the year, the Trustee has been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

This has been made available on the AA website where it can be accessed by the public.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment, and more specifically, ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

TCFD

The Scheme is currently progressing towards meeting the requirements as set out as part of the TCFD. The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. Aligning the Scheme to the TCFD can be a long process and requires careful planning. Aon are currently working with the Trustee to agree an action plan to meet the required deadline, 1 October 2022.

Engagement

The Scheme's fiduciary manager, Aon Investments Limited ("AIL") presented to the Investment Committee of the Trustee (IC) on a quarterly basis engaging on a number of areas including performance, strategy, risk, corporate governance. AIL report their ESG ratings for all rated managers within the fiduciary portfolio on a quarterly basis. These ESG Ratings reflect the extent of ESG integration as well as the features and impact of their respective Stewardship programs.

The Scheme's non-fiduciary managers present to the IC on an annual basis (including at manager days held in April 2020 and October 2020). The IC engaged with the managers on performance, strategy, risk, corporate governance and ESG practice. Reporting on performance and Aon's ESG rating of a manager is provided by the Scheme's investment adviser on a quarterly basis.

In appointing a new manager over the year (Blackstone), the IC considered the ESG policies of the manager before making the appointment and concluded these to be in line with the Trustee's ESG policy.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Engagement – Fiduciary Manager - Aon Investments Limited (AIL)

Under the Trustee's fiduciary mandate managed by AIL, AIL appoint underlying asset managers to achieve an overall target return. The Scheme's assets are invested in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds.

The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that over the relevant period, all equity and fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system. This means that all the appointed investment managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

AIL have undertaken a considerable amount of engagement activity over the period. AIL held around 35 Environmental, Social and Governance ("ESG") specific "deep-dive" meetings in 2020 with most of their equity and fixed income managers across all delegated funds in which AIL's clients invest. At these meetings, AIL discussed the voting and engagement activities undertaken by the investment managers during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of RI moving forward. Similar meetings have been ongoing through the beginning of 2021.

The Trustee received the AIL Annual Stewardship Report and is content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which it invests.

Voting and Engagement Activity – Underlying Managers

Over the period the Scheme was invested in a number of equity, fixed income and alternative funds through their AIL fiduciary investment. In addition, the Scheme held assets outside of the fiduciary arrangement. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material managers over the reporting period, noting where assets were not held within the AIL mandate.

Voting and Engagement activity – Equity

Over the year, the Scheme was invested in the following equity funds, either through the fiduciary arrangement with AIL or with funds managed by Legal and General Investment Management (LGIM).

- AIL Global Active Equity Strategy
- AIL Emerging Markets Wealth Strategy
- AIL Global Impact Strategy
- AIL Global Multi-Factor Equity Strategy (LGIM (Multi Factor Fund))

The Trustee acknowledges that a number of managers were unable to provide data on significant votes and notes that AIL continue to engage these managers to track and provide such information moving forward.

All equity managers in these funds utilise at least one of the Institutional Shareholder Service (ISS), Glass Lewis and/or ProxyEdge for various services that may include research, vote recommendations, vote execution and record keeping.

Voting statistics for the most material sub-investment managers within these strategies over the year are provided in the Appendices.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

AIL Global Active Equity Strategy

Within the Active Global Equity Strategy, all managers voted in over 95% of resolutions over the year to 31 March 2021. No more than 10% of votes were abstained by any manager during the period in question.

The Global Active Equity Strategy invests in a number of sub-investment managers, including Longview. In April 2020, Longview voted against management on a resolution to change shareholders' right to act by written consent, a proposal brought forward by a multinational financial services corporation. Longview's rationale for the voting decision was that written consent enables shareholders (including minority shareholders) to take action on important issues that arise between annual meetings.

AIL continue to engage with two investment managers in particular in this strategy to improve transparency of voting case studies relevant to the fund. They currently lag their peers in this area due to being based in jurisdictions where disclosure requirements are not as advanced or because they use a quantitative investment process.

AIL Emerging Markets Wealth Strategy

Within the Emerging Markets Wealth Strategy, all managers voted in over 95% of resolutions over the year to 31 March 2021. Notably, Neuberger Berman and Coronation had more than 10% of votes each that were votes against company management recommendation.

The most material manager engagement within this fund over the period was by Oaktree. In March 2021, Oaktree voted against management at mining company, Vale, in an amendment to reduce the number of ordinary meetings and amend the minimum number of members required to call a meeting of the board of directors. Oaktree voted against the proposal (which violated the manager's proxy guidelines). Oaktree believed this proposal would not benefit minority shareholders and engaged Vale management to offer suggestions on ways to improve governance practices.

With respect to engagement, Oaktree believe it can play a constructive role in helping companies improve their practices through their strong relationships with company management. The manager added capability to its research database allowing it to note ESG relevant activity and also implemented an ESG "Escalation Committee" to enhance decision-making process when a significant ESG-related event occurs at the company level. In general, AIL was satisfied with voting and engagement policies of managers within this fund.

Overall, AIL found the voting and engagement policies of all managers within this fund to be adequate.

AIL Global Impact Strategy

An allocation to the Global Impact Strategy was implemented in October 2020, The Strategy invests in multiple funds addressing a range of impact themes that contribute to the transition to a more sustainable economy while also delivering competitive financial returns. Within the active global impact strategy, the managers voted in over 95% of eligible resolutions over the year to 31 March 2021, with the exception of Nordea falling below that mark. AIL appreciate the case by case approach Nordea take to making voting decisions, though have raised this concern with Nordea previously and will continue to do so moving forward. The Trustee shares this concern and notes that AIL will provide feedback that a higher level of voting frequency is expected.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

The most material manager engagement within the Strategy as at the end of the period was by Mirova. The manager's voting principles are defined by Mirova's Responsible Investment Research Team. A significant voting example by Mirova is in March 2021 in relation to Novo Nordisk A/S where they abstained from voting (an against vote was not available) from the resolution to re-elect Kasim Kutay as director. The rationale for this vote was that the rate of female directors was below 40%. Mirova is aware that its views on Responsible Corporate Governance are disruptive, specifically in the US/Asia markets where the stakeholder-centred approach and the integration of Corporate Social Responsibility ("CSR") at governance level remain limited. They intend to continue promoting these values leveraging their votes. In addition, their Research Team, engage individually and collaboratively with companies on key sustainability issues. They also intend to be more active on the proxy voting sphere by co-filing and filing shareholder resolutions which would allow them to gain leverage and visibility.

The firm level engagement is conducted by each ESG analyst on their relative coverage. Mirova's ESG analysts engage in dialogue with the companies which represent the majority of Mirova's equity and fixed-income investment portfolios. This type of engagement aims not only at encouraging companies to adopt better ESG practices, but also at promoting the development of solutions to key environmental and social challenges in every sector via dedicated products and services.

AIL Global Multi-Factor Equity Strategy (LGIM Multi Factor Fund)

The Scheme invests in the Global Multi Factor Equity Strategy, which primarily invests in the LGIM Multi Factor Fund. The Scheme also invests in this fund outside of the AIL fiduciary arrangement. Over the year to 31 March 2021, LGIM voted on over 99% of all resolutions in the Multi-Factor Fund and abstained from 0% of resolutions.

LGIM use ISS as a proxy advisor for voting on this fund. LGIM regularly monitor the proxy voting services through quarterly due diligence meetings to ensure execution is in line with their custom voting policy. An example of a significant vote was in September 2020, where LGIM voted against a remuneration policy put forward by an investee company Pearson.

The company put forward a resolution seeking shareholder approval to grant a co-investment share award (an award of the right to purchase shares as part of the remuneration policy), an unusual step for a UK company; if this resolution was not passed the proposed new CEO would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the share award plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept an unattractive remuneration structure in order to secure the new CEO.

LGIM spoke with the chair of the Pearson's board in relation to plans for the change in leadership and discussed the shortcomings of the company's current remuneration policy. LGIM also relayed their concerns prior to the EGM that the performance conditions within the remuneration policy were not appropriate and should be re-evaluated to best align management incentives with those of the shareholders.

In the absence of any changes, LGIM decided to vote against the amendment to the remuneration policy. In all, 33% of shareholders voted against the remuneration policy and by default the appointment of the new CEO. While the proposal received sufficient support to be passed, the engagement highlighted concerns around governance, which LGIM has stated will be challenged through continued engagement going forward. Given the unusual approach taken by the company and LGIM's outstanding concerns, this vote was deemed to be significant.

LGIM make use of proprietary ESG tools to assess risks and opportunities in relation to its holdings. The manager has defined a framework for engagement activities from identifying issues to reporting on outcomes. More information on LGIM's engagement can be found in their annual reports: LGIM Active ownership 2020 2021 .

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Engagement Activity – Fixed Income

Over the period, the Trustee primarily invested in fixed income strategies through the bespoke AIL portfolio. Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and there is therefore a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Additionally, the Trustee considers downside risk mitigation and credit quality to be a critical part of investment decision-making. The Trustee also believes engagements from fixed income managers are key to reducing ESG risks within the Scheme's portfolio, such as the ability to contribute to the transition towards a low carbon economy. As new investment solutions emerge within the industry, AIL introduce fixed income funds with a sustainability focus into portfolios as deemed appropriate.

AIL have confirmed that all applicable appointed managers in this asset class have demonstrated responsible investment policies and practices consistent with the Trustee policy and will promote continued transparency and improvements in transparency over time.

Engagement Activity – Alternatives

The Scheme was invested in a number of alternative strategies (property, infrastructure, private debt, private equity, hedge funds) both within and outside of the AIL fiduciary mandate.

All the private equity managers are either PRI signatories or adopt guidelines from the PRI and the Trustee is comfortable that all managers continue to consider financially material ESG factors in their due diligence processes and make reasonable efforts to encourage their portfolio companies to consider relevant ESG-related principles and to support their implementation.

The Trustee recognises that the investment processes and often illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit than with other asset classes. Nonetheless, the Trustee expects that all their managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that may be financially material. An example over the year was the Blackrock Property Fund which had received a reduction in ESG score, relative to its benchmark. Blackrock are actively engaging with tenants to help and improve the data they provide relating to ESG.

Opportunities for engagement also may be limited in liquid alternative investments given their investment process and the nature of the investments. In particular, the Trustee acknowledges voting activity from the hedge fund managers may be limited due to the potentially short-term/opportunistic nature of the underlying investments. The Trustee notes that AIL will still periodically ask the responsible investment related questions and engage with hedge fund managers where appropriate.

AIL have engaged with some of the appointed hedge funds where voting and stewardship are more applicable. From the information received, AIL see evidence that sub-investment managers acknowledge the importance of climate change and take steps to integrate these issues into investment decisions.

The Trustee is comfortable with ongoing developments and encourage improved reporting.

In Summary

Overall, the Trustee is of the opinion the stewardship carried out on behalf of the Scheme is adequate but with room for continued improvement:

1. The Trustee expects that equity managers vote in more than 95% of eligible resolutions, and

2. The Trustee expects increased levels of detail from equity managers with respect to rationale for significant votes.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

The Trustee delegates responsibility to AIL to encourage and monitor these areas of improvement within the appointed underlying equity managers.

The Trustee acknowledges that stewardship may be less applicable to certain alternative asset classes such as property, but generally would still expect to see policies and processes formalised.

The Trustee uses its influence as a large institutional investor to encourage investment managers to improve disclosures and expects improvements over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes through considered voting and engagement.

This statement has been approved by the Trustee of the AA Pension Scheme, 15 September 2021

Appendix – Voting Statistics for the Scheme year

Below are the standard statistics gathered by managers in relation to their voting behaviour.

AIL Global Active Equity Strategy	% of resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
Sand Global Growth fund	98.1%	4.5%	0.0%
Harris Global Equity fund	100.0%	5.0%	0.0%
GQG Global Equity fund	100.0%	6.7%	0.0%
Longview Global Equity fund	100.0%	5.3%	0.5%
Arrowstreet Global Developed Equity fund	96.5%	9.4%	1.1%

Source: Investment Managers, AIL.

AIL Emerging Markets Wealth Strategy	% of resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
Neuberger Berman	100.0%	10.9%	0.7%
Oaktree	100.0%	9.1%	1.8%
Coronation	100.0%	10.3%	4.2%
TT International	98.2%	9.5%	0.0%
GQG Emerging Markets Fund	97.2%	9.0%	2.4%

Source: Investment Managers, AIL.

AIL Global Impact Strategy	% of resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
Mirova Global Sustainability Equity Fund	100.0%	12.0%	5.0%
Nordea Global Climate and Environment Fund	83.9%	8.8%	0.0%
Baillie Gifford Positive Change	95.2%	2.5%	0.6%

Source: Investment Managers, AIL.

AIL Global Multi-Factor Equity Strategy (LGIM Multi Factor Fund)	% of resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
LGIM Global Developed Four Factor Index Fund	99.9%	18.0%	0.2%

Source: Investment Managers, AIL.

Note: This fund is held both within the AIL mandate and outside the AIL mandate.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Further information

Further information about the Scheme is available, on request, to members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustee's Statement of Investment Principles can be inspected.

Individual benefit statements are provided to deferred members on request. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests are available free of charge once a year.

If members have any queries concerning the Scheme or their own pension position, or wish to obtain further information, they should contact Aon Solutions UK Limited who will also be able to provide them with a further copy of the Scheme's booklet should they require one and answer any queries that they may have about entitlement to benefits.

The Trustee of AA Pension Scheme care of:

AA Pension Scheme
Aon Solutions UK Limited
PO Box 196
Huddersfield
HD8 1EG

aa.pensions@aon.com
0345 850 6406

If you have any complaints in relation to the Scheme you should in the first instance, contact:

Mrs L Birks
Trustee Services Manager
The AA
Fanum House
Basing View
Basingstoke
Hants
RG21 4EA

pensions@theaa.com
01256 648806

The Trustee and Aon Solutions UK Limited take the matter of protecting members personal information seriously. Further details can be found at www.aapensions.com/privacy-policy.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Compliance matters

HM Revenue & Customs Registration

The Scheme is a registered pension scheme in accordance with the Finance Act 2004. This means that the contributions paid by both the Employer and the members qualify for full tax relief, and enables income earned from investments by the Trustee to receive preferential tax treatment.

Pension Tracing

The Scheme is registered with the Pension Tracing Service which maintains a list of up to date addresses of schemes to assist ex-members in tracing their rights if they have lost contact with the previous Employers' scheme.

0800 731 0193
www.gov.uk/find-pension-contact-details

The Pensions Regulator

The Pensions Regulator ('TPR') is the United Kingdom ('UK') regulator of work-based pension schemes.

TPR's role is to act to protect the interest of pension scheme members and to enforce the law as it applies to occupational pension schemes.

The regulations set out clearly the areas that TPR covers and the powers that are vested in it. For example, TPR can prohibit or disqualify Trustee for acting unlawfully, and can impose fines on wrong doers.

TPR can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

0345 600 1011
customersupport@tpr.gov.uk
www.thepensionsregulator.gov.uk

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Compliance matters (continued)

The Pension Protection Fund

The Pension Protection Fund was established to provide compensation to members of eligible pension schemes, when there is a qualifying insolvency event in relation to the Employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

The Pension Protection Fund can be contacted at:

PPF Member Services
Pension Protection Fund
PO Box 254
Wymondham
NR18 8DN

0330 123 2222
ppfmembers@ppf.co.uk
www.ppf.co.uk

Questions about pensions

If you have any questions about your pension, MoneyHelper, which is part of the Money and Pensions Service, provides professional, independent and impartial help with pensions for free. Services include independent information and general guidance on pension matters.

MoneyHelper can be contacted at:

Money and Pensions Service
120 Holborn
London
EC1N 2TD

0800 011 3797
www.moneyhelper.org.uk

Resolving difficulties/Internal Dispute Resolution

It is expected that most queries relating to benefits can be resolved with the Scheme's Administrator. In the event that a complaint cannot be resolved members can make a formal complaint using the Scheme's Internal Dispute Resolution ('IDR') procedure details of which can be obtained from Mrs L Birks or use the Pensions Ombudsman's informal Early Resolution Service.

If the complaint is not resolved satisfactorily, the Government appointed Pensions Ombudsman can investigate complaints of injustice due to bad administration either by the Trustee or the Scheme's Administrator, or disputes of fact of law. The Pensions Ombudsman can be contacted at:

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

0800 917 4487
enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2021

Statement of Trustee's Responsibilities

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

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

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

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

Approval

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

Trustee Director:

Trustee Director:

S.D.

Date: 27.10.2021

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE
AA PENSION SCHEME

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

Opinion

We have audited the financial statements of the AA Pension Scheme ("Scheme") for the year ended 31 March 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

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

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE
AA PENSION SCHEME

Other information (continued)

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 such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 24, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions within an investment transition were agreed to Trustee authorisation.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AA PENSION SCHEME

Auditor's responsibilities for the audit of the financial statements (continued)

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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

Use of our report

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

Crowe U.K. LLP

Crowe U.K. LLP
Statutory Auditor
London

Date: 27 October 2021

FUND ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £000	2020 £000
Employer contributions	4	10,000	27,673
Employee contributions	4	-	991
		10,000	28,664
Other income	5	-	6
		10,000	28,670
Benefits paid or payable	6	(58,642)	(51,494)
Payments to and on account of leavers	7	(24,026)	(21,911)
Administrative expenses	8	(4,144)	(1,365)
		(86,812)	(74,770)
Net withdrawals from dealing with members		(76,812)	(46,100)
Returns on investments			
Investment income	9	33,873	26,242
Change in market value of investments	10	133,334	51,655
Investment management expenses	11	(3,835)	(1,205)
Net returns on investments		163,372	76,692
Net increase in the fund during the year		86,560	30,592
Opening net assets		2,719,190	2,688,598
Closing net assets		2,805,750	2,719,190

The notes on pages 30 to 46 form part of these financial statements.

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2021

	Note	2021 £000	2020 £000
Investment assets			
Pooled investment vehicles	13	1,944,566	1,835,110
Insurance policies	14	589,300	614,200
Asset backed funding	15	244,900	213,600
AVC investments	16	5,100	5,435
Cash	17	8,131	38,539
Other investment balances	17	4,042	1,436
		2,796,039	2,708,320
Total net investments		2,796,039	2,708,320
Current assets	21	12,721	13,522
Current liabilities	22	(3,010)	(2,652)
Net assets available for benefits at 31 March		2,805,750	2,719,190

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included in the Trustee's Report on pages 8 and 9. These financial statements and Actuarial Certificate should be read in conjunction with this report.

The notes on pages 30 to 46 form part of these financial statements.

These financial statements on pages 28 to 46 were approved by the Trustee and were signed on its behalf by:

Trustee Director:

Trustee Director:

Date: 27.10.2021

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

1. Basis of preparation

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

2. Identification of financial statements

AA Pension Scheme is a Defined Benefit occupational pension scheme established under trust under English Law.

The address of the Scheme's office is The AA, Fanum House, Basing View, Basingstoke, Hants, RG21 4EA.

3. Accounting policies

The principal accounting policies applied to the preparation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

Functional and presentational currency

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

Assets in other currencies are converted to Pounds Sterling at the rates of exchange ruling at the year end. Transactions in other currencies are translated into Pounds Sterling at the spot exchange rate at the date of the transaction.

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

Contributions

Normal contributions, both from employees and the Employer, are accounted for on an accruals basis in the period to which they relate.

Employer's augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Employer's deficit funding contributions are accounted for in the year in which it falls due in line with the Schedule of Contributions.

Asset backed funding ('ABF') contributions are accounted for in the year in which it falls due in line with the Schedule of Contributions.

Benefits paid or payable

Pensions in payment, including pensions funded by insurance (annuity) policies, are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type and amount of the benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

3. Accounting policies (continued)

Payments to and on account of leavers

Individual transfers to other schemes are accounted for when member liability is discharged which is normally when the transfer amount is paid.

Administrative expenses

Administrative expenses are accounted for on an accruals basis.

Investment income

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

Income arising from the underlying investments of the pooled investment vehicles, which is reinvested within the pooled investment vehicles, is reflected in the unit price. Such income is reported within the change in market value.

Income from cash and short-term deposits is accounted for in these financial statements on an accruals basis.

All investment income is stated inclusive of any related recoverable taxation but net of any irrecoverable tax, including overseas withholding taxes and the costs of collection.

Income arising from insurance (annuity) policies held by the Trustee to fund benefits payable to Scheme members is included within investment income and is accounted for on an accruals basis.

Change in market value of investments

The change in market value of investments during the year comprise 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, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

Investment management expenses

Investment management fees and rebates are accounted for on an accruals basis.

Management fees for pooled investment vehicles are incorporated in the unit price and reflected in change in the market value of investments in the Fund Account.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

3. Accounting policies (continued)

Valuation of investment assets and liabilities

Investments

Investment assets and liabilities are included in the financial statements at fair value. The methods of determining fair value for the principal classes of investment are:

Pooled investment vehicles which are traded on an active market are included at quoted price, which is usually bid price.

Pooled investment vehicles which are unquoted or not actively traded are stated at bid price or single price where there is no bid/offer spread as provided by the investment managers at the year end.

In the case of property funds included within pooled investment vehicles, these are valued by the investment managers. In the case of property fund of funds, the unit price used by the fund manager is based on the net asset valuations ("NAVs") provided by the underlying fund managers.

In the case of private equity investments, these are valued by the investment managers using the International Private Equity and Venture Capital Guidelines. These are valued at the year end, or if a valuation is not available as at the year end, at the latest valuation available adjusted for known cash movements.

Insurance (annuity) policies are valued by the Actuary at the present value of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date. These policies are to provide pension benefits for all members or define the group covered. Insurance (annuity) policies bought to provide members’ benefits are included in the Statement of Net Assets (Available for Benefits) at their actuarial value as determined by the Actuary as at 31 March 2021.

With profits insurance policies held as AVC investments are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

AVC funds are included within the Statement of Net Assets on the basis of fair values provided by the AVC provider, Utmost, at the year end. AVC funds held with Prudential are included at the value provided as at 31 March 2020 adjusted for any cash movements.

Asset backed funding

The ABF has been stated at an estimated fair value. An independent valuation has been undertaken at the year end date by the Scheme Actuary. The fair value of the arrangement is based on the net present value of the cash flows expected from the arrangement, with due allowance for credit and illiquidity risk and the funding level of the Scheme. If, within the lifetime of the ABF, the Scheme becomes fully funded (excluding the value of the Trustee’s interest) on a technical provisions basis for four consecutive quarter ends during the term of the ABF, then the payments from the ABF to the Scheme will cease. Similarly, if the technical provisions funding position subsequently falls beneath fully funded for two successive quarter ends, the payments from the ABF will resume.

ABF sales are in respect of receipts generated by the underlying asset and are accounted for on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

4. Contributions

	2021 £000	2020 £000
Employer:		
Normal	-	17,673
Deficit funding	10,000	10,000
	10,000	27,673
Employee:		
Normal	-	991

Under the Schedule of Contributions certified by the Scheme Actuary on 24 February 2020, deficit funding contributions are payable monthly by the Principal Employer at a rate of £1,212,863 per month from April 2020 to March 2021. The Schedule of Contributions specifies that these contributions be offset against monthly payments received by the Scheme from the ABF investment (see note 10). These deficit funding contributions are increased by the published increased in Retail Prices Index subject to an overall increase of 5% and a minimum of 0% from 1 April and are payable to July 2025.

In addition, monthly deficit contributions (as detailed below) will be paid by the Principal Employer to the Scheme in accordance with the Recovery Plan dated 24 February 2020 in order to improve the Scheme funding position.

- from April 2020, up to and including March 2021, £833,333.
- from April 2021, up to and including March 2022, £916,667.
- from April 2022, up to and including July 2025, £1,000,000.

5. Other income

	2021 £000	2020 £000
Other income	-	6

6. Benefits paid or payable

	2021 £000	2020 £000
Pensions	44,152	42,394
Commutations of pensions and lump sum retirement benefits	13,954	8,200
Purchase of annuities	-	9
Lump sum death benefits	536	891
	58,642	51,494

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

7. Payments to and on account of leavers

	2021 £000	2020 £000
Individual transfers to other schemes	24,021	21,925
Refund to members leaving service	5	-
Payments to members joining state scheme	-	(14)
	24,026	21,911

Payments to members joining the state scheme for the prior year includes a receipt of £32k in respect of funds received from HMRC due to a financial reconciliation of State Scheme premia.

8. Administrative expenses

	2021 £000	2020 £000
Administration and processing	949	334
Actuarial fees	967	599
Audit fees	49	54
Legal fees	413	191
Other professional fees	474	165
Scheme levies	1,135	-
Trustee fees and expenses	145	18
Sundry expenses	11	4
Bank charges	1	-
	4,144	1,365

From 1 February 2020, under the revised Schedule of Contributions certified by the Scheme Actuary on 24 February 2020, certain administrative expenses are now borne directly by the Scheme.

In the prior year, administrative expenses were incurred relating to project work on the annuity contract buy in and costs relating to the GMP reconciliation, including contingent spouses. These expenses included costs amounting to £753k which where were incurred before 1 February 2020 but were borne by the Scheme following agreement by the Trustee and in accordance with the previous Schedule of Contributions certified on 16 June 2017.

All other administrative expenses of the Scheme for the prior year were paid by the Principal Employer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

9. Investment income

	2021 £000	2020 £000
Income from pooled investment vehicles	7,823	5,993
Interest on cash deposits	5	234
Annuity income	26,045	20,015
	33,873	26,242

In the prior year a pensioner buy-in annuity contract with Just was completed. Income from the Just annuity contract is £10,493k (2020: £5,100k). Income from the Canada Life annuity contract is £15,552k (2020: £14,915k).

10. Investments

	Opening value at 1 Apr 2020 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Closing value at 31 Mar 2021 £000
Pooled investment vehicles	1,835,110	227,191	(230,022)	112,287	1,944,566
Asset backed funding	213,600	-	(14,526)	45,826	244,900
Insurance policies	614,200	-	-	(24,900)	589,300
AVC investments	5,435	-	(456)	121	5,100
	2,668,345	227,191	(245,004)	133,334	2,783,866
Cash	38,539				8,131
Other investment balances	1,436				4,042
Total net investments	2,708,320				2,796,039

Income is received from the ABF amounting to £12,200k each year from 1 November 2013 for 25 years in equal monthly instalments and is shown under ABF sales. This income increases annually by RPI up to a maximum of 5% p.a. Payments totalling of £14,526k have been received in this Scheme year.

During the year the following significant investment transitions took place:

- 100% redemption (c. £37m) from LGIM equities
  This was a strategic overweight allocation and was sold to fund Scheme cashflows including capital commitments within the illiquid portfolio.
- In February 2021, c. £109m switched from non-leveraged LGIM Index-Linked Gilt Funds, in to leveraged LGIM Index-Linked and Fixed Interest Gilt Funds. These switches were made to adjust the level of interest and inflation protection of the assets vs the Scheme liabilities.

Transaction costs

There are no direct transaction costs in the year nor in the previous year. Indirect costs are incurred through the bid-offer spread on pooled investment vehicles. It is not possible for the Trustee to quantify these indirect costs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

11. Investment management expenses

	2021 £000	2020 £000
Administration and management fees	3,859	1,752
Management fee rebates	(258)	(547)
Consultancy fees	234	-
	3,835	1,205

Investment management expenses in the year ended 31 March 2021 include fees paid monthly totalling £2,253k in respect of the non-discretionary portfolio managed by AIL with effect 1 January 2019.

12. Taxation

The Scheme is a registered pension scheme in accordance with the Finance Act 2004. This means that the contributions paid by both the Employer and the members qualify for full tax relief, and is exempt from income tax and capital gains tax except for withholding tax on overseas investment income.

13. Pooled investment vehicles

	2021 £000	2020 £000
Bond funds	81,068	144,523
Cash & liquidity funds	11,900	-
Equity funds	-	36,814
Hedge funds	17,896	25,045
LDI funds	76,303	15,908
AIL delegated investment fund	1,436,678	1,337,053
Private equity funds	165,574	122,218
Property funds	155,147	153,549
	1,944,566	1,835,110

The legal nature of the Scheme's pooled arrangements is:

	2021 £000	2020 £000
Authorised unit trust	1,539,415	1,439,003
Limited partnership	183,471	147,263
Mutual fund	205	202
Open ended investment company	221,475	248,642
	1,944,566	1,835,110

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

13. Pooled investment vehicles (continued)

The Scheme is the sole investor in the AIL delegated investment fund which is managed by Aon Investments Limited. A breakdown of the underlying assets at the year end is set out below:

	2021 £000	2020 £000
Equity funds	261,705	181,852
Bond funds	144,787	137,801
Property funds	152,004	149,374
Hedge funds	335,596	280,931
Opportunities portfolio - multi asset funds	52,746	49,930
Emerging market equity funds	65,037	49,400
Emerging market bond funds	53,116	54,280
Cash and working capital	(39,370)	10,352
LDI investment funds	411,057	423,133
	1,436,678	1,337,053

14. Insurance policies

	2021 £000	2020 £000
Insurance policies	589,300	614,200

The Trustee holds insurance policies with Canada Life and Just which provide annuity income to cover pensions for certain members.

Method and assumptions

The values of the bulk annuity policies as at 31 March 2021 are consistent with the technical provisions calculations for the formal actuarial valuation as at 31 March 2019 using the post retirement discount rate, which is the gilt yield curve without any allowance for outperformance. The assumptions used have been modified only insofar as is necessary to maintain consistency with the Statement of Funding Principles dated 12 February 2020, reflecting the change in the effective date and in relevant market conditions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

15. Asset backed funding

	2021 £000	2020 £000
	244,900	213,600

This facility is provided via an ABF through a Scottish Limited Partnership and secured against the assets of AA Brand Management Limited which is the owner of all of the AA Group's intellectual property.

The valuation of the ABF, undertaken by the Scheme Actuary as at 31 March 2021, was based on the net present value of the cash flows expected from the arrangement, with due allowance for credit and illiquidity risk and the funding level of the Scheme using the following key assumptions:

- A credit rating for the Company of BBB (2020: BBB).
- An illiquidity premium of 1.50% (2020: 3.00%) p.a.
- A recovery rate of 67% (2020: 68%) on the amount payable upon insolvency of the Employer.

16. AVC investments

	2021 £000	2020 £000
Utmost	712	635
Prudential	4,388	4,800
	5,100	5,435

The Trustee holds assets which are separately invested from the main Scheme to secure additional benefits on a money purchase basis for those members who elected to pay additional voluntary contributions (‘AVCs’). Members participating in this arrangement each receive an annual statement made up to 31 March each year confirming the amounts held to their account and movements during the year.

The total amount of AVC investments at the year end is shown above.

A valuation at the year end for Prudential has not been received, as a result the valuation shown above is based on the previous valuation, adjusted for subsequent cash movements.

AVC investments can be further analysed as:

	2021 £000	2020 £000
With profits	1,870	1,870
Unit trusts	712	635
Other*	2,518	2,930
	5,100	5,435

* The amount represents 31 unitised funds held by Prudential in various investment institutions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

17. Cash and other investment balances

	2021 £000	2020 £000
Cash	8,131	38,539
Other investment balances	1,683	1,398
Amounts due from investment manager	2,359	38
	12,173	39,975

18. Fair value hierarchy

FRS102 requires for each class of financial instrument an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Level 1: The unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the assessment dates;

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

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

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

Investment assets	**Level 1** **£000**	**Level 2** **£000**	**Level 3** **£000**	**2021** **Total** **£000**
Pooled investment vehicles	-	169,271	1,775,295	1,944,566
Asset backed funding	-	-	244,900	244,900
Insurance policies	-	-	589,300	589,300
AVC investments	-	3,230	1,870	5,100
Cash	8,131	-	-	8,131
Other investment balances	2,359	-	1,683	4,042
	10,490	172,501	2,613,048	2,796,039

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

18. Fair value hierarchy (continued)

Investment assets	Level 1 £000	Level 2 £000	Level 3 £000	2020 Total £000
Pooled investment vehicles	-	197,245	1,637,865	1,835,110
Asset backed funding	-	-	213,600	213,600
Insurance policies	-	-	614,200	614,200
AVC investments	-	3,565	1,870	5,435
Cash	38,539	-	-	38,539
Other investment balances	38	-	1,398	1,436
	38,577	200,810	2,468,933	2,708,320

Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair values applies, valuation techniques are adopted and the investment assets are included in Level 3.

19. Investment risks

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 instrument 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 instrument 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 instrument 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 its investment strategy after taking advice from a professional investment adviser. The 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 Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

19. Investment risks (continued)

Investment strategy

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

Further details in respect of ‘investment strategy’ can be found on page 12 of the Trustee's Report.

i. Credit risk

Credit risk arising on bonds is mitigated by investing in pooled investment vehicles holding leveraged index linked and fixed interest gilts of £103.7m (2020: £15.9M) and non-leveraged index-linked gilts of £53.7m (2020: £144.5m), where the credit risk is minimal. The Scheme's investments with the delegated investment manager AIL totalling £1,437.2m (2020: £1,337.6m) was also exposed to indirect credit risk of £197.9m (2020: £202.2m) in relation to publicly traded bonds and privately agreed credit arrangements held in pooled investment vehicles. Indirect credit risk also arises via direct investments in property debt funds of £47.8m (2020: £31.0m) and direct lending funds of £37.3m (2020: £28.5m). Of the indirect credit risk to which the Scheme is exposed, £282.1m is unrated.

Direct credit risk arises from the Scheme's investments in pooled investment vehicles, as there is the possibility that the pooled fund managers will fail to discharge their obligations to investors. This risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. 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.

Within the delegated portfolio, AIL 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 a pooled manager. Pooled investment arrangements used by the Scheme primarily comprise mutual funds, authorised unit trusts, open ended investment companies and limited partnerships (see note 13).

Direct credit risk also arises in respect of the bulk annuity policy held with Canada Life £348.3m (2020: £363.0m) and with Just £241.0m (2020: £251.2m), which is secured to pay a proportion of the Scheme’s liabilities. Whilst insurers in the UK are required to meet stringent solvency requirements, there is nevertheless a small risk of the insurer failing. The Financial Services Compensation Scheme (‘FSCS’) may provide compensation in this unlikely scenario.

Indirect credit risk arises in relation to underlying investments held in the credit pooled investment vehicle. This risk is mitigated by investing in funds which are well diversified in terms of credit instrument, region, credit rating and issuer. Indirect credit risk arises in relation to exposure via AIL to underlying bond and liability matching pooled investment vehicles. This risk is mitigated through the underlying exposures on an aggregate basis being predominantly investment grade credit securities; however, they may invest in debt securities which may be unrated by a recognised credit rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated debt securities. The funds may also invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The funds may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Risk is mitigated by holding a diverse portfolio of investments with exposure to a range of issues and issuers.

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

There is also credit risk associated with the ABF not being able to make coupon payments as required by the terms of the ABF. This is mitigated in part by the ABF being backed by the Principal Employer's brand and by the legal structure of the ABF.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

19. Investment risks (continued)

ii. Currency risk

Indirect currency risk arises because some of the Scheme's investments £164.8m (2020: £210.2m) are held in overseas markets via pooled investment vehicles. Of the Scheme's investments with AIL c.£112.9m (2020: £91.9m) are held in pooled investment vehicles denominated in overseas currencies. Some of the underlying assets of AIL may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

iii. Interest rate risk

The Scheme is subject to interest rate and inflation risk because some of the Scheme's investments are held in leveraged and un-leveraged index-linked and fixed interest gilt funds managed by LGIM totalling £157.4m (2020 £160.4m) and in gilts and index linked gilts on leveraged and unleveraged bases, cash and swaps, through pooled vehicles managed by AIL totalling £388.6m (2020: £423.1m). These investments are held in order to mitigate the impact of interest rate and inflation changes on the Scheme’s funding position.

If interest rates fall the value of these funds will rise to help offset some of the increase in actuarial liabilities because of a decrease in the discount rate. Via the delegated manager, the Scheme had pooled bond investment vehicle exposure of £197.9m (2020: £192.1m) where the market values could fluctuate from interest rate changes.

The value of the annuity contracts will be impacted by changes to interest rate expectations, however this acts to hedge similar movements in a section of the Scheme's liabilities and is designed to reduce overall risk.

iv. Other price risk

Other price risk arises principally in relation to the underlying assets in the Scheme's return seeking portfolio which is held in pooled vehicles directly or through AIL as shown below

	2021	2020
	£	£
Global equities	327m	261m
Return seeking bonds and other credit strategies	315m	199m
Hedge funds	305m	268m
Infrastructure	12m	17m
Private equity	43m	27m
Property and property debt	249m	280m

This exposure to overall price movements is managed by constructing a diverse portfolio of investments across various markets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

20. Concentration of investments

The following investments, excluding UK Government securities, account for more than 5% of the net assets of the Scheme.

	2021		2020	
	£000	%	£000	%
Canada Life	348,300	12.4	363,000	13.3
ABF - Scottish Limited Partnership	244,900	8.7	213,600	7.9
Just	241,000	8.6	251,200	9.2
Adept SF27*	182,268	6.5	181,831	6.7
Insight LDI SO 25 GBPNPV*	173,887	6.2	182,991	6.7

* The Scheme is the sole investor in a delegated investment fund – see note 13. The investment in the AIL Main Portfolio AO1 represents 51.2% (2020: 49.2%) of the net assets of the Scheme. The Insight LDI SO 25 GBPNPV and Adept SF27 are funds within the AIL Main Portfolio AO1

21. Current assets

	2021	2020
	£000	£000
Employer contributions due	833	1,417
Employee contributions due	-	85
Cash balances	11,819	11,907
Sundry debtors	69	113
	12,721	13,522

All contributions due to the Scheme were received in accordance with the Schedule of Contributions.

22. Current liabilities

	2021	2020
	£000	£000
Accrued expenses	898	927
Accrued benefits	1,200	718
HM Revenue & Customs	4	2
Sundry creditors	908	1,005
	3,010	2,652

The sundry creditor of £908k (2020: £1,005k) represents annuity income received in advance.

23. Employer related investments

There were no direct Employer related investments during the year or at the year end (2020: nil). The Trustee recognises that indirect investment in the Employer's sponsor group, is possible through holdings in pooled investment vehicles. The Trustee believes that any indirect exposure to shares in the Employer sponsor group were less than 5% at any time during the year and at year end.

The Scheme has taken legal advice to confirm that the ABF is not an Employer related investment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

24. Related party transactions

Related party transactions and balances comprise:

Key management personnel

Contributions received into the Scheme and any benefits paid in respect of Trustee Directors who are members of the Scheme have been made in accordance with the Trust Deed and Rules.

Fees and expenses were paid to Trustee Directors in the amount of £nil (2020: £95k) by the Employer and £40k (2020: £nil) by the Scheme.

Fees and expenses were paid to the Independent Trustee Director in the amount of £105k (2020: £18k) by the Scheme. At the year end a creditor balance of nil (2020: £15k) is due to be paid.

The membership status of the Trustee Directors at the year end is as below:

Company Appointed
Mr T Bonnin-Barkham – resigned 4 September 2020 (2020: Active member)
Mr L Jones – Deferred member (2020: Active member)
Mr J Stewart – Deferred member (2020: Active member)
Mr M Sullivan – Pensioner (2020: Pensioner)
Member-Nominated
Mr P Foster – resigned 31 October 2020 (2020: Pensioner)
Mr D Glover – Deferred member (2020: Active member)
Mr S Millman – Deferred member (2020: Active member)
Mr L Sayers – appointed 1 November 2020 – Deferred member (2020: Active member)
Independent
PAN Trustees UK LLP – non-member (2020: non-member)

Employer and other related parties

The Principal Employer is considered a related party. All transactions involved with these entities relate to remittance of monthly contributions required under the Rules of the Scheme.

The Principal Employer paid £nil (2020: £4,115k) of administrative costs including PPF levy of £nil (2020: £1,312k) related to the operation of the Scheme.

The Trustee is supported by the AA Pensions Department, from which secretarial services are provided.

The Scheme entered into an ABF arrangement during the year ended 2014. An amount of £198m was paid into the ABF which is underpinned by a 25-year loan note backed by royalties payable in respect of the AA's brands. Income is received from the ABF of £12.2m each year for 25 years in equal monthly instalments increasing annually by RPI up to a maximum of 5%. The fair value at the year end is £244.9m (2020: £213.6m).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

25. Contingent assets and liabilities

GMP Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

In addition to the above ruling on 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. Trustees will be expected to pay a top-up to the receiving schemes with interest at Bank base rate +1%. There are no formal deadlines for the Trustee to adhere to however the Trustee will need to proactively address the issue throughout the course of 2021.

Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not deem these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Equalisation of normal retirement ages

Following the Barber judgement in May 1990, the Scheme took steps to equalise Normal Retirement Ages ('NRAs') in April 1992. As a result of preparation for the upcoming GMP equalisation exercise, it was identified that there was some uncertainty surrounding the method of equalising NRAs adopted in 1992. Based on an initial assessment of the likely backdated amounts the Trustee does not deem these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not deem these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Bulk annuity

The Trustee is undergoing a data cleanse project with the liabilities insured with Canada Life and Just. Depending on the outcome of this project, the Scheme may either have to pay an additional premium, or receive a refund from the premium already paid. Given the uncertainty surrounding the results and subsequent financial impact of this project, it is not possible to make a reasonable estimate of any likely cost or refund arising, and therefore no estimate has been included in these financial statements.

Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not deem these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

In the opinion of the Trustee, the Scheme had no other contingent assets and liabilities as at 31 March 2021 (2020: £nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

26. Capital commitments

The Trustee has invested in a number of private equity arrangements where there are capital commitments which have not been fully drawn. Such commitments are detailed below:

Managers	Total Commitment £000	Commitment Paid £000	Remaining Capital Commitment £000
Arcmont	30,000	11,945	18,055
Ares	30,000	24,358	5,642
BlackRock Quellos	35,532	33,104	2,428
Blackstone	42,038	4,710	37,328
Brockton	40,000	21,267	18,733
BV	9,422	26	9,396
Clearbell	80,000	62,268	17,732
DRC	40,000	35,963	4,037
EMK	9,047	-	9,047
Invesco	20,000	12,540	7,460
Keyhaven	31,519	29,411	2,108
Warburg	37,689	18,600	19,089
Total 2021	405,247	254,192	151,055
Total 2020	364,700	209,548	155,152

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2021

Statement about contributions payable under the Schedules of contributions

We have examined the Summary of Contributions payable to the AA Pension Scheme, for the Scheme year ended 31 March 2021 which is set out in the Trustee's report on page 48.

In our opinion contributions for the Scheme year ended 31 March 2021 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme actuary on 24 February 2020.

Basis of opinion

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

Responsibilities of Trustee

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

Auditor's responsibilities for the statement about contributions

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

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement 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 Scheme's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

Crowe U.K. LLP

Crowe U.K. LLP
Statutory Auditor
London

Date: 27 October 2021

SUMMARY OF CONTRIBUTIONS
FOR THE YEAR ENDED 31 MARCH 2021

During the year ended 31 March 2021 the contributions payable to the Scheme were as follows:

	Employer £000	Employees £000	Total £000
Contributions payable under the Schedules of Contributions and as reported by the Scheme auditor			
Deficit funding	10,000	-	10,000
Contributions payable in addition to those payable under the Schedules and total contributions reported in the financial statements			
Deficit contributions from ABF shown under investment sale proceeds	14,526	-	14,526
Total contributions reported in the financial statements	**24,526**	**-**	**24,526**

The Summary of Contributions was approved by the Trustee and signed on its behalf by:

Trustee Director:

Trustee Director:

Date: 27.10.2021

ACTUARIAL CERTIFICATE

Name of scheme: AA Pension 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 2019 to be met by the end of the period specified in the recovery plan dated 12 February 2020.

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 12 February 2020.

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

Signature.. Date 24/2/20

David Eteen
Fellow of the Institute and Faculty of Actuaries

Aon Hewitt Limited
Verulam Point
Station Way
St. Albans
AL1 5HE

APPENDIX – EXTRACTS FROM STATEMENT OF INVESTMENT PRINCIPLES

Extracts from the Statement of Investment Principles - dated September 2020

The Scheme's stewardship policy

The relevant extract of the SIP (as at Scheme year end 31 March 2021), covering the Scheme's voting and engagement policies, is as follows:

6.2 As part of their delegated responsibilities, the Trustee expects the Scheme’s investment managers to where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and exercise the Trustee's voting rights in relation to the Scheme’s assets. The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the scheme and its beneficiaries.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the Investment Consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent investment manager is found to be falling short of the standards the Trustee has set out in their policy, as set out in this document, the Trustee undertakes to engage with the investment manager and seek a more sustainable position but may look to replace the investment manager.

The Trustee will engage with investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned

6.3

The Trustee supports the Codes on the corporate governance of UK companies and accordingly expects its appointed Investment Managers to comply with these Codes. Voting should fully consider the "comply or explain" basis of the Codes, with explanations given by companies for non-compliance. The Trustee would also expect the Investment Managers always to exercise their voting rights in UK companies, including when appropriate by registering "votes withheld". Regarding non-UK companies, the Trustee expects the Investment Managers similarly to vote its shares where it is practicable to do so taking account of recognised best practice in corporate governance in the country or market concerned.

6.4

On issues not covered by the UK Corporate Governance and Stewardship Codes, or similar overseas best practice guidance, the Trustee would expect the Investment Managers to vote actively on contentious issues, with the objective of securing the best outcome for the shareholders generally and, where appropriate, setting an example that is appropriate to other companies.

6.5

The Trustee would expect that the Investment Managers should always vote in the best interests of the investee company and never vote in any way that is influenced by their own interests, e.g. because the investee company concerned has a pension fund where the assets are managed by certain Investment Managers.

APPENDIX – EXTRACTS FROM STATEMENT OF INVESTMENT PRINCIPLES

Extracts from the Statement of Investment Principles - dated September 2020

The Scheme's stewardship policy (continued)

6.6

The Trustee expects Investment Managers to report to it, when voting on contentious issues, particularly on difficult issues of a fundamental or far reaching nature. The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the investment manager.

6.7

The Trustee generally considers that the responsibility of owning shares in companies carries with it the obligation to exercise shareholder rights in a responsible and proactive way, as this is in the general interests of the shareholder community in which the Trustee must participate as a significant investor.