



Report and financial statements

Year ended 31 March 2024

AA PENSION SCHEME

CONTENTS

Trustee and its Advisers	1
Trustee's Report	3
Independent Auditor's Report to the Trustee of AA Pension Scheme	19
Fund Account.....	22
Statement of Net Assets (Available for Benefits).....	23
Notes to the Financial Statements.....	24
Independent Auditor's Statement about Contributions to the Trustee of AA Pension Scheme	47
Summary of Contributions	48
Actuarial Certificate.....	49
Appendix I – Engagement Policy Implementation Statement (forming part of the Trustee's Report).....	50

AA PENSION SCHEME

TRUSTEE AND ITS ADVISERS YEAR ENDED 31 MARCH 2024

Trustee	A.A. Pensions Trustees Limited
Company Appointed Directors	Ms L Atkinson (resigned 10 May 2024) Mr M Baker Ms R Haines (appointed 7 October 2024) Mr L Jones (resigned 19 June 2023) Mr J Stewart Mr M Sullivan
Member-Nominated Directors	Mr L Jones (appointed 19 June 2023) Mr C King Mr S Millman
Independent Director	Mr S Delo representing PAN Trustees UK LLP (Chairman)
Principal Employer	Automobile Association Developments Limited
Secretaries to the Trustee	Mrs J Jankiewicz (resigned 13 April 2023) Mrs T Gordon (appointed 13 April 2023)
Actuaries	Mr D Eteen, FIA, Aon Solutions UK Limited (resigned 30 January 2024) Ms S Hamid, FIA, Aon Solutions UK Limited (appointed 1 February 2024)
Administrator	Aon Solutions UK Limited
Independent Auditor	Crowe U.K. LLP
Bankers	Bank of Scotland plc (closed 8 August 2023) HSBC plc
Covenant Adviser	RSM Restructuring Advisory LLP
Investment Advisers	Aon Investments Limited Barnett Waddingham LLP ('BW') Valuation Consulting LLP
Investment Managers	Alcentra European Direct Lending Fund II ('Alcentra') Aon Investments Limited ('AIL') Antin Infrastructure Partners ('Antin') * ³ Arcmont Asset Management ('Arcmont') Ares Management LLC ('Ares') BlackRock Investment Management (UK) Limited ('BlackRock') BlackRock Private Equity ('BlackRock Quellos') (terminated 23 April 2024) Blackstone Capital Holdings L.P. ('Blackstone') Brockton Capital LLP ('Brockton') Brookfield Infrastructure Partners ('Brookfield') * ³ BV Partners ('BV') Clearbell Capital LP ('Clearbell') Columbia Threadneedle Investments ('Threadneedle') (terminated 20 October 2023) CVC Credit Partners Global Special Situations II S.a r.l. ('CVC') DRC Capital LLP ('DRC') EMK Capital Fund II ('EMK') Fidera Vecta Limited ('Fidera') (formerly York Distressed Asset Fund IV (Cayman) Limited) Global Infrastructure Partners ('Global') * ²

AA PENSION SCHEME

TRUSTEE AND ITS ADVISERS YEAR ENDED 31 MARCH 2024

Investment Managers (continued)

Insight Investment Management (Global) Limited ('Insight') (terminated 21 December 2023)
Invesco Real Estate Finance Fund (GBP), SLP ('Invesco')
Keyhaven Capital Partners Limited ('Keyhaven')
Leadenhall Capital ('Leadenhall') *¹
Legal & General Investment Management Limited ('LGIM') (terminated 3 July 2023)
Lothbury Investment Management Limited ('Lothbury') (terminated 30 June 2023)
M&G Investment Management Limited ('M&G')
Mesirow Advanced Strategies Inc. ('Mesirow')
Nuveen Real Estate Limited ('Nuveen')
Securis Investment Partners ('Securis') *¹
Schroders UK Real Estate Fund ('Schroders') (terminated 8 January 2024)
Taconic European Credit Dislocation Offshore Fund II L.P. ('Taconic')
Van Lanschot Kempen Investment Management NV (formerly Kempen Capital Management N.V.) ('VLK')
Warburg Pincus Global Growth-E, L.P. ('Warburg')

* Re-registered from the AIL Delegate Mandate to the A.A. Pensions Trustees Limited

¹ Appointed 31 December 2023

² Appointed 31 January 2024

³ Appointed 31 March 2024

Fiduciary Managers

Aon Solutions UK Limited
Van Lanschot Kempen Investment Management NV ('VLK') (formerly Kempen Capital Management (UK) Limited)

AVC Providers

The Prudential Assurance Company Limited ('Prudential')
Utmost Life and Pensions ('Utmost')

Insurance Providers (annuity)

Canada Life Limited ('Canada Life')
Just Retirement Limited ('Just')

Custodian

Bank of New York Mellon Corporation ('BNYM') (terminated 3 June 2024)
Northern Trust Corporation ('NT') (appointed 4 June 2024)

Legal Advisers

Burness Paul LLP
Hogan Lovells International LLP
Squire Patton Boggs (UK) LLP

Trustee Secretarial Services

Muse Advisory Limited

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AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

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 2024.

Constitution and management

The Scheme is an occupational Defined Benefit ('DB') pension 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 MNTDs 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. Trustee services are provided by Muse Advisory Limited.

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.

Change of Actuary

On 29 January 2024 Mr D Eteen resigned as the Actuary and was replaced on 30 January 2024 by Ms S Hamid. As required under legislation the outgoing Actuary confirmed that there were no circumstances connected with his resignation which significantly affects the interests of the current or prospective members and beneficiaries of the Scheme.

Scheme changes

There were no changes to the Scheme in the year.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

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:

	Deferreds	Pensioners	Total
Members at the start of the year	14,686	9,465	24,151
Adjustments to members	(48)	54	6
GMP adjustments*	(690)	-	(690)
New spouses and dependants	-	95	95
Retirements	(535)	535	-
Deaths	(23)	(249)	(272)
Leavers	-	(1)	(1)
Trivial commutations	(5)	(19)	(24)
Cessation of pensions	-	(16)	(16)
Transfers out	(17)	-	(17)
Members at the end of the year	13,368	9,864	23,232

	Deferreds	Pensioners	Total
Staff	8,136	8,844	16,980
Management Section 1	155	71	226
Management Section 2	49	119	168
Management Section 3	6	-	6
CARE	5,022	830	5,852
Members at the end of the year	13,368	9,864	23,232

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

Members with multiple periods of service are included more than once in the above table.

*During the year the Scheme carried out a GMP exercise which resulted in identifying a number of 'skeleton' member records which were removed. These are GMP members only.

Included in the above are 3,085 (2023: 3,150) pensioners and 630 (2023: 635) beneficiaries whose benefits are financed by insurance (annuity) policies.

Pensioners include 1,432 (2023: 1,415) individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 85 (2023: 71) child dependants in receipt of a pension in respect of the following Sections:

	Widows	Child Dependants	Total
Staff	1,373	63	1,436
Management Section 1	7	1	8
Management Section 2	5	-	5
CARE	47	21	68
Members at the end of the year	1,432	85	1,517

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

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 2021	1.1% on pre-1 July 2010 accrued pension; 1.1% on post 1 July 2010 accrued pension
April 2022	4.9% on pre-1 July 2010 accrued pension; 4.9% on post 1 July 2010 accrued pension
April 2023	5.0% on pre-1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension

The annual CPI increase at 30 September 2022 was 10.1%.

As the CPI was more than 5.0% for the purposes of the April 2023 pension increases, increases were 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	5.0% increase on 1 April 2023 (CPI capped at 5.0% and floored at 0.0%)
Post 1 July 2010 accrued pension	2.5% increase on 1 April 2023 (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:	10.4% increase on 1 April 2023 (Jersey cost of living index floored at 0.0%)
Post 23 Sept 1999:	5.0% increase on 1 April 2023 (Jersey cost of living index capped at 5.0% and floored at 0.0%)
Guernsey	
Pre-23 September 1999:	7.9% increase on 1 April 2023 (Guernsey retail price index floored at 0.0%)
Post 23 Sept 1999:	5.0% increase on 1 April 2023 (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.

A new CETV basis was implemented from 1 August 2023 as part of the factor review that took place following completion of the 31 March 2022 actuarial valuation.

Transfers into the Scheme are not allowed.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Contributions

Contributions were paid in accordance with the Schedule of Contributions certified by the Scheme Actuary on 16 February 2023.

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

As set out in the Schedule of Contributions deficit contributions are payable as follows:

- Asset Backed Funding ('ABF') contributions are payable monthly by the Employer at a rate of £1,016,667 from November 2013 up to July 2025. 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 due from the Employer at an amount of £1,000,000 per month from April 2022 to July 2025.

Revolving Credit Facility ('RCF')

In order to maintain the Scheme's liquidity requirements, the Scheme put in place a RCF with the Employer of up to £40 million. This was not drawn upon in the Scheme year.

Going concern

The Scheme has been employing a well-diversified (by sector and internationally) investment strategy and has maintained a high level of interest rate and inflation hedging. The Trustee, together with their Covenant Advisor, 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. The Group has refinanced its loan notes which were due to mature in July 2024. The Trustee, including sub-committees, continues to meet physically and virtually on an on-line/videoconference basis and continues to operate the governance of the Scheme in a rigorous and comprehensive manner.

The Trustee has a reasonable expectation that the Scheme will continue to operate successfully and believes that the Scheme remains a going concern for the next 12 months from the date of signing the annual report.

Ongoing legal case regarding section 37

In June 2023, in the Virgin Media Limited v NTL Pensions Trustees II Limited case, the High Court ruled that scheme amendments relating to section 9(2B) rights are void without a confirmation from the Scheme actuary in accordance with section 37 of the Pension Schemes Act 1993. On 25th July 2024, the Court of Appeal upheld the High Court's ruling. The Trustee is consulting its legal advisers as to appropriate action following the Court of Appeal decision.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

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 2022. All figures quoted exclude AVC investments from both the assets and liabilities.

The value of the technical provisions was:	£2,625 million
The value of the assets was:	£2,572 million
As a percentage of technical provisions	98%

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 2022, as set out below:

Value of solvency liabilities	£3,631 million
Value of assets available to meet solvency liabilities	£2,571 million
As a percentage of solvency liabilities	71%

The value of technical provisions is based on benefits calculated 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:

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 Gilt price only yield curve at the actuarial valuation date plus 2.20% p.a.

Post-retirement discount rate: The term dependent rates on the Aon Solutions UK Limited gilt yield curve based on the Gilt price only yield curve at the actuarial valuation date plus 0.25% p.a.

Future RPI: The term dependent rates on the Aon Solutions UK Limited RPI yield curve based on the Gilt price only inflation yield curve. No allowance is made for any inflation risk premium.

Future CPI: The assumption is derived at the actuarial valuation date by deducting the following from the RPI inflation assumption:

- 2.0% from 31 March 2022 to 31 March 2023
- 1.0% from 1 April 2023 to 28 February 2030, and
- 0.1% thereafter.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Report on Actuarial liabilities (continued)

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:

- **Final Salary Sections:** 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.
- **CARE Section:** 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.

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 2021. For the 2022 actuarial valuation an allowance has been made for the expected negative impact in the long-term of COVID-19. Applicable average scaling factors for each member category are set out below:

Member category	Males	Females
Deferred members	117%	117%
Pensioner members	115%	117%

An allowance for future improvements has been made in line with the CMI_2021 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 16 February 2023. A copy of this certificate is included on page 49 of the annual report.

Next actuarial valuation

The next actuarial valuation is due as at 31 March 2025.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

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: <https://aapensions.com/document-library/financial-information> and is available on request via pensions@theaa.com.

The Trustee has delegated management of investments to the investment managers shown on pages 1 and 2. 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.

The Trustee sets the investment strategy for the Scheme after taking advice from the investment adviser.

Custodial arrangements

Where a custodian is required to hold the Scheme's assets, the Trustee has appointed BNYM as custodian. Since the year end, BNYM have resigned and NT has been appointed going forward.

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 holdings. 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.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Statement of Investment Principles

The SIP was last reviewed and updated in March 2022. The Trustee reviews the SIP at least once every three years, and after any significant change in investment strategy. The Employer, the appointed Investment Adviser, and the appointed Scheme Actuary are consulted during any reviews of the SIP.

Post year end, the SIP has been updated to reflect the most recent changes to the Scheme's investment strategy. The SIP was approved on 21 June 2024 and can be found at the following link: <https://aapensions.com/document-library/financial-information>

Detailed information on the Scheme's policies can be found in the SIP, dated 21 June 2024, but broadly can be summarised as:

Choosing investments: The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Principal Employer before amending the investment strategy

Incentivising alignment with the Trustee's investment policies: When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

Stewardship priorities: The Trustee has agreed that the impact of environmental and climate issues may be financially material for the Scheme. The Trustee expects their relevant asset managers to be able to evidence their stewardship activity in this area which the Trustee will monitor annually, for example, by considering the voting and engagement activity of the asset managers. The Trustee recognises that the Scheme has exposure to multiple systemic risks but have chosen environment and climate as the current stewardship priorities. The Trustee will periodically review the stewardship priorities of the Scheme to ensure they remain appropriate.

Method and time horizon for assessing performance: The Trustee will receive annual cost transparency reports from their Investment Adviser, whom the Trustee has engaged with to collect Scheme information on a consistent basis. These reports present information in line with prevailing regulatory requirements for investment managers and allows the Trustee to understand exactly what they are paying to their investment managers.

Departures from SIP

During the year there was a departure from the SIP due to investment strategy changes. The delegated holding with AIL was transferred, partially into the name of the Trustee and partially delegated to VLK, who manage the Liquid Growth portfolio under a new investment strategy. The SIP is in the process of being updated post the Scheme year end to reflect this change. Additionally, to increase liquidity within the Scheme, several property redemptions and secondary market sales were made over the year, details of which can be found in the transitions section of the accounts.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Investment report

Investment strategy

The investment objective of the Scheme 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.

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the Employer covenant, the long-term liabilities of the Scheme and the funding agreed with the Employer. The below investment strategy is set out in the Scheme's updated SIP. This SIP had not yet been finalised at the year end.

The strategy is to hold:

- 40% in investments that move broadly in line with the long-term liabilities of the Scheme. This is referred to as Liability Driven Investment ('LDI') and comprises UK government bonds, interest rate swaps, asset-backed securities and cash. The purpose of these investments is to hedge the impact of interest rate movement on long term liabilities.
- 60% in return-seeking investments comprising UK and overseas equities, investment property, hedge funds, private equity and private debt.

Changes to the Investment objectives and strategy over the year

On 7 March 2023, the Trustee appointed Barnett Waddingham as its investment adviser. Following their appointment, the Scheme's investment strategy was reviewed.

The first stage of the process was to consolidate the LDI portfolio, which had been held in delegated mandates with AIL, VLK and direct holdings with LGIM. The consolidation took place during June and July 2023. The hedging target was updated in the fourth quarter of 2023.

Return-seeking assets were also sold over the year, details of which can be found in the next section. The new growth portfolio is split into two sections: the Liquid Growth portfolio, which is delegated to VLK, and the Illiquid Growth portfolio, which is made up of twenty closed-ended private markets funds. There are also several legacy illiquids funds held by the Scheme at the end of the period, following the transfer out of the AIL delegated mandate. These holdings will be either sold or moved into one of the growth portfolios after the Scheme year end.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Investment report (continued)

Investment transitions over the year

During the year to 31 March 2024, the following investment transitions occurred:

- VLK set up the Liquid Growth portfolio and began administering the Illiquid Growth portfolio in Q2 2023. All liquid growth assets (c. £93m) were disinvested from AIL, with c. £57.9m transferred to VLK, c. £25.1m transferred to Insight and c. £12m held back as cash alongside the c. £12m of remaining illiquid holdings. The VLK Liquid Growth portfolio was invested in July 2023.
- A final redemption payment of c. £3.5m was paid to Lothbury in Q2 2023 and redemption requests for the entire property portfolio were submitted in Q3 2023, with a final cashflow of c. £4.9m received from Threadneedle in Q4 2023. Schroders paid out remaining assets (c. £2.8m) in January 2024. BlackRock paid out c. £9.9m in Q1 2024. As a result of these movements, the Scheme's pooled property exposure was almost entirely the BlackRock UK Property Fund (£82.5m) at the Scheme year end.
- All hedging assets were moved to Insight's bespoke Qualifying Investor Alternative Investment Fund ('QIAIF') in Q3 2023 (including a total of c. £236m from the previous LDI mandates with Schroders, VLK and LGIM), with a transition to a segregated mandate completed in December 2023. In Q4 2023, £58m was invested in two asset backed securities ('ABS') funds, as part of the Scheme's available collateral within the Insight LDI portfolio.
- In Q4 2023, the Securis II Fund was moved from the AIL growth portfolio to a direct relationship with the Trustee.
- In Q1 2024, the Global Infrastructure Partners II Fund was transferred out of the AIL growth portfolio and re-registered in the name of the Trustee.

During the year to 31 March 2024, the following investment managers were fully disinvested:

- Columbia Threadneedle Investments (full disinvestment on 20 October 2023)
- Schroders UK Real Estate Fund (full disinvestment on 8 January 2024)
- Legal & General Investment Management Limited (full disinvestment on 3 July 2023)
- Lothbury Investment Management Limited (full disinvestment on 30 June 2023)

Review of 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 (excluding annuities) over the periods to 31 March 2024 is summarised as follows:

Period	Scheme return (% p.a.)
1-year	-3.3%
3-years	-14.5%
5-years	-6.9%

Performance as reported by BNY Mellon, excluding annuity policies.

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Investment report (continued)

Review of investment performance (continued)

As there were significant changes, across many different dates, to the Scheme's investments over the year to 31 March 2024, the aggregate benchmark for the Scheme is not meaningful and hence not provided here. Instead, the Scheme's individual assets should be compared to their individual benchmarks. The Scheme's strategy has stabilised for the coming Scheme year (31 March 2024-2025), is expected to be able to provide a meaningful benchmark in the next annual report.

Market performance

The 12 months to 31 March 2024 saw positive returns across equities, but negative returns for property. Bonds saw mixed returns as yields rose, but this was more than offset by high income yield and falling spreads.

- **Equities:** Overall, global equities produced a positive return across all major regions. The FTSE All World rose by 25.0% over the year to 31 March 2024. The best performing region, in local currency terms, was Japan (+42.1%), and the worst performing region was UK (+8.4%).

Against this backdrop, the Scheme's Liquid Growth portfolio returned +6.0% over period since inception (31 July 2023). VLK have stated that their approach is not aimed at maximising the potential return – but aiming to generate the target return with the minimum amount of risk necessary to do so, and expect the risk adjusted return to be more favourable than equities over time.

The Illiquid Growth portfolio delivered returns of +1.3% over the period, with private equity assets performing the strongest.

- **Bonds:** Over the year to 31 March 2024, UK gilt yields rose at all maturities. The negative impact of rising yields was offset by the income received from gilts over the year and therefore UK fixed interest gilts (all stocks) produced negligible total returns (0.0%). However, UK index-linked gilts (all stocks) delivered negative returns (-5.0%) as implied inflation fell slightly over the year. UK corporate bond spreads (all stocks) tightened (-0.7%) over the year.

Against this backdrop, over the nine months to 31 March 2024 in which the Insight LDI portfolio has been in place, the portfolio has returned -4.9%.

The Scheme's private credit funds performed strongly over the year, with returns close to 10% in some cases.

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Investment report (continued)

Market performance (continued)

- **Property:** The MSCI UK All Property Index fell by 0.3% over the year to 31 March 2024. The Scheme's property portfolio returned -3.7% over the year. Within property funds, the strongest performance came from Threadneedle Property Unit Trust with an absolute performance of +0.5% over the period invested, as reported by BNYM.

Responsible investing

The Trustee recognises that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio. The Trustee has given their investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The Trustee believes that good active managers have considered how best to account for ESG factors in their investment process. The evaluation of how the Trustee's active managers have identified and managed material ESG risks, forms part of the Trustee's ongoing appraisal of the manager's appointment.

The Trustee has policies with respect to non-financially material considerations, the exercise of voting rights and engagement activities which are set out in the Scheme's Statement of Investment Principles.

Engagement Policy Implementation Statement ('EPIS')

The Trustee has prepared an Engagement Policy Implementation Statement in accordance with legislation. This statement is shown at Appendix I.

Taskforce on Climate-related Financial Disclosures ('TCFD')

The Trustee is required to produce and publish an annual report in line with the recommendations of the TCFD.

The TCFD establishes a set of clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged by the TCFD recommendations is intended to lead to better-informed decision-making on climate-related financial risks.

To view the full TCFD report for the year ending 31 March 2024, details can be found on the website: <https://aapensions.com/document-library/financial-information>

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 24 to the financial statements.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

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.

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:

AA Pensions Department
The AA
Fanum House
Basing View
Basingstoke
Hants
RG21 4EA

pensions@theaa.com
0345 850 6406

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-notice.

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Governing bodies, regulators and sources of reference

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. The Pension Tracing Service can be contacted at:

The Pensions Service
Post Handling Site A
Wolverhampton
WV98 1AF

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 trustees for acting unlawfully, and can impose fines on wrong doers.

TPR can be contacted at:

The Pensions Regulator
Telecom House
125-135 Preston Road
Brighton
BN1 6AF

0345 600 0707
customersupport@tpr.gov.uk
www.thepensionsregulator.gov.uk

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 an 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

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Governing bodies, regulators and sources of reference (continued)

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
Borough Hall
Cauldwell Street
Bedford
MK42 9AP

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 member's complaint cannot be resolved by the Administrator, members may make a formal complaint using the Scheme's Internal Dispute Resolution ('IDR') procedure, details of which can be obtained from the Administrator or use the Pensions Ombudsman's informal Early Resolution Service.

The Government appointed Pensions Ombudsman can investigate complaints brought by members and beneficiaries against the Trustee or the Scheme's Administrator in relation to administration 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

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2024

Statement of Trustee's Responsibilities

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

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

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

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

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

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

Approval

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

Trustee Director:



Trustee Director:



Date: 14 October 2024

AA PENSION SCHEME

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 AA Pension Scheme ("Scheme") for the year ended 31 March 2024 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 2024, 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.

AA PENSION SCHEME

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 Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 18, 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 custodian and investment fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation including the investment transaction reports and the controls over such transactions have been considered in the AAF01/20/ISAE3402 Assurance Report on Internal Controls.
- Diversion of bulk annuity income due to the Scheme from annuity providers. This is addressed by testing that income received from the annuity providers is reconciled by the administrator to pensions paid to pensioner members.
- Diversion of the asset backed funding income due to the Scheme. This is addressed by testing that income received in accordance with the asset backed funding agreement.

AA PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AA PENSION SCHEME

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

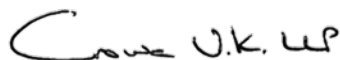
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing 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
Statutory Auditor
London

Date: 15 October 2024

AA PENSION SCHEME

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024 £000	2023 £000
Employer contributions	4	12,152	12,000
Benefits paid or payable	5	(66,903)	(61,815)
Payments to and on account of leavers	6	(1,347)	(6,348)
Administrative expenses	7	(4,159)	(5,425)
		<u>(72,409)</u>	<u>(73,588)</u>
Net withdrawals from dealing with members		<u>(60,257)</u>	<u>(61,588)</u>
Returns on investments			
Investment income	8	47,356	41,992
Change in market value of investments	9	(110,143)	(970,867)
Investment management expenses	10	(3,216)	(3,273)
Net returns on investments		<u>(66,003)</u>	<u>(932,148)</u>
Net decrease in the fund during the year		(126,260)	(993,736)
Opening net assets		1,832,317	2,826,053
Closing net assets		<u>1,706,057</u>	<u>1,832,317</u>

The notes on pages 24 to 46 form part of these financial statements.

AA PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2024

	Note	2024 £000	2023 £000
Investment assets			
Bonds	9	920,330	-
Pooled investment vehicles	12	753,058	1,188,857
Derivatives	13	8,738	187
Reverse repurchase agreements	14	5,394	-
Insurance policies	15	383,400	413,000
Asset backed funding	16	185,000	190,200
AVC investments	17	4,065	4,131
Cash	18	2,202	22,622
Other investment balances	18	7,621	3,072
		<u>2,269,808</u>	<u>1,822,069</u>
Investment liabilities			
Derivatives	13	(1,690)	(114)
Repurchase agreements	14	(559,489)	-
Cash	18	(7,288)	-
Other investment balances	18	(4,771)	-
		<u>(573,238)</u>	<u>(114)</u>
Total net investments		<u>1,696,570</u>	<u>1,821,955</u>
Current assets	22	12,900	13,261
Current liabilities	23	(3,413)	(2,899)
Net assets available for benefits at 31 March		<u>1,706,057</u>	<u>1,832,317</u>

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 7 and 8. These financial statements and Actuarial Certificate should be read in conjunction with this report.

The notes on pages 24 to 46 form part of these financial statements.

These financial statements on pages 22 to 46 were approved by the Trustee and were signed on its behalf by:

Trustee Director: 

Trustee Director: 

Date: 14 October 2024

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

1. Basis of preparation

The individual financial statements have been prepared on a going concern basis 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 registered office is The AA, Fanum House, Basing View, Basingstoke, 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 GBP.

Assets and liabilities in other currencies are converted to GBP at the rates of exchange ruling at the year end. Transactions in other currencies are translated into GBP 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

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

Additional contributions from the Employer, are accounted for on an accruals basis in the period to which they relate.

Asset backed funding ('ABF') contributions are accounted for in the year in which they fall 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.

Where tax liabilities are settled on behalf of members (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits paid or payable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

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, net of recoverable VAT.

Investment income

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.

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

Derivative income is accounted for on an accruals basis and is reflected in the change in market value for the year.

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

The interest receivable or payable on repurchase agreement contracts is accounted for 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.

Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees.

Investment management expenses

Investment management fees, rebates and adviser fees 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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

3. Accounting policies (continued)

Valuation of investment assets and liabilities

Investments (excluding derivatives and repurchase agreements)

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:

Bonds are valued on a basis which excludes the value of interest accruing from the previous interest payment date and the valuation date. Accrued interest is accounted for within investment income and other investment balances.

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 a proportion of the Scheme's pensioner and dependant members. 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 2024.

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 providers, at the year end.

Other investment balances are included in the Statement of Net Assets (Available for Benefits) on the basis of fair values provided by the Investment Managers at the year end.

Asset backed funding ('ABF')

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.

Receipts generated by the ABF are accounted for on an accruals basis.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

3. Accounting policies (continued)

Valuation of investment assets and liabilities (continued)

Derivatives

Derivative contracts are valued at fair value. The fair value, being the unrealised profit or loss on the contracts, is shown as a separate line within investments. Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit such as an initial margin to be placed with the broker, are recorded at nil cost on purchase.

Forward foreign exchange contracts outstanding at the year end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year end with an equal and opposite contract at that date. Changes in the fair value of the forward contracts are reported within change in market value in the Fund Account.

Traded swaptions are valued at their fair value as determined by the exchange price for closing out the option as at the year end. Fair value for options that are over the counter contracts are calculated using pricing models, where inputs are based on market data at the year end. Changes in the fair value of the option are reported within change in market value.

Repurchase agreements

Under repurchase (repo) arrangements, the Scheme continues to recognise and revalue the securities that are delivered out as collateral and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability.

Under reverse repurchase (reverse repo) arrangements the Scheme does not recognise the collateral securities received as an asset in the financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements.

4. Contributions

	2024 £000	2023 £000
Employer:		
Deficit funding	12,000	12,000
Additional	152	-
	<u>12,152</u>	<u>12,000</u>

Under the Schedule of Contributions certified by the Scheme Actuary on 16 February 2023, deficit funding contributions are payable monthly by the Principal Employer at a rate of £1,016,667 per month from November 2013 to July 2025. The Schedule of Contributions specifies that these contributions be offset against monthly payments received by the Scheme from the ABF investment (see note 9). These deficit funding contributions are increased by the published increase in RPI over the year up to the previous 30 September, 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 funding contributions from April 2022, up to and including July 2025 of £1,000,000, will be paid by the Principal Employer to the Scheme in accordance with the Recovery Plan dated 16 February 2023 in order to improve the Scheme funding position.

Following a review by the Employer, the Additional Employer contribution relates to a correction to historic 'Family Leave' contributions paid to the Scheme.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

5. Benefits paid or payable

	2024 £000	2023 £000
Pensions	52,953	50,852
Commutations of pensions and lump sum retirement benefits	13,657	10,466
Lump sum death benefits	293	490
Taxation where lifetime or annual allowance exceeded	-	7
	<u>66,903</u>	<u>61,815</u>

6. Payments to and on account of leavers

	2024 £000	2023 £000
Individual transfers to other schemes	<u>1,347</u>	<u>6,348</u>

7. Administrative expenses

	2024 £000	2023 £000
Administration and processing	1,212	1,430
Actuarial fees	1,127	1,661
Audit fees	70	92
Legal fees	596	395
Other professional fees	710	672
Scheme levies	192	818
Trustee fees and expenses	243	348
Sundry expenses	6	7
Bank charges	3	2
	<u>4,159</u>	<u>5,425</u>

Legal fees includes additional work reviewing Scheme Deeds, governance policies and GMP equalisation work. Scheme levies have fallen due to a reduction in the PPF levy charged this year.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

8. Investment income

	2024 £000	2023 £000
Income from bonds	5,621	-
Income from pooled investment vehicles	20,543	15,587
Payable on repos	(6,388)	-
Interest on cash deposits	722	244
Annuity income	26,858	26,161
	<u>47,356</u>	<u>41,992</u>

Following the change in investment strategy this year, bond and pooled investment vehicle income was received from Insight. Pooled investment vehicle income has also increased from Arcmont, Ares, DRC and VLK due to the maturity of funds, distributing greater amounts of capital.

In Q1 2024, a true up payment of £388k was paid to Just, which was made up of a £144k balancing refund from Just offset against the purchases cost, and £532k of overpaid benefits offset against annuity income.

9. Investments

	Opening value at 1 Apr 2023 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Closing value at 31 Mar 2024 £000
Bonds	-	950,586	(40,541)	10,285	920,330
Pooled investment vehicles	1,188,857	974,412	(1,300,770)	(109,441)	753,058
Derivatives	73	269	(583)	7,289	7,048
Asset backed funding	190,200	-	(16,143)	10,943	185,000
Insurance policies	413,000	(144)	-	(29,456)	383,400
AVC investments	4,131	-	(303)	237	4,065
	<u>1,796,261</u>	<u>1,925,123</u>	<u>(1,358,340)</u>	<u>(110,143)</u>	2,252,901
Repurchase agreements	-				(554,095)
Cash	22,622				(5,086)
Other investment balances	3,072				2,850
Total net investments	<u>1,821,955</u>				<u>1,696,570</u>

Derivatives, repurchase agreements, cash and other investment balances include assets and liabilities which are presented separately in the Statement of Net Assets (Available for Benefits).

Following the new appointment of BW as the investment adviser, the Scheme implemented a change of investment strategy. The first stage of the process was to consolidate the LDI portfolio, which had been held in delegated mandates with AIL, VLK and direct holdings with LGIM. The consolidation took place during June and July 2023. The hedging target was updated in the fourth quarter of 2023.

The Scheme made a £56m and £170m investment into the Insight LDI Active 25 Fund on 3 July 2024 and 14 July 2023 respectively. On 31 July 2023, £18m was disinvested from the Insight portfolio and the proceeds were transferred to VLK Liquid Growth portfolio. On 17 November 2023, £58m was disinvested from the Fund, with the proceeds used to invest £29m in both the Insight Global ABS Funds and the Insight Liquid ABS Fund.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

9. Investments (continued)

Towards the end of the reporting period, a standing order was set up to transfer £2.9m a month out of the Insight Fund. The first payment was made on 4 March 2024.

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 (see note 4). This income increases annually by RPI up to a maximum of 5% p.a. Payments totalling of £16,143k have been received in this Scheme year.

During the year the following significant investment transitions took place:

- VLK set up the Liquid Growth portfolio and began administering the Illiquid Growth portfolio in Q2 2023. All liquid growth assets in the AIL portfolio (c.133m) were disinvested from AIL in Q2 and Q3 of 2023, with c. £57.9m transferred to VLK, c. £65.1m invested with Insight and c. £12m held back as cash alongside the c. £12m of remaining illiquid holdings. The VLK Liquid Growth portfolio was first invested in July 2023.
- A final redemption payment of c. £3.5m was paid by Lothbury in Q2 2023 and redemption requests for the entire property portfolio were submitted in Q3 2023, with a final cashflow of c. £4.9m received from Threadneedle in Q4 2023. Schroders paid out remaining assets (c. £2.8m) in January 2024. BlackRock paid out c. £9.9m in Q1 2024. As a result of these movements, the Scheme's pooled property exposure was almost entirely the BlackRock UK Property Fund (£82.5m) at the Scheme year end.
- All hedging assets were moved to Insight's bespoke Qualifying Investor Alternative Investment Fund ('QIAIF') in Q3 2023 (including a total of c. £222m from the previous LDI mandates with Schroders, VLK and LGIM), with a transition to a segregated mandate completed in December 2023. In the Q4 2023, £58m was invested in two asset backed securities ('ABS') funds, as part of the Scheme's available collateral within the Insight LDI portfolio.
- In the Q4 2023, the Securis II Fund was moved from the AIL growth portfolio to a direct relationship with the Trustee.
- In Q1 2024, the Global Infrastructure Partners II Fund was transferred out of the AIL growth portfolio and re-registered in the name of the Trustee.
- In Q1 2024, a true up payment of £388k was paid to Just, which was made up of a £144k balancing refund from Just offset against the purchases cost, and £532k of overpaid benefits offset against annuity income.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

9. Investments (continued)

Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds in the reconciliation above. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

	Pooled investment vehicles £000	2024 Total £000
Fees	285	285
Commissions	(4)	(4)
Total	281	281

	Pooled investment vehicles £000	2023 Total £000
Fees	285	285
Commissions	4	4
Total	289	289

In addition to the direct transaction costs above, 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.

10. Investment management expenses

	2024 £000	2023 £000
Administration and management fees	2,261	3,048
Management fee rebates	(860)	(449)
Adviser fees	1,815	674
	3,216	3,273

Newly appointed investment advisers BW have attributed to the increase in adviser fees.

11. Taxation

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

12. Pooled investment vehicles

	2024	2023
	£000	£000
Bond funds	106,758	71,331
Cash and liquidity funds	19,238	24,023
Equity funds	83,464	-
Hedge funds	25,875	30,711
LDI funds	-	42,132
Limited liability partnerships	1,241	-
Other pooled	8,214	10,960
AIL delegated investment fund	18,228	509,511
Private equity funds	251,841	244,738
Property funds	82,511	125,815
Insurance linked securites fund	713	-
Venture capital funds	121,420	129,635
Investment trust	33,555	1
	753,058	1,188,857

Other pooled funds consist of VLK Non-US Listed Alternative Funds.

Venture capital funds consist of Ares, Taconic, M&G, Fidera, CVC, Alcentra, EMK and Clearbell.

Investment trust consists of VLK Other Investment Trusts – UK, a passive equity index fund that aims to track a FTSE equity index.

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

	2024	2023
	£000	£000
Authorised unit trust	218,462	743,475
European registered funds	106,758	-
Irish collective asset-management vehicle	-	42,132
Limited partnership	323,136	300,172
Limited liability partnership	1,241	-
Listed short term funds	19,238	-
Mutual fund	759	48
Non-US listed equity	83,464	-
Open ended investment company	-	99,552
Société d'Investissement à Capital Variable	-	3,478
	753,058	1,188,857

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

12. 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:

	2024 £000	2023 £000
Equity funds	-	79,476
Bond funds	-	16,161
Diversified growth	-	38,900
Property funds	7,229	9,121
Hedge funds	10,000	2,495
Emerging market bond funds	-	6,998
Cash and working capital	(262)	45,434
LDI investment funds	490	299,390
Other/bespoke	771	11,536
	18,228	509,511

13. Derivatives

	2024 £000	2023 £000
Assets		
Forward foreign exchange	348	187
Swaptions	8,390	-
	8,738	187
Liabilities		
Forward foreign exchange	(136)	(114)
Swaptions	(1,554)	-
	(1,690)	(114)

Objectives and policies for holding derivatives

The Trustee has authorised the use of derivative financial instruments by its investment managers as part of its investment strategy as follows:

- **Forward foreign exchange:** In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing foreign currencies a currency hedging program, using over the counter forward foreign exchange contracts, has been in place to reduce the overseas currency exposure.
- **Swaptions:** Swaption contracts have been entered into in order to allow the Scheme to hedge against movement in underlying interest rates due to the Scheme's sensitivity of changes in interest rates on long-term liabilities.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

13. Derivatives (continued)

Forward foreign exchange - OTC

Contract	Expires within	Currency bought 000	Currency sold 000	Fair value Asset £000	Liability £000
Forward FX	0-3 months	€3,929	£3,396	37	-
Forward FX	0-3 months	€1,760	£1,517	12	-
Forward FX	0-3 months	¥115,771	£645	39	-
Forward FX	0-3 months	¥43,000	£237	13	-
Forward FX	0-3 months	£4,881	€5,689	-	(17)
Forward FX	0-3 months	£832	¥158,771	-	(2)
Forward FX	0-3 months	£35,836	\$45,213	-	(45)
Forward FX	0-3 months	\$30,539	£24,357	183	-
Forward FX	0-3 months	\$14,025	£11,035	-	(68)
Forward FX	0-3 months	\$650	£510	-	(4)
Forward FX	0-3 months	€5,689	£4,896	17	-
Forward FX	0-3 months	¥158,771	£843	2	-
Forward FX	0-3 months	\$45,213	£35,818	44	-
Forward FX	0-3 months	\$673	£534	1	-
Total 2024				348	(136)
Total 2023				187	(114)

Swaptions – OTC

Nature	Expires within	Notional amounts £000	Fair value Asset £000	Liability £000
IRS R 2.74000% P GBP-SONIA-COM CALL NOV 25 2.74 ED 111725	1 – 2 years	134,000	4,195	-
IRS R 2.74000% P GBP-SONIA-COM CALL NOV 25 2.74 ED 111725	1 – 2 years	134,000	4,195	-
IRS P 1.24000% R GBP-SONIA-COM PUT NOV 25 1.24 ED 111725	1 – 2 years	160,500	-	(777)
IRS P 1.24000% R GBP-SONIA-COM PUT NOV 25 1.24 ED 111725	1 – 2 years	160,500	-	(777)
Total 2024		589,000	8,390	(1,554)
Total 2023		-	-	-

The notional amounts represents the value of the underlying stock protected by the option contracts. Collateral of £6,370m (2023: £Nil) is held for the unrealised gain on options, comprising gilts and cash. This is held in an allocated account with the counterparties' custodians and is not included within Scheme assets.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

14. Repurchase agreements

	2024 £000	2023 £000
Repurchase agreement	(559,489)	-
Reverse repurchase agreement	5,394	-
	(554,095)	-

In order to maintain (and increase) the Scheme's economic exposure to interest rates and inflation rates, a liability hedging programme has been put in place. These instruments are used to achieve the Scheme's agreed target level of liability hedging, to reduce the investment risk of the Scheme assets relative to the liabilities. The repurchase and reverse repurchase agreements are part of the Insight liability matching portfolio.

The Scheme received cash consideration from counterparties Credit Agricole CIB, HSBC, Lloyds Bank Corporate Markets plc, Lloyds TSB, Morgan Stanley, NAB Limited, Royal Bank of Canada Europe, Societe Generale and Standard Chartered Bank in return for the transfer of bonds, which it is committed to repurchase for the consideration received plus accrued interest. As at 31 March 2024, the Scheme assets include bonds with a market value of £566,378,859 (2023: £Nil) sold under repurchase agreements.

In addition, collateral of £5,548,893 (£4,850,893 bonds and £698,000 cash) (2023: £Nil) has been against the difference in valuation between the underlying bonds and the repurchase agreements. The accrued interest amounts to £4,690,653 (2023: £Nil).

As at 31 March 2024, bonds with a market value of £5,393,568 (2023: £Nil) were held as part of reverse repurchase agreements. The market value of the underlying securities is the year end value and will not directly reconcile to the cash lent to the counterparty. These bonds are not recognised in the Scheme's financial statements.

15. Insurance policies

	2024 £000	2023 £000
Insurance policies	383,400	413,000

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

In Q1 2024, a true up payment of £388k was paid to Just, which was made up of a £144k balancing refund from Just offset against the purchase cost, and £532k of overpaid benefits offset against annuity income.

Key assumptions made during actuarial valuations

The values of the bulk annuity policies as at 31 March 2024 are consistent with the technical provisions calculations for the formal actuarial valuation as at 31 March 2023 using the post retirement discount rate, which is the gilt yield curve with 0.25% p.a. of outperformance. The assumptions used have been modified only insofar as is necessary to maintain consistency with the Statement of Funding Principles dated 15 February 2023, reflecting the change in the effective date and in relevant market conditions.

Term-dependent rates are used for the technical provisions basis. The discount rates shown below are estimates of the single-equivalent rates that would produce a similar calculated value of the liabilities of the bulk annuity policies, as at 31 March 2023 and 31 March 2024:

	2024 (% p.a.)	2023 (% p.a.)
Post retirement Discount rate	4.48	4.01

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

16. Asset backed funding

	2024 £000	2023 £000
Asset backed funding	185,000	190,200

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 2024, 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 (2023: BBB).
- An illiquidity premium of 1.65% (2023: 1.75% p.a.)
- A recovery rate of 58% (2023: 62%) on the amount payable upon insolvency of the Employer.

The spot rates below are at 5 and 10 year durations. They are shown to give an indication of how rates have moved over the year but are not the same as a single-equivalent rate that would produce the same calculated value of the ABF:

	2024 (% p.a.)	2023 (% p.a.)
Gilt yields – 5 years	3.82	3.47
Breakeven RPI – 5 years	3.83	3.52
Gilt yields – 10 years	3.97	3.54
Breakeven RPI – 10 years	3.63	3.58

17. AVC investments

	2024 £000	2023 £000
Utmost	538	501
Prudential	3,527	3,630
	4,065	4,131

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.

AVC investments can be further analysed as:

	2024 £000	2023 £000
With profits	2,379	2,364
Unit trusts	538	501
Other*	1,148	1,266
	4,065	4,131

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

18. Cash and other investment balances

	2024 £000	2023 £000
Cash	2,197	22,622
Cash in transit	5	-
Cash due from broker	(7,288)	-
Other investment balances	7,621	2,766
Interest payable	(4,771)	-
Unsettled sales	-	306
	(2,236)	25,694

Other investment balances comprise of accrued income and tax recoverable.

19. Fair value hierarchy

FRS 102 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 which 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:

	Level 1 £000	Level 2 £000	Level 3 £000	2024 Total £000
Investment assets				
Bonds	-	920,330	-	920,330
Pooled investment vehicles	154,901	62,773	535,384	753,058
Derivatives	-	8,390	348	8,738
Reverse repurchase agreements	-	5,394	-	5,394
Asset backed funding	-	-	185,000	185,000
Insurance policies	-	-	383,400	383,400
AVC investments	-	1,686	2,379	4,065
Cash	2,202	-	-	2,202
Other investment balances	77	-	7,544	7,621
	157,180	998,573	1,114,055	2,269,808
Investment liabilities				
Derivatives	-	(1,554)	(136)	(1,690)
Repurchase agreements	-	(559,489)	-	(559,489)
Cash	(7,288)	-	-	(7,288)
Interest payable	-	-	(4,771)	(4,771)
	(7,288)	(561,043)	(4,907)	(573,238)
	149,892	437,530	1,109,148	1,696,570

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

19. Fair value hierarchy (continued)

	Level 1 £000	Level 2 £000	Level 3 £000	2023 Total £000
Investment assets				
Pooled investment vehicles	53,092	89,048	1,046,717	1,188,857
Derivatives	-	187	-	187
Asset backed funding	-	-	190,200	190,200
Insurance policies	-	-	413,000	413,000
AVC investments	-	1,767	2,364	4,131
Cash	22,622	-	-	22,622
Other investment balances	306	-	2,766	3,072
	<u>76,020</u>	<u>91,002</u>	<u>1,655,047</u>	<u>1,822,069</u>
Investment liabilities				
Derivatives	-	(114)	-	(114)
	<u>-</u>	<u>(114)</u>	<u>-</u>	<u>(114)</u>
	<u>76,020</u>	<u>90,888</u>	<u>1,655,047</u>	<u>1,821,955</u>

Valuation techniques and assumptions in determining fair value are described in notes 3, 15 (insurance policies) and 16 (asset backed funding).

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

20. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. Details of the Scheme's investment strategy, including any changes during the year, are provided within "Investment Strategy" and "Investment transitions over the year" on pages 11 - 12.

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.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, OTC derivatives, has cash balances, may undertake stock lending activities, enters into repurchase agreements and holds units in pooled investment vehicles. The Scheme has indirect exposure to credit risks from the underlying investments held by the pooled investment vehicles. The Scheme's investments with Insight and VLK (and previously AIL) totalling £227.9m (2023: £579.5m), were also exposed to indirect credit risk 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 £23.54m (2023: £26.4m) and direct lending funds of £78.4m (2023: £189.5m).

The credit risk arising on bonds is mitigated through the underlying exposures on an aggregate basis being predominantly investment grade credit securities. However, the Scheme 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. Risk is mitigated by holding a diverse portfolio of investments with exposure to a range of issues and issuers.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

20. Investment risks (continued)

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 Insight 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.

Credit risk arising on other derivative contracts is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated.

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

Indirect credit risk arises in relation to the underlying investments of pooled investment vehicles. This risk is mitigated as set out above.

Direct credit risk also arises in respect of the bulk annuity policy held with Canada Life of £228.2m (2023: £245.8m) and with Just of £155.2m (2023: £167.2m), 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.

Market risk: Interest rates

The Scheme is subject to interest rate risk because it has investments in bonds, asset-backed securities and cash, held as segregated investments and through pooled vehicles as part of the Scheme's LDI strategy, totalling £448.4m (2023: £493.1m). The Trustee has set a benchmark for total investment in these assets of 40% of their total investment portfolio, as part of their LDI strategy with Insight. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

The annuity policies with the Just and Canada Life are subject to interest rate and inflation risk. However, the Trustee does not monitor these risks as the policies fully insure the pensioner members' benefits that they relate to and so there is no net impact on the Scheme's actuarial funding position of any change in their value. During the year, gilt yields rose causing the values of the bond and liability driven investment funds, and the annuity policies, to fall. However, these market movements will have affected the valuation of the liabilities in a similar way.

Market risk: Currency

Direct currency risk arises because some of the Scheme's investments are held in overseas markets denominated in overseas currencies. Indirect currency risk arises because some investments are held in overseas markets via pooled investment vehicles. Some of the underlying assets of the delegated managers 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. The Scheme's liabilities are denominated in sterling and currency hedging is employed to manage the impact of exchange rate fluctuations on the Scheme's investments.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

20. Investment risks (continued)

Market risk: Other price

Other price risk arises principally in relation to the underlying assets in the Scheme's return seeking portfolio, through VLK (and previously AIL), as shown below:

	2024	2023
	£	£
<i>Global equities</i>	66m	80m
<i>Return seeking bonds and other credit strategies</i>	53m	23m
<i>Derivatives</i>	45m	-
<i>Infrastructure</i>	15m	24m
<i>Hedge funds</i>	1m	2m

The Scheme manages this exposure by investing in a diverse portfolio of instruments across various markets. According to the Scheme's SIP, each investment manager is expected to manage broadly diversified portfolios and to spread assets across several individual shares and securities.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

21. Concentration of investments

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

	2024		Restated 2023	
	£000	%	£000	%
Canada Life	228,200	13.3	245,800	13.4
ABF - Scottish Limited Partnership	185,000	10.8	190,200	10.4
Insight LDI SO 25 GBPNPV ^{1 2}	-	-	176,289	9.6
Just	155,200	9.1	167,200	9.1
BlackRock – UK Prop FD Dist UTS ²	-	-	115,264	6.3

¹ The Scheme is the sole investor in a delegated investment fund – see note 12. The investment in the AIL Main Portfolio AO1 represents 1.1% (2023: 27.9%) of the net assets of the Scheme.

² The holdings in Insight LDI SO 25 GBPNPV and BlackRock – UK Prop FD Dist UTS are less than 5% of net assets this year.

The ABF holding has been restated to show the updated figure as at 31 March 2023.

22. Current assets

	2024 £000	2023 £000
Employer contributions due	1,000	1,000
Prepayments	4,039	3,843
Cash balances	7,442	8,304
Sundry debtors	419	114
	<u>12,900</u>	<u>13,261</u>

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

23. Current liabilities

	2024 £000	2023 £000
Accrued expenses	1,513	1,370
Accrued benefits	950	574
HM Revenue & Customs	14	30
Sundry creditors	936	925
	<u>3,413</u>	<u>2,899</u>

Sundry creditors represents £936k (2023: £925k) of annuity income received in advance.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

24. Employer related investments

There were no direct Employer related investments during the year or at the year end (2023: £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 was no more than 5% of the Scheme assets at any time during the year.

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

25. 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 £48k (2023: £131k) by the Scheme. At the year end a creditor balance of nil (2023: £50k) is due to be paid.

Fees and expenses were paid to the Independent Trustee Director in the amount of £194k (2023: £217k) by the Scheme. At the year end a creditor balance of £39k (2023: £53k) is due to be paid.

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

Company Appointed

Ms L Atkinson – Deferred member (2023: Deferred member)*

Mr M Baker – Non-member (2023: Non-member)

Mr J Stewart – Deferred member (2023: Deferred member)

Mr M Sullivan – Pensioner (2023: Pensioner)

Member-Nominated

Mr C King – Pensioner (2023: Pensioner)

Mr L Jones – Deferred member (2023: Deferred member)**

Mr S Millman – Deferred member (2023: Deferred member)

Independent

PAN Trustees UK LLP – Non-member (2023: Non-member)

*Resigned 10 May 2024

**Formerly a Company-Appointed Director at 31 March 2023

Employer and other related parties

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

The AA Pensions Department provides support services to the Trustee. Secretarial services are provided Muse Advisory Limited.

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 £185m (2023: £190.2m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

25. Related party transactions (continued)

Employer and other related parties (continued)

In July 2023, the Trustee entered into a Revolving Credit Facility arrangement with the Employer to provide liquidity to the Plan. The facility is for £40m.

26. 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 equalisation. 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.

The Trustee of the Scheme is aware that these judgements will affect the scheme and will be considering this at future meetings and decisions will be made as to the next steps. The Trustee has not obtained an estimate of the backdated benefits and related interest but they have received an estimate that the total impact which includes both arrears and the anticipated future cost to be some 1% of total scheme liabilities on a Technical Provisions basis (c.£26million).

An approximate allowance for equalising GMPs was made by adding £26million to the Scheme's Technical Provisions as at 31 March 2022, made up of £24million and £2million in respect of the Lloyds 2018 and Lloyds 2020 Court Rulings respectively. This includes an approximate allowance for both past and future benefit payments. This is consistent with the approach at the previous actuarial valuation, other than the additional allowance in respect of the Lloyds 2020 Court Ruling.

The set up and data related work in relation to GMP equalisation is underway. 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 GMP equalisation exercise, it was identified that there was some uncertainty surrounding the method of equalising NRAs adopted in 1992 as the approach used did not meet all the necessary requirements.

As an interim measure, whilst implementation of any amendments to affected in-scope members was underway and in order to conclude the 31 March 2022 triennial actuarial valuation, an approximate prudent reserve of £35million was included in the Technical Provisions as at 31 March 2022. It was recognised that the actual cost would be updated once the agreed approach had been implemented based on actual membership data.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

26. Contingent assets and liabilities (continued)

Equalisation of normal retirement ages (continued)

In April 2023, calculations for an updated estimate in respect of Barber equalisation based on the agreed approach and actual membership was undertaken and resulted in a revised estimate of £19m as at 31 March 2022, which included both deferred and pensioner members (of the £19m, £3m relates to historic underpayments). The key reason for the lower figure is the large number of members who historically retired from active membership where an uplift to their pension or arrears were not required following the detailed review of the membership data. Going forward, the quarterly funding updates for the Scheme will allow for this revised estimate from end March 2023.

The revised membership data allowing for Barber equalisation will be available for use as part of the 31 March 2025 actuarial valuation and therefore the liability calculations for the 2025 actuarial valuation will fully reflect Barber equalisation.

Bulk annuity

The Trustee is undergoing a data cleanse project of the liabilities insured with Canada Life.

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. The data cleanse is ongoing. 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 has 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 2024 (2023: £Nil).

Contingent liability

The Virgin Media Ltd v NTL Pension Trustees decision, handed down by the High Court on 16 June 2023 considered the implications of section 37 of the Pension Schemes Act 1993. Section 37 of the Pension Schemes Act 1993 only allowed the rules of contracted-out schemes in respect to benefits, to be altered where certain requirements were met. The court decision was upheld on appeal on 25 July 2024. There is potential for legislative intervention following industry lobbying that may retrospectively validate certain rule amendments. In addition, there is a possibility that the case could go to the Supreme Court.

Given these uncertainties it is not currently possible to determine whether any amendments were not in accordance with section 37 of the Pension Schemes Act 1993 requirements. Further, it is not currently possible to reliably estimate the retrospective possible impact to the defined benefit obligations of the pension scheme if these amendments were not in accordance with section 37 of the Pension Schemes Act 1993 requirements. Having considered the matter and consulted with its advisors, the Trustee has determined that there is no immediate need for action, but the Trustee will monitor developments.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

27. 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
Alcentra	24,100	7,900	16,200
Arcmont	30,000	23,018	6,982
Ares	60,000	45,003	14,997
BlackRock Quellos	38,830	38,830	-
Blackstone	67,723	42,278	25,445
Brockton	40,000	34,605	5,395
BV	12,356	9,766	2,590
Clearbell	105,000	88,935	16,065
CVC	36,040	28,553	7,487
DRC	28,571	25,332	3,239
EMK	9,090	7,006	2,084
Fidera	23,684	22,466	1,218
Global	234	-	234
Invesco	20,000	10,856	9,144
Keyhaven	31,670	29,855	1,815
M&G	25,000	24,530	470
Taconic	29,941	25,300	4,641
Warburg	41,188	38,799	2,389
Total 2024	623,427	503,032	120,395
Total 2023	630,622	467,446	163,176

AA PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2024

Statement about contributions payable under the Schedules of contributions

We have examined the summary of contributions to the AA Pension Scheme ("Scheme") for the Scheme year ended 31 March 2024 which is set out on page 48.

In our opinion contributions for the Scheme year ended 31 March 2024 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 16 February 2023 for the year ended 31 March 2024.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient 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 Schedules 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 Schedules of Contributions.

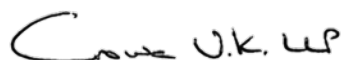
Respective responsibilities of trustees and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions 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 it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinion we have formed.



Crowe U.K. LLP
Statutory Auditor
London

Date: 15 October 2024

AA PENSION SCHEME

SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2024

During the year ended 31 March 2024 the contributions payable to the Scheme were as follows:

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

	Employer £000	Employees £000	Total £000
Contributions payable under the Schedule of Contributions and as reported by the Scheme auditor			
Deficit funding	12,000	-	12,000
Contributions payable in addition to those payable under the Schedule and total contributions reported in the financial statements			
Deficit contributions from ABF shown under investment sale proceeds	16,143	-	16,143
Additional	152	-	152
Total contributions reported in the financial statements	28,295	-	28,295

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

Trustee Director:



Trustee Director:



Date: 14 October 2024

AA PENSION SCHEME

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 2022 to be met by the end of the period specified in the recovery plan dated 15 February 2023.

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 15 February 2023.

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.

DocuSigned by:

Signature Date..... Feb 16, 2023

David Eteen
Fellow of the Institute and Faculty of Actuaries

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

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee's Report)

Implementation Statement

AA Pension Scheme

For the period 1 April 2023 to 31 March 2024

The purpose of the Implementation Statement is for us, the Trustee of the AA Pension Scheme ("the Scheme"), to explain what we have done during the year ending 31 March 2024 to achieve certain policies and objectives set out in the Statement of Investment Principles ("SIP"). It includes:

- How our policies on exercising rights (including voting rights) and engagement activities have been followed over the year.
- The voting activity undertaken by the Scheme's investment managers on our behalf over the year, including information regarding the most significant votes.

Our conclusion

Based on the activity we have undertaken during the year, we believe our stewardship policies set out in the SIP have been implemented effectively.

In our view, managers for which the Scheme has material holdings were able to disclose good evidence of voting and engagement activity undertaken. The activities completed by our managers align with our stewardship expectations. We believe our voting rights have been implemented in line with expectations, based on the stated manager voting policies.

We delegate the management of some of the Scheme's assets to our fiduciary managers, Van Lanschot Kempen ("VLK") and Aon Investments Limited ("Aon"). Based on the information we have been provided with, we are comfortable with the stewardship of the fiduciary managers, and that this aligns with our policies and expectations.

We note that not all managers were able to provide all of the voting and engagement information requested. We will engage with these managers, as appropriate, to encourage them to provide meaningful disclosures about their voting and engagement activities.

Stewardship policy

The Scheme's Statement of Investment Principles (SIP) in force at 31 March 2024 describes the Scheme's stewardship policy on the exercise of rights (including voting rights) and engagement activities. The SIP was last reviewed in May 2024 and has been made available online at the link below:

<https://aapensions.com/document-library/financial-information>

Our stewardship policy is set out in the Scheme's policy on arrangements with asset managers, which forms part of the Statement of Investment Principles. We recognise that the Scheme has exposure to multiple systemic risks but have decided to set two Stewardship Priorities, following training sessions and consideration of data and trends:

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee’s Report)

- Environment
- Climate

We will periodically review the Stewardship Priorities of the Scheme to ensure they remain appropriate.

To enable us to make high quality decisions, the fact-finding and analysis is delegated to our independent investment advisor and the Investment Committee (“IC”).

How voting and engagement/stewardship policies have been followed

Based on the information provided by the Scheme’s investment managers, we believe that our policies on voting and engagement have been met in the following ways:

Policy	Action
We receive training – likely to be at least on an annual basis but more frequently if required – on climate issues to ensure that we have the appropriate degree of knowledge and understanding on these issues to support good decision-making. We expect our advisers to bring important and relevant climate-related issues and developments to the our attention in a timely manner.	<p>On 12 October 2023, we obtained training on sustainability to understand how ESG factors including climate change could impact the Scheme and its investments.</p> <p>At the IC Manager Day on 18 October 2023, we received presentations on VLK’s exclusions policy and manager ESG flags, how BlackStone seeks to integrate ESG across the GP Stakes portfolio, and how ESG is embedded into Clearbell’s investment approach.</p> <p>At the IC meeting on 21 February 2024, we received training on Stewardship priorities, and it was agreed that we would receive a session on stewardship each quarter going forward.</p>
We expect our relevant asset managers to be able to evidence their stewardship activity in this area which we monitor annually.	We have considered the voting and engagement activity of the asset managers as part of the annual Implementation Statement and TCFD report.
Each year, we review the voting and engagement activities of the Scheme’s investment managers to ensure they align with the policies for the Scheme and help us to achieve them.	
When selecting investments, we assess the investment manager’s ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals, as well as through other regular reporting channels.	We have appointed VLK to manage a liquid growth portfolio, partly reflecting their ESG investing approach.

Prepared by the Trustee of the AA Pension Scheme

June 2024

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee’s Report)

Fiduciary manager voting and engagement activity

The Scheme invests some of its asset through fiduciary managers. The Scheme currently has two fiduciary managers, VLK and Aon. These are fund of funds arrangements through which VLK and Aon select underlying investment managers on our behalf.

VLK

Voting and engagement behaviour

We do not monitor or engage directly with issuers of, or holders of, debt or equity, but instead delegate this activity to VLK and to the underlying asset managers appointed by VLK. We expect VLK to undertake regular monitoring and engagement in line with its’ own corporate governance policies, taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

There are several levels of engagement at VLK: they engage with the asset managers they appoint, with companies they invest in directly (e.g. within VLK products), and via collaborative engagement with industry stakeholders, such as regulators, industry initiatives, benchmark providers, and peers.

Over 2023, VLK engaged with over 200 managers on over 600 products regarding sustainability and stewardship. VLK also continued to put most of their efforts into energy transition – focusing in particular on their role as active owner, engaging on carbon emissions.

VLK remained signatories to the Dutch and UK Stewardship Codes.

Proxy voting adviser

VLK uses the electronic voting platform of Institutional Shareholder Services, Inc. (ISS), who provides custom research and voting recommendations according to VLK’s voting policy. For their fiduciary management clients, VLK also rely on the proxy adviser and services used by each of the external managers – evaluating their proxy voting adviser, voting policy and execution of votes feeds into VLK’s evaluation, selection and monitoring of managers.

The AA Pension Scheme’s assets held with VLK

VLK Liquid Growth Portfolio

No assets were held in the Liquid Growth Portfolio as at 31 March 2023. The allocation to this portfolio was made over the second half of 2023.

Asset Class	Funds as at 31 March 2024
Equities	<ul style="list-style-type: none"> • BNP Paribas SMaRT Food Fund • iShares Global Water UCITS ETF • iSh Gl. Clean Energy UCITS ETF • iShares Digital Security Ucits ETF • SSGA World TPI Climate Transition Index Equity Fund • iSh Automation & Robotics UC ETF • iSh Healthcare Innov. UCITS ETF • Northern Trust Emerging Markets Sustainable Select SDG Index FGR Fund • L&G Defensive Synthetic Equity Fund

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee’s Report)

Credit	<ul style="list-style-type: none"> • L&G Net Zero Sterling Corporate Bond Fund • Allspring (Lux) Worldwide Fund - USD Investment Grade Credit Fund • PGIM QIF Global High Yield ESG Fund • State Street Emerging Markets ESG Screened Local Currency Government Bond Index Fund • State Street EM ESG Screened Hard Currency Gov. Bond Index Fund • Aegon European ABS Fund
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VLK Alternatives Portfolio

Asset Class	Funds as at 31 March 2023	Funds as at 31 March 2024
Infrastructure	<ul style="list-style-type: none"> • IFM Global Infrastructure (UK) LP • JPM Infrastructure Investment Fund 	<ul style="list-style-type: none"> • JPM Infrastructure Investment Fund • Macquarie Infrastructure Debt (UK Inflation Linked) Fund
Credit	<ul style="list-style-type: none"> • Diversified Distress Debt Pool IX GBP 	-

VLK Matching Portfolio

Asset Class	Funds as at 31 March 2023
Cash	<ul style="list-style-type: none"> • Collateral inventory GBP • Insight Liquidity GBP Cash Fund
Infrastructure debt	<ul style="list-style-type: none"> • Macquarie Infrastructure Debt (UK Inflation Linked) Fund
Liability hedge	<ul style="list-style-type: none"> • LDI portfolio

There were no holdings in the Matching Portfolio as at 31 March 2024.

Aon

The AA Pension Scheme’s assets held with Aon

The Scheme’s assets with Aon were invested in a wide range of asset classes including equities, global fixed income, multi asset credit, diversified alternatives and hedge funds as at 31 March 2023. Over the accounting year, the Scheme fully disinvested from the majority of the underlying funds. The remaining asset classes include alternatives and hedge funds.

Aon’s firm-wide voting and engagement policy

We delegate monitoring of ESG integration and stewardship of the underlying managers to Aon. Over the year, Aon held several engagement meetings with many of the underlying managers in its strategies. Aon discussed ESG integration, stewardship, climate, biodiversity, and modern slavery with the investment managers. Aon provided feedback to the managers after these meetings with the aim of improving the standard of ESG integration across its portfolios.

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee’s Report)

Over the year, Aon engaged with the industry through white papers, working groups, webinars and network events, as well as responding to multiple consultations.

In 2021, Aon committed to achieve net zero emissions by 2050, with a 50% reduction by 2030 for its fully delegated clients’ portfolios and defined contribution default strategies (relative to baseline year of 2019).

Aon also successfully renewed its signatory status to the 2020 UK Stewardship Code.

Aon’s use of proxy voting adviser

Aon does not employ a proxy voting adviser.

Voting data

This section provides a summary of the voting activity undertaken by managers on our behalf, for which the Scheme has material holdings, over the year to 31 March 2024. The property, private debt, LDI and cash funds have no voting rights attached given the nature of the mandates.

We have provided an example of the voting data for the SSGA World TPI Climate Transition Index Equity Fund, as this is the largest underlying allocation for the VLK Liquid Growth Portfolio. We have also provided the voting data for Warburg Pincus as they are the Scheme’s largest Private Equity holding.

Manager	State Street Global Advisors	Warburg Pincus*
Fund name	SSGA World TPI Climate Transition Index Equity Fund	Warburg Pincus Global Growth Fund
Mandate/Asset Class	VLK Liquid Growth Portfolio / Listed Equity	Private Equity
Allocation as at 31 March 2024	3.0%	4.4%
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustees to influence the manager’s voting behaviour.	
No. of eligible meetings	1,041	49
No. of eligible votes	15,686	47
% of resolutions voted	99.6%	100.0%
% of resolutions abstained	0.3%	0.0%
% of resolutions voted with management ¹	92.7%	100.0%
% of resolutions voted against management ¹	7.3%	0.0%
Proxy voting advisor employed	SSGA employ Institutional Shareholder Services (ISS) as their proxy voting adviser, to assist with managing the voting process at shareholder meetings.	Warburg Pincus does not use a proxy voting adviser. The fund is exposed to private market investments, which are typically held directly, where Warburg Pincus controls the board and therefore in the direction/strategy of the

¹ As a percentage of the total number of resolutions voted on

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee’s Report)

Manager	State Street Global Advisors	Warburg Pincus*
		business. As such, no proxy-voting adviser is employed.
% of resolutions voted against proxy voter recommendation	6.3%	N/A

Note: figures may not sum due to rounding.

*The voting statistics of Warburg Pincus cover the period from 1 January 2023 to 31 March 2024.

Significant votes

We asked all the managers of funds with voting rights attached to provide significant votes in relation to the Stewardship Proprieties of the Scheme, which are environment and climate.

VLK provided a selection of 8 votes which they believe to be significant. We have then selected the vote related to the Stewardship Priorities of Scheme as the most significant vote. We also selected two further significant votes based on the largest holdings within the VLK Liquid Growth Portfolio, to illustrate the range of topics the underlying managers vote on.

VLK

	Example 1	Example 2	Example 3
Portfolio that the vote is on behalf of	Liquid Growth	Liquid Growth	Liquid Growth
Underlying Fund that the vote is on behalf of	BNP Paribas SMaRT Food	SSGA World TPI Climate Equities	iShares Global Water
Company name	Canadian Pacific Kansas City Limited	Amazon.com, Inc.	Georg Fischer AG
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	3%	3%	2%
Summary of the resolution	Advisory Vote on Approach to Climate Change	Warehouse Workers rights	Elect Monica de Virgiliis as Director
How the manager voted	Against	For	Against
Rationale for the voting decision	Company has not committed to a net zero transition target and does not have absolute emissions reduction targets, hence we are not ready to fully support the climate change approach, although it has many good elements, such as TCFD-reporting, scenario analysis and SBTi-targets approved.	Support further improvements of workers rights and health and safety standards that are currently in place. Force the corporate to provide more granular and detailed analysis on how has provider	Nominee serves on an excessive number of public company boards, which we believe raises substantial concerns about the director's ability to exercise sufficient oversight on this board.

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee’s Report)

	Example 1	Example 2	Example 3
Outcome of the vote	For	Against	For
Implications of the outcome	Opportunity for further engagement	Continue to engage, more detailed reporting and granular details are now being provided with all shareholder proposals explicitly addressed.	Continue to engage
Related stewardship priority	Climate Change	n/a	n/a

Aon Delegated Growth Portfolio

We asked Aon to provide a selection of significant votes based on the Scheme’s Stewardship Priorities of climate change and environment. None of the significant votes provided by Aon/underlying managers were related to the Scheme’s Stewardship Priorities. In light of this, we have selected two significant votes from the material underlying funds to illustrate the range of topics managers vote on.

	Example 1	Example 2
Underlying Fund that the vote is on behalf of	Harris Associates LP	Nordea Global Climate and Environment Strategy
Company name	Alphabet Inc.	Air Liquide
Approximate size of fund’s holding as at the date of the vote (as % of portfolio)	4.6%	4.2%
Summary of the resolution	Advisory Vote on Say on Pay Frequency	Authorise Issuance of Equity or Equity-Linked Securities with Preemptive Rights up to Aggregate Nominal Amount of EUR 470 Million
How the manager voted	Against	Against
Rationale for the voting decision	It was believed that a yearly say on pay vote is most appropriate.	The share issuance authority with preemptive rights has a volume of 16.3% of currently issued capital. The manager also have concerns given that the term length of the authority is 26 months.
Outcome of the vote	Pass	Pass
Implications of the outcome	The manager will continue to monitor executive compensation at the company, and engage with management on this issue if necessary.	Authorisation comprising more than ten percent of the company’s capital should be avoided unless otherwise specifically justified.
Criteria on which the vote is considered “significant”	Voted against management	Severely against the principles of the manager

**APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT
(forming part of the Trustee’s Report)**

Private Equity Funds

The Scheme has six private equity funds held with Warburg Pincus, BlackRock, Keyhaven, BV Investment Partners, EMK Capital Partners and BlackStone.

The majority of the managers did not provide us with a summary of their voting activity over the year to 31 March 2024. This is not unreasonable given private capital investors typically control the board votes of the companies they invest into. Below is an example of a significant vote undertaken by Warburg Pincus, the Scheme’s largest allocation to private equity.

	Warburg Pincus
Fund Name	Warburg Pincus Global Growth Fund
Company name	Viasat, Inc.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	6.8%
Summary of the resolution	<ul style="list-style-type: none"> Increased weighting of financial criteria in bonus determination to 50% for Chief Executive Officer, which is consistent with weighting for all other executive officers. Shifted to a specific annual bonus target for annual incentive compensation. Implemented a maximum annual bonus payout, equal to 250% of target, for all executive officers.
How the manager voted	For
Rationale for the voting decision	Voted in line with board recommendation
Outcome of the vote	Pass
Implications of the outcome	Executive compensation was adjusted based on the vote
Criteria on which the vote is considered “significant”	To conduct an advisory vote on executive compensation

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee's Report)

Engagement

The investment managers may engage with investee companies on our behalf. The table below provides a summary of the engagement activities undertaken by each manager during the year for the relevant funds.

Engagement activities are limited for the Scheme's LDI and Cash Funds due to the nature of the underlying holdings, so engagement information for these assets have not been shown.

Fund	Number of engagements undertaken on behalf of the holdings in <u>this fund</u> in the year	Number of engagements undertaken at a <u>firm level</u> in the year
Private Equity		
BlackRock Quellos (Q-BLK Private Capital III)	BlackRock do not track individual instances of engagement at the fund-level as the fund is currently in the process of liquidating.	> 3,700*
BVIP (Parallel) Fund X	BV are currently in the process of collecting KPIs for BVIP (Parallel) Fund X's ESG metrics, which will help to inform any engagements that they deem necessary with their portfolio companies. However, at the time of writing, no such engagements had taken place.	Information not provided by investment manager
EMK Capital Partners II	40	Information not provided by investment manager
Keyhaven Capital Partners II	Information not provided by investment manager	
Warburg Pincus Global Growth Fund		
BlackStone Strategic Capital Holdings II		
Private Debt		
Clearbell Property Partners II LP Clearbell Property Partners III LP Clearbell Property Partners IV LP	Clearbell do not undertake individual instances of engagement at the fund-level as the fund is currently in the process of liquidating.	8
	8	
	8	
Brockton Capital Fund III	Information not provided by investment manager	
Arcmont Direct Lending Fund III	5	24
Ares Capital Europe IV & V	Information not provided by investment manager	
Alcentra Clareant European Direct Lending Fund II	Information not provided by investment manager	
DRC Savills IM UK Whole Loan Fund	Between 3 and 5	Between 30 and 50

AA PENSION SCHEME

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee's Report)

Fund	Number of engagements undertaken on behalf of the holdings in <u>this fund</u> in the year	Number of engagements undertaken at a <u>firm level</u> in the year
Invesco Real Estate Finance Fund	0	2,296*
Taconic European Credit Dislocation Offshore Fund II	Information not provided by investment manager	
M&G Debt Opportunities Fund IV	M&G do not track the number of engagements at the fund-level because they have a controlling stake in most of the assets within the fund.	346
Fidera Dislocated Asset Fund IV	Information not provided by investment manager	
CVC Credit Partners Global Special Situations II	Information not provided by investment manager	
Legacy Illiquids		
Mesirow Absolute Return Fund Institutional Class AA	0	Information not provided by investment manager
Securis Insurance-Linked Securities	2	Information not provided by investment manager
Global Infrastructure Partners II	Information not provided by investment manager	
Leadenhall Insurance Linked Strategies	Information not provided by investment manager	
Property		
The Scheme was invested in five property funds over the twelve months to 31 March 2024. However, we have decided not to report on the engagement activity undertaken by Lothbury, Schroders, Columbia Threadneedle and Janus Henderson on the grounds of materiality, given the small relative allocation of the Scheme's funds to these investments over the accounting year and the fact that the Scheme fully disinvested from them by 31 March 2024.		
BlackRock BPF UK Property Fund	10	>3700*
Collateral		
Insight Liquid ABS Fund *	60-70	571
Insight Global ABS Fund*	60-70	

* This figure reflects the number of engagements over the year to 31 December 2023.

**APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT
(forming part of the Trustee’s Report)**

Examples of engagement activity undertaken over the year to 31 March 2024

Below we have provided examples of the engagement activities undertaken by the Scheme’s investment managers. For each asset class, we have included an example of an engagement from the investment manager with whom the Scheme has the largest amount invested.

Investment Manager	Engagement Example
<p>VLK</p> <p>Liquid Growth Portfolio</p>	<p><u>State Street Global Advisers</u></p> <p>SSGA answered in the annual sustainability questionnaire that they do not have a separate climate policy. However, they do have climate related objectives and have joined the NZAM. Additionally VLK noted their departure alongside several large asset managers from the Climate 100+ initiative. In VLK’s view, SSGA has been conservative in not answering whether they have a climate policy.</p> <p>VLK engages with SSGA to discuss implementing an official climate policy. From this meeting, SSGA said they were willing to engage on stronger climate related disclosures but has no appetite to engage on the content of transition plans. This appears to be driven by the wider organisation for a variety of reasons, including laws within the U.S.</p> <p>This meeting confirmed that it will be hard for VLK to influence the general stance on climate related topics of large asset managers such as SSGA. However, VLK strongly believe that the largest part of sustainability integration in index products is realised by product design, which includes index selection as well as the application of tailored voting policies. An example is the construction of the index equity fund that is used for VLK’s clients which tracks the TPI Climate Transition Index.</p> <p>Following this engagement, VLK will investigate the application of a tailored voting policy for the SGA MPF - World TPI Climate Transition Index Equity Sub-Fund.</p>
<p>Aon</p> <p>Delegated Growth Portfolio</p>	<p>Climate continues to be a high priority for engagements across the firm. Aegon continue to focus on companies that are the biggest contributors to the problem and engage to ensure they are measuring, monitoring and setting challenging targets to meet the goals set out in the Paris Agreement in 2015. These engagements are conducted directly with companies by the Responsible Investment Team and also in regular meetings with analysts and fund managers. However, this is such a big topic that Aegon find it advantageous to join with collaborative initiatives to ensure that we are reaching as many companies as effectively as possible.</p> <p>As part of their commitment to Net Zero Asset Owner Alliance (“NZAOA”), Aegon engaged with global top emitting companies around the world on their emissions reduction targets, whether they are aligned to a 1.5C pathway and if they will be validated by SBTi. Another global initiative they work with is CA100+, engaging with companies to raise their score on the net-zero benchmark and capex alignment with their long term GHG reduction targets.</p>
<p>Warburg Pincus LLC</p> <p>Private Equity</p>	<p>Warburg Pincus recognise the scalable impact that procurement spend can have on environmental and social outcomes. For many years, they have sought to support their portfolio companies on their journey in learning about, developing, and executing on supplier diversity programs.</p> <p>Warburg Pincus have engaged with their suppliers by developing resources to support supplier diversity at both the firm and portfolio level, including developing:</p> <ul style="list-style-type: none"> Supplier diversity and procurement guides that outline best practices in establishing a substantive and sustainable supplier diversity program aligned with a company’s strategic objectives

AA PENSION SCHEME

APPENDIX I – ENGAGEMENT POLICY IMPLEMENTATION STATEMENT (forming part of the Trustee's Report)

Investment Manager	Engagement Example
	<ul style="list-style-type: none"> Data enrichment to provide further visibility of portfolio company spend with diverse suppliers Database tools and networks to source diverse suppliers Opportunities to learn from other members of the portfolio on supplier diversity best practices and success stories
Clearbell Illiquid Growth - Opportunistic Property	Following the completion of Clearbell's Environmental Management System, updated Property Manager ESG Guidelines were issued and new Tenant ESG Guidelines were created and issued to set out Clearbell's ESG recommendations around operational practices and fit-out projects.
Ares Management Illiquid Growth – Direct Lending	<p>Partou is a market leader in the fragmented Dutch childcare market (double the size of its nearest competitor) and is increasingly active in the UK nursery market.</p> <p>To assist Partou with their ESG goals, Ares provided the company with an Sustainability Linked Loan ("SLL") framework, encompassing three Sustainability Performance Targets ("SPTs") surrounding CO2 emissions, equality of opportunity and quality governance scores. The SLL framework includes a margin review adjustment based on the achievement of the sustainability targets.</p> <p>As part of its SLL framework, Partou is also focused on increasing the number of schools that have a designation that allows them to care for children with special needs and disabilities ("VE"). Pre-school education is particularly important in deprived neighborhoods and Partou aims to increase the number of day care centers with VE in the Netherlands every year. In 2022, the company reached their year-1 target.</p>
BlackRock Property	<p>Working with their appointed Property Managers and onsite Building Managers, the Fund aims to establish active tenant sustainability programmes that regularly engage with tenants on a range of ESG issues. Examples of engagement activities implemented across the Fund include focused events on energy efficiency and reduction, including the launch of 'Carbon Challenges' and 'Switch-off Week' campaigns. Energy savings achieved during these campaigns have been reported back to tenants to raise awareness of energy performance 'quick wins' and help encourage longer-term behaviour changes that drive ongoing reductions in energy consumption and wastage.</p> <p>BlackRock's tenant engagement programmes also address wider sustainability issues, including water efficiency, waste management and recycling, local wildlife conservation, and health and wellbeing. Further examples have included 'Waste Aware' and 'Zero Waste to Landfill' campaigns, onsite tree-planting and landscaping activities, introducing tenant yoga classes and other wellbeing activities, and establishing on-site bike rental and cycling clubs.</p>
Insight Liquid/Global ABS Fund	<p>Pepper is a significant issuer in the Australian market and is widely held across Insight's portfolio. ESG had previously not formed part of their loan origination process, so Insight identified them as an issuer to engage with to raise this as an area of concern.</p> <p>Insight engaged with the Deputy Head of Treasury at Pepper in Q4 2022 and Q2 2023 on new product range and EPC data analysis. Pepper is now showing borrowers the potential EPC improvements they can make to their properties and linking into new business. Pepper also agreed that disclosures needed to improve and would be looking to build on a number of ESG metrics in their annual reports. Insight will continue to engage with Pepper on loan level disclosures and loan practices.</p>