AA Pension Scheme

Report and financial statements

Year ended
31 March 2022

Registered number: 10098233

AA PENSION SCHEME

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2022

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TRUSTEE AND ITS ADVISERS
YEAR ENDED 31 MARCH 2022

TRUSTEE AND ITS ADVISERS
YEAR ENDED 31 MARCH 2022

Investment Managers (continued)	Legal & General Investment Management Limited ('LGIM') Lothbury Investment Management Limited ('Lothbury') (re-registered 30 June 2021)* M&G Investment Management Limited ('M&G') (re-registered 30 June 2021)* Mesirow Advanced Strategies Inc. ('Mesirow') Nuveen Real Estate Limited (formerly TH Real Estate) ('Nuveen') Schroders UK Real Estate Fund ('Schroders') (re-registered 30 June 2021)* Taconic European Credit Dislocation Offshore Fund II L.P. ('Taconic') (re-registered 30 June 2021)* Threadneedle Asset Management Limited ('Threadneedle') Warburg Pincus Global Growth-E, L.P. ('Warburg') York Distressed Asset Fund IV (Cayman) Limited ('York') (re-registered 30 June 2021)* *Transferred from AIL
Fiduciary Managers	Aon Investments Limited Kempen Capital Management (UK) Limited (appointed 2 October 2021)
Fiduciary Overseer	Hymans Robertson LLP
AVC Providers	Utmost Life and Pensions ('Utmost') The Prudential Assurance Company Limited ('Prudential')
Insurance Providers (annuity)	Canada Life Limited ('Canada Life') Just Retirement Limited ('Just')
Custodian	Bank of New York Mellon Corporation ('BNYM')
Legal Advisers	Burness Paul LLP Hogan Lovells LLP Squire Patton Boggs (UK) LLP
Data Consultant	ITM Limited
Administration Project Oversight	Muse Advisory Limited (appointed 1 February 2022)
Contact Details	AA Pensions Departments The AA Fanum House Basing View Basingstoke Hants, RG21 4EA pensions@theaa.com 0800 5877877 option 3

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2022

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 2022.

Constitution and management

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

The Scheme has five categories of benefits:
- Staff Section
- Management (Sections 1, 2 and 3)
- Career Average Revalued Earnings Section ('CARE')

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

The Trustee is shown on page 1.

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

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

In accordance with the Pensions Act 2004 at least one third of the total number of Trustee Directors must be nominated by Scheme members. The 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, from which secretarial services are provided.

Trustee meetings

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

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Scheme changes

The Trustee appointed Kempen to manage 10% of the delegated mandate. The transition was funded by transferring c. £153m from AIL to Kempen over three tranches.

Over the year, the Trustee re-registered 9 funds (c. £135m in asset value), consisting of 5 closed ended vehicles and 4 Core UP Property Funds, from being held within the AIL delegated portfolio to being held in the name of the Trustees. This was an operational transfer of ownership with no changes to the underlying investments. In addition the Blackrock UK Property Fund held by the Trustees under a custody model with Bank of New York Mellon was re-registered in to the name of the Trustees.

Other strategic changes to the Scheme over the year included (actions below were implemented upon hitting the 80% funding level trigger):

- De-risking of the overall portfolio target return to 3.9% p.a. above liabilities (subsequently reduced to 3.5% p.a. in May 2022 on hitting 84% funding level trigger);

- Reduction of the investment outperformance objective of the delegated managers to 2.6% (subsequently reduced to 2.4% in May 2022 on hitting 84% funding level trigger); and

- Increase of the target interest and inflation hedge ratio to 80% of low dependency liabilities (subsequently increased to 84% in May 2022 on hitting 84% funding level trigger).

A new Deed of Amendment was effective on 4 May 2022. The objective of this Deed was to enable the Trustee to utilise run off insurance to cover any risks that may arise as a consequence of winding-up the Scheme.

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.

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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	15,090	8,936	24,026
Adjustments to members	(48)	33	(15)
GMP adjustments*	694	-	694
New spouses and dependants	-	89	89
Retirements	(420)	420	-
Deaths	(37)	(231)	(268)
Trivial commutations	-	(17)	(17)
Cessation of pension	-	(16)	(16)
Transfers out	(88)	-	(88)
Members at the end of the year	15,191	9,214	24,405

	Deferreds	Pensioners	Total
Staff	9,705	8,410	18,115
Management Section 1	161	67	228
Management Section 2	53	116	169
Management Section 3	6	-	6
CARE	5,266	621	5,887
Members at the end of the year	15,191	9,214	24,405

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

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

*During the year the Scheme carried out a GMP exercise which resulted in identifying a number of members to be reinstated. These are GMP members only.

Included in the above are 3,240 (2021: 3,466) pensioners and 693 (2021: 650) beneficiaries whose benefits are financed by insurance (annuity) policies.

Pensioners include 1,386 (2021: 1,340) individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 72 (2021: 88) child dependants in receipt of a pension in respect of the following Sections:

	Spouses	Child Dependents	Total
Staff	1,344	56	1,400
Management Section 1	5	-	5
Management Section 2	1	-	1
CARE	36	16	52
Members at the end of the year	1,386	72	1,458

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Pension increases

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

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

April 2019	3.3% on pre-1 July 2010 accrued pension; 2.5% on post 1 July 2010 accrued pension
April 2020	2.4% on pre-1 July 2010 accrued pension; 2.4% on post 1 July 2010 accrued pension
April 2021	1.1% on pre-1 July 2010 accrued pension; 1.1% on post 1 July 2010 accrued pension

As the CPI was less than 5.0% for the purposes of the April 2021 pension increases, increases were not capped in accordance with the Scheme Rules. Certain limited elements of members' pensions are not subject to a cap and received full increases in line with the Retail Prices Index ('RPI') or CPI in accordance with the Scheme Rules.

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

Pre-1 July 2010 accrued pension	0.5% increase on 1 April 2021 (CPI capped at 5.0% and floored at 0.0%)
Post 1 July 2010 accrued pension	0.5% increase on 1 April 2021 (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:	0.9% increase on 1 April 2021 (Jersey cost of living index floored at 0.0%)
Post 23 Sept 1999:	0.9% increase on 1 April 2021 (Jersey cost of living index capped at 5.0% and floored at 0.0%)
Guernsey	
Pre-23 September 1999:	1.4% increase on 1 April 2021 (Guernsey retail price index floored at 0.0%)
Post 23 Sept 1999:	1.4% increase on 1 April 2021 (Guernsey retail price index capped at 5.0% and floored at 0.0%)

There were no discretionary pension increases in the year.

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

Transfers

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

Transfers into the Scheme are not allowed.

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2022

Contributions

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

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

Deficit contributions are payable as follows:

- Asset Backed Funding ('ABF') contributions are payable monthly by the Employer at a rate of £1,226,202. The Schedule of Contributions specifies that these deficit contributions are increased annually in line with RPI and be offset against monthly payments received by the Scheme from the ABF arrangement.

- Additional cash deficit funding contributions are receivable as follows:

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

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

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 - this strategy has therefore been resilient in the face of market fluctuations and should continue to be robust in the future. The Trustee continues to have ongoing dialogue with the Principal Employer on how the business is faring and continues to be reassured that the business is faring well. 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.

TRUSTEE'S REPORT
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Report on Actuarial Liabilities

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

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2019. A further two updates were carried out as at 31 March 2020 and 31 March 2021 – this update is not as detailed as a triennial valuation but allows monitoring of any changes in funding level. The position as at both dates is set out below. All figures quoted exclude AVC investments from both the assets and liabilities.

	Technical provisions		
	31 March 2019 (triennial valuation date)	**31 March 2020 (update)**	**31 March 2021 (update)**
The Scheme's assets	£2,404m	£2,500m	£2,556m
The amount needed to provide members' benefits (the 'funding target')	£2,535m	£2,695m	£2,707m
The shortfall (or 'deficit')	£131m	£195m	£151m
The funding level	95%	93%	94%

The Scheme's assets increased slightly in value over the year to 31 March 2021. This was due mainly to the contributions The AA paid during this period and a small level of outperformance in the Scheme's assets.

However, the amount needed to provide members' benefits rose by a lower amount due to an increase in assumed future price inflation, which was partially offset by a rise in long-term interest rates. The result is that at 31 March 2021, the Scheme's funding level had gone up to an estimated 94%.

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

Value of solvency liabilities	£3,886 million
Value of assets available to meet solvency liabilities	£2,405 million
As a percentage of solvency liabilities	62%

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

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Report on Actuarial Liabilities (continued)

The value of technical provisions is based on Pensionable Service to the valuation date, or up to 31 March 2020 for the 31 March 2021 update, 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 were agreed as part of the 31 March 2019 triennial valuation and 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 Bank of England gilt yield curve at the actuarial valuation date plus 2.75% p.a.

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

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

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

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

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

Deferred revaluations:

- 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. The same approach is applied to derive the assumption for in service revaluations for active members of the CARE Section.

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

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

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Report on Actuarial Liabilities (continued)

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

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

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

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

These arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 24 February 2020. A copy of this certificate is included on page 54.

Next actuarial valuation

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

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2022

Investment matters

Management and custody of investments

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

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.

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

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

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

Statement of Investment Principles

With effect 30 September 2020, the Trustee updated its SIP for its policies in relation to: 'Arrangements with asset managers'; 'Monitoring of Investment Manager Costs'; and 'Evaluation of Investment Manager Performance and Remuneration'. The Trustee policies in these areas are covered in detail in the latest SIP, dated March 2022, but broadly summarise as:

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

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Statement of Investment Principles (continued)

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

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

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

Investment strategy

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

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

The investment strategy as at 31 March 2022 is to hold:

- 22.0% in a diversified portfolio (core property and illiquid) of pooled funds which hold return seeking investments comprising UK commercial property, opportunistic property, property debt, direct lending and private equity.

- 32% in leveraged and un-leveraged index linked gilts and fixed interest gilts (cashflow matching), where the market value moves in line with the long term liabilities of the Scheme, the purpose of which is to hedge against the impact of interest rate movement and inflation on long term liabilities, and two bulk annuity policies to match the benefit payments to selected members.

- 45% in two delegated investment portfolios where the investment managers (AIL and Kempen) invest in a diversified portfolio of pooled funds which hold return seeking investments comprising UK and overseas equities, various credit instruments, infrastructure and liability hedging investments. The market value of the liability hedging assets moves in line with the actuarial value of the long term liabilities of the Scheme, as their purpose is to hedge against the impact of adverse movements in interest rates and inflation on the Scheme's funding position.
- 1.0% in cash to meet pension and other payments.

Investment transitions

During the year the following investment transitions took place:

- The Trustee appointed Kempen to manage 10% of the delegated mandate. The transition was funded by transferring c. £153m from AIL to Kempen over three tranches.

- Over the year, the Trustee re-registered 9 funds (c. £99m in asset value), consisting of 5 closed ended vehicles and 4 Core UP Property Funds, from being held within the AIL delegated portfolio to being held in the name of the Trustees. This was an operational transfer of ownership with no changes to the underlying investments. In addition the Blackrock UK Property Fund held by the Trustees under a custody model with Bank of New York Mellon was re-registered in to the name of the Trustees.

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Statement of Investment Principles (continued)

Other strategic changes to the Scheme over the year included (actions below were implemented upon hitting the 80% funding level trigger):

- De-risking of the overall portfolio target return to 3.9% p.a. above liabilities (subsequently reduced to 3.5% p.a. in May 2022 on hitting 84% funding level trigger);
- Reduction of the investment outperformance objective of the delegated managers to 2.6% (subsequently reduced to 2.4% in May 2022 on hitting 84% funding level trigger); and
- Increase of the target interest and inflation hedge ratio to 80% of low dependency Iiabilities (subsequently increased to 84% in May 2022 on hitting 84% funding level trigger).

In addition there was there were 42 capital calls (£104m) over the year and 78 distributions (£36m) on the illiquid closed ended mandates (e.g. Private Equity, Private Property, Private Credit).

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.

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YEAR ENDED 31 MARCH 2022

Investment report

Investment performance

The Trustee assesses the performance of the Scheme's investments by reference to benchmarks and performance targets set and agreed with each manager. The Trustee receives monthly reports from its performance measurer ('BNYM') showing actual performance by investment manager and fund. Investment managers regularly present to the Investment Committee ('IC'), to report on compliance with their agreements and to be questioned by the IC members. Performance of the Scheme's investments (excluding annuities) over short and longer periods to 31 March 2022 is summarised as follows:

Period	Scheme return (% p.a.)	Benchmark return (% p.a.)
1 year	6.4	6.4
3 years	6.0	5.4
5 years	5.4	6.1

Source: BNYM

Scheme performance & activity

Over the year to 31 March 2022, the Scheme returned 6.4%, in line with its benchmark return of 6.4%, as reported by BNY Mellon.

Global equities generated positive returns over the last twelve months boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets reversed some of their gains in Q1 2022 as geopolitical risk took centre stage with Russia invading part of Ukraine. Furthermore, major central banks continued to move forward with normalising monetary policy as inflation rates worldwide rose rapidly.

The Russian invasion of Ukraine created significant market volatility and economic uncertainty over Q1 2022. G7 sanctions against Russia are likely to slow GDP growth over 2022 and cause further supply chain disruption. While the US has banned Russian oil and gas imports, the picture in Europe is more complicated given its Russian oil and gas dependence.

The delegated investment portfolio with AIL returned 1.1% over the year, underperforming the investment objective[1] by 1.6%. The quarterly returns contributing to the 1.1% yearly return on the delegated portfolio were as follows; 6.5% in Q2 2021 (rally in markets following a successful vaccine roll out); 1.0% in Q3 2021 (rising interest rates and inflation expectations as well as fears of a slowing pace of economic growth); 6.5% in Q4 2021 (equity market rally as inflation and growth concerns were shrugged off) and -11.8% in Q1 2021 (negative return driven by geopolitical risks, increased inflation and rising interest rates decreasing the value of Scheme liabilities and LDI assets).

LGIM passive gilts performed within accepted levels over the year.

Core UK property returns were strong over the year. The strongest absolute performance came from the Threadneedle fund returning 23.8%, followed by the BlackRock property fund returning 20.5%. However, the combined Core UK Property portfolio returned 21.6% over the year marginally underperformed the MSCI UK Property Index which returned 23.1%.

The combined illiquids portfolio returned 17.5% over the year. The illiquids portfolio consist of private equity, opportunistic property and private credit.

Within the established private equity funds, strongest attribution came from BV Partners and Blackstone with absolute performance of 45.1% and 102.7% respectively over the year as reported by BNY Mellon.

[1] To outperform the liability benchmark by 2.6% per annum over rolling three-year periods. Applicable as at 31 March 2022.

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Investment report (continued)

Scheme performance & activity (continued)

Within the opportunistic property funds Brockton returned 3.4%, Clearbell II and III returned 3.9% and 21.2% respectively, as reported by BNY Mellon.

Within the Property Debt and Direct Lending funds, DRC returned 5.0%, Invesco returned 7.7%, Ares IV 7.1% and Arcmont Direct Lending fund 7.0% in absolute terms, as reported by BNY Mellon.

Engagement Policy Implementation Statement

This Engagement Policy Implementation Statement ("EPIS") has been prepared by the Trustee and covers the AA Pension Scheme year 1 April 2021 to 31 March 2022.

Introduction

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

- Explain how and the extent to which the Trustee has followed its engagement policy which is set out in the Statement of Investment Principles ("SIP").

- Describe the voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Scheme year and state any use of third party provider of proxy voting services.

The statement focuses on the Scheme's two delegated mandates which consists of liquid growth assets and liability driven investments. The delegated mandates represent c. 60% of the Scheme's non-insured assets. The remaining 40% is invested in government bonds (c. 12%), illiquid invests such as private equity, private credit and private property (c. 18%) and Core UK Property (c. 10%).

Executive summary

Based on the activity over the year by the Trustee and its investment managers, the Trustee believes that the stewardship policy has been implemented effectively. The Trustee notes that its delegated managers, Aon Investments Limited ("AIL") and Kempen Capital Management ("Kempen"), along with its investment managers outside of the delegated arrangements were able to disclose adequate evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Scheme stewardship policy

This statement has been prepared in line with the Trustees' stewardship policy as set out in the SIP effective March 2022. The relevant extracts from the SIP in relation to 'Stewardship – Voting and Engagement' are 6.2-6.7.

The SIP can be found on the Scheme website and is included as an Appendix to the accounts.

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

TRUSTEE'S REPORT
YEAR ENDED 31 MARCH 2022

Scheme stewardship activity over the year

Training

Over the year, the Trustee had responsible investment training sessions with its investment advisor, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of Environment Social and Governance ("ESG") factors in investment decision making. In addition, the Trustee has received ongoing training on the Task Force on Climate-Related Financial Disclosures (TCFD) requirements.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by Aon as well as the Scheme's two delegated managers AIL and Kempen. The reports include ESG ratings and highlight any areas of concern, or where action is required.

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

TCFD

The Scheme is currently progressing towards meeting the requirements as set out as part of TCFD. The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. Aligning the Scheme to the TCFD can be a long process and requires careful planning. Aon are currently working with the Trustee ahead of the first publication of the report before 31 October 2023.

Engagement activity – Delegated manager (AIL)

The Trustee has delegated a portion of the Scheme's assets to AIL. AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers on behalf of the Trustee.

The Trustee has reviewed AIL's latest Annual Stewardship Report and believes it shows that AIL is using its resources to effectively influence positive outcomes in the funds in which it invests.

AIL has carried out a considerable amount of engagement activity over the year. AIL held a number of ESG focused meetings with the underlying managers across its strategies. At these meetings, AIL discussed ESG integration, and voting and engagement activities undertaken by the investment managers. This allowed AIL to form an opinion on managers' strengths and areas for improvement. AIL provided feedback to the managers following these meetings with the goal of improving the standard of ESG integration across its portfolios. AIL continues to execute its ESG integration approach and engage with managers.

Aon also actively engages with investment managers and this is used to support AIL in its delegated services. Aon's Engagement Programme is a cross-asset class initiative that brings together Aon's manager research team and Responsible Investment specialists to promote manager engagement with the needs of Aon's clients in mind.

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In Q3 2021, Aon and AIL were confirmed as signatories to the UK Stewardship Code. With one-third of applicants failing to reach signatory status, this achievement confirms the strength and relevance of stewardship activity undertaken by Aon and AIL.

Voting and Engagement Activity – Underlying AIL Investment Managers

Over the period, the Scheme was invested in a number of equity, fixed income and alternative funds through its investment with AIL. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material underlying managers.

Voting and Engagement activity – Equity and Multi Asset (AIL)

Over the year, the Scheme was invested in the following equity funds, through the delegated arrangement with AIL.

- AIL Global Active Equity Strategy
- AIL Emerging Markets Wealth Strategy
- AIL Global Impact Strategy
- AIL Global Multi-Factor Equity Strategy

In this section there is a summary of voting information and examples of significant voting activity for each of the Scheme's relevant managers. The investment managers provided examples of 'significant' votes participated in over the period. Each manager has its own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale

The Trustee considers a significant vote as one which the voting manager deems to be significant.

AIL Global Active Equity Strategy

Within the active global equity strategy (which consist of 5 managers; Harris, Arrowstreet, GQG, Ardevora and Sands Capital), all managers voted in over 96% of resolutions over the year to 31 March 2022. No more than 2.5% of votes were abstained by any manager during the period in question.

The following example (GQG Partners Global Equity Fund) demonstrate voting and engagement activity carried out by one of the sub-investment managers within the strategy over the year.

In April 2021, GQG voted against the management proposal to approve the climate transition plan for the commodity training and mining company, Glencore Plc. GQG voted against the proposal because the transition plan did not contain any near-term targets for reducing the company's greenhouse gas emissions. Also, there were no clear commitments for how the company plans to transition away from relying on thermal coal, which represents 10-15% of the company's earnings in the medium term. The company had not set science-based targets as approved by the Science Based Targets Initiative.

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GQG engages with companies on ESG issues where it thinks the engagement would be useful and productive. GQG engages with individual companies on specific ESG risks such as enhanced disclosure, board structure and diversity, labour management, or remuneration issues. GQG also carries out thematic engagements where it engages with several companies held in the same portfolio on a specific ESG issue. Examples of its thematic engagement activities are diversity and inclusion in executive management and enhanced ESG disclosures. GQG also takes part in collaborative engagement initiatives. GQG believes that a collaborative approach, with combined assets under management, can be more influential in effecting change.

Further information can be found here: https://gqgpartners.com/sites/default/files/ESGpolicy.pdf

The manager was able to provide evidence of the engagement policy being implemented in practice.

AIL Emerging Markets Wealth Strategy

Within the emerging markets wealth strategy (which consists of 5 managers; Oaktree, TT International, Coronation, GQG and Sands Capital), all managers voted in over 98% of resolutions over the year to 31 March 2022. No more than 5.1% of votes were abstained by any manager during the period in question.

The following example (Oaktree Emerging Markets Equity Fund) demonstrates voting and engagement activity carried out by one of the sub-investment managers within the strategy over the year.

In February 2022, Oaktree supported a management proposal from food company, Muyuan Foods, on its 2022 restricted stock incentive plan for. Oaktree supported the proposal because it believed the incentive plan to be of wide benefit to most employees and based on fair key performance indicator targets. The company also disclosed a detailed forecast of its expected future costs from issuing share-based compensation for the years 2022 to 2024. Oaktree noted that the forecast looked fair and good.

The outcome of the vote was in support of the proposal. Oaktree considered this vote significant because it was a significant step towards increasing alignment between the management and minority shareholders.

Through its strong relationships with companies, Oaktree believes it can play a constructive role in helping them improve their practices. Oaktree states that it engages with every company in its portfolio as well as many others in its investment universe.

Oaktree has an ESG escalation committee to enhance its decision-making process when a significant ESG-related event occurs at a company. Following such an event, the research analyst covering the stock refers the issue to the committee including details of the potential ESG implications. The issue will be reviewed by the escalation committee which determines the action to take on the stock.

Oaktree has a research database where it stores details of its engagements. This allows teams to follow developments and showcase engagements where it acts as a delegated or a stakeholder to improve corporate responsiveness.

The manager was able to provide evidence of the engagement policy being implemented in practice.

AIL Global Impact Strategy

Within the active global impact strategy (which consists of 3 managers; Nordea, Mirova and Baillie Gifford), the managers voted in over 95% of eligible resolutions over the year to 31 March 2022, with the exception of Baillie Gifford falling below that mark. AIL will provide feedback to Baillie Gifford that a higher level of voting frequency is expected.

The following example (Baillie Gifford Positive Change Fund) demonstrates voting and engagement activity carried out by one of the sub-investment managers within the strategy over the year.

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In August 2021, Baillie Gifford voted against a proposal from the management of medical device company, Abiomed, regarding an executive compensation package. Baillie Gifford opposed the proposal due to concerns about one-off equity awards granted during the year. Ahead of voting, Baillie Gifford had a call with the company to discuss the proposal in more detail. Following discussions with the company and internally, Baillie Gifford decided to oppose the resolution and Baillie Gifford communicated its decision to the company. The resolutions passed. Baillie Gifford continues to engage with the company on compensation and other ESG issues.

Baillie Gifford engages through regular meetings with portfolio companies to monitor performance. Baillie Gifford states that its strategy is to steer change through active engagement rather than immediate disinvestment. This may take the form of approaching the company with concerns, meetings with management, or voting against management. Baillie Gifford may decide to disinvest or reduce holdings in a company if it continually falls short in its ESG practices and goals.

Baillie Gifford usually addresses specific governance and sustainability concerns by engaging directly with a company. Its research informs the topics on which it engages. When appropriate, Baillie Gifford engages collaboratively with other shareholders through a range of industry organisations and initiatives.

Further information can be found here: https://www.bailliegifford.com/en/uk/about-us/literature-library/corporate-governance/our-stewardship-approach-esg-principles-and-guidelines-2022/

Engagement Example

In September 2021, Baillie Gifford engaged with the Chief Financial Officer of Nibe, a manufacturing company specialising in sustainable energy systems like heat pumps. The aim of the engagement was for Baillie Gifford to understand more about Nibe's ESG impact reporting practices and to encourage improved disclosure of the carbon emissions avoided from the use of its products.

Nibe confirmed that its emissions calculations were still in progress, made more complicated by the decentralised systems used in its products. Nibe also said that is not ready to set Science-Based Targets but it is actively considering them. Baillie Gifford also discussed the proactive role Nibe is playing in the promotion of heat pumps as a climate solution. Baillie Gifford will continue to monitor the company's progress and engage accordingly.

AIL Global Multi-Factor Equity Strategy

The Scheme invests in the AIL global multi factor equity strategy, which primarily invests in the LGIM Multi Factor Fund. Over the year to 31 March 2022, LGIM voted on 99.8% of all resolutions in the Multi-Factor Fund (LGIM are the passive manager investing in the underlying factor index) and abstained from 0.2% of resolutions.

LGIM uses proxy voting adviser ISS to execute votes electronically and for research. LGIM also receives research Institutional Voting Information Service ("IVIS"). This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

In June 2021, LGIM applied it's voting policy to vote against a resolution to elect the Chief Executive Officer ("CEO") of retailer Target Corporation to the role of Chair of the company's board as well. It is LGIM's policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences due to risk management and oversight. Further, LGIM expects a CEO or non-executive director not to hold too many board positions to ensure they can undertake their duties effectively. 93.7% of shareholders voted in favour of the resolution. LGIM considered this vote to be significant because it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role. LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

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LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

LGIM monitors several ESG subjects and conducts engagement on various issues. It's top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf.

At the time of writing, LGIM had not provided engagement examples for the fund. The Trustee's delegated manager, AIL, has engaged with LGIM regarding its lack of fund level engagement reporting and expects improved reporting to be showcased in the next year's EPIS. The example provided below is at a firm level, i.e. it is not specific to the fund the Scheme is invested in.

The manager was able to provide evidence of the engagement policy being implemented in practice.

Engagement activity – AIL Fixed Income

Over the period, the Trustee primarily invested in fixed income strategies through the bespoke AIL portfolios. Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and so debt issuers have a vested interest to make sure that investors are happy with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, downside risk mitigation and credit quality are critical parts of the investment decision-making process. The Trustee also believes engagements from fixed income managers are key to reducing ESG risks within the Scheme's portfolio, such as the ability to contribute to the transition towards a low carbon economy.

Over the year, the Scheme was invested in the following fixed income funds through the delegated arrangement with AIL:

- AIL Multi-Asset Credit Strategy (now Sustainable MAC Strategy)

- AIL Active Fixed Income Strategy

- AIL Low Risk Bonds Strategy

AIL have confirmed that all applicable appointed managers in this asset class have demonstrated responsible investment policies and practices consistent with the Trustee policy and will promote continued transparency and improvements in transparency over time. An example being the Aegon European Asset Backed Securities ("ABS") Fund held within the AIL Fixed Income portfolio.

Aegon believes that actively engaging with companies to improve their ESG performance and corporate behaviour is generally more effective than excluding companies from investment. Engagements are conducted by its investment managers, research analysts and its Responsible Investment team.

When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment ("PRI"). Aegon also participates in collaborative engagement initiatives such as the UK Investor Forum and the Institutional Investors Group on Climate Change.

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Aegon engages with ABS issuers regularly through ESG questionnaires that are specific for consumer loan ABS. It has meetings to discuss the questionnaire answers, the companies' ESG goals and any areas for improvement.

In 2021 Aegon engaged with Brignole, an ABS issuer. Aegon wanted to better understand the consumer loans issued by the company, so it could assess if the loans had any environmental impact. Further, Aegon suggested that the company increase borrowing for an environmental purpose by offering borrowers a discount.

Engagement activity – AIL Alternatives

AIL have engaged with some of the appointed hedge funds where voting and stewardship are more applicable. From the information received, AIL see evidence that sub-investment managers acknowledge the importance of climate change and take steps to integrate these issues into investment decisions. By 31 March 2022 the allocation to hedge funds within the AIL delegated portfolio was less than 1%. This was an active decision from the Trustees to reduce the exposure to hedge funds.

Engagement activity – Delegated manager (Kempen)

The Trustee has delegated a portion of the Scheme's assets to Kempen. As part of Kempen delegated portfolio, the Scheme's investments are managed by external managers who each have their own ESG (& engagement policies) and are responsible for implementing this across the assets they invest in (or companies they engage with at a firm level). Kempen actively monitors and engages with external managers, which includes ESG, which is embedded within its investment philosophy. Should an external manager approach conflict with Kempen's own investment beliefs, Kempen will engage with them in order to address the concerns.

Voting at shareholder meetings of investee companies is a key tool of stewardship and active ownership. Throughout 2021 Kempen voted at 437 distinct company meetings, with 14% of our votes cast against management. Kempen uses of ISS as a voting platform and votes are based on Kempen's custom voting policy. Kempen produces a stewardship dashboard which highlights key numbers with respect to Kempen's exclusion & avoidance practices, ESG integration, and active ownership (voting and engagement) activities over 2021.

Over the year, 43 companies were on the exclusion list due to their involvement with controversial weapons. Kempen also avoids 105 tobacco companies and 30 companies were avoided due to their involvement in significant controversies.

Engagement

As a delegated manager Kempen notes that its role in the investment value chain is to help trustees fulfil their stewardship obligations towards members. Kempen believes the consideration of material ESG risks and opportunities is part of the delegated duty of institutional investors and helps the clients embed considerations of sustainability into their investment approach. Kempen differentiates between the following sections within its ESG approach:

- **Engagement for awareness.** By aiming to raise awareness about a certain issue or to get more information on a particular company.

- **Engagement for change.** By having concrete objectives with specific timelines set in advance, specifying what it would like to achieve. Progress of these engagements is measured via an internal milestone framework.

- **Public policy and collaborative engagements.** By aiming to improve the overall landscape of (financial) markets and general level of ESG performance in particular sectors, markets and geographies.

TRUSTEE'S REPORT
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Kempen undertakes a thorough ESG scoring due diligence of external managers, which covers the governance of ESG issues, relevant policies, implementation and disclosure. Kempen is increasingly seeking evidence from external managers on their ESG compliance and proactively engages with them. Kempen also screens the holdings and funds in the external portfolio and discusses possible controversial investments with the fund managers. If external managers are not willing to comply with Kempen's minimum environmental standards, it may choose to divest.

As an example, Kempen has on occasions removed or withheld investments with underlying managers on ESG grounds, such as:

- Divested assets from M&G's Corporate Bond Fund in stages, noting that the manager reversed its conflicting policy before Kempen fully divested;
- Withheld assets from Insight until Kempen's concerns on tobacco exposure in the manager's buy-and-maintain portfolios were addressed;
- Challenged LGIM on their existing approach to corporate bonds and worked collaboratively to develop an alternative net zero aligned strategy to move assets into.

Further details of how Kempen engages with external managers can be found in its Stewardship and Engagement policy here:
https://www.kempen.com/-/media/Asset-Management/ESG/Polocies/December-2021-Kempen-Stewardship-Policy.pdf

Engagement example

An example of where Kempen believed its concerns were not adequately addressed was Fujitec (escalator developer and manufacturer). Kempen has invested in the company since 2014 and own approximately 3.5% of the shares outstanding. Kempen voted against the directors because of insufficient progress on engagement topics to improve on corporate governance and capital allocation. Kempen also went public with its concerns in an open letter to Fujitec Board of Directors over a disappointing mid-term plan and inadequate corporate governance at the company. Fujitec's underperformance versus peers and the structural undervaluation of the company's stock led Kempen to provide numerous suggestions to improve shareholder communications, capital efficiency, corporate governance and the geographical footprint. This led to a positive response on Kempen's recommendations. Further detail can be found here: Kempen Capital Management issues open letter to Fujitec's Board of Directors | Kempen

Engagement activity – Alternative non-delegated assets

The Scheme invests in a number of alternative strategies (property, infrastructure, private debt, private equity, hedge funds) both within and outside of the delegated mandates.

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

The Trustee recognises that the investment processes and often illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit than with other asset classes. Nonetheless, the Trustee expects that all its managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that may be financially material.

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

TRUSTEE'S REPORT
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Appendix

Voting Statistics for the year ending 31 March 2022

The table below summarises voting statistics for the most material equity funds within the AA portfolio.

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted on, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained
AIL Active Global Equity Strategy				
Arrowstreet – Global Developed Equity Fund	6,625	96.2	8.4	0.8
GQG – Global Equity Fund	682	99.3	9.5	2.5
Ardevora – Global Long-Only Equity Fund	2,950	100.0	8.2	0.2
AIL Emerging Markets Equity Strategy				
Oaktree – Emerging Markets Equity Fund	1,085	100.0	8.1	2.6
TT International – Emerging Markets Unconstrained Strategy	1,029	98.1	9.1	5.1
GQG – Emerging Markets Fund	867	100.0	7.8	3.8
AIL Global Multi-Factor Equity Strategy				
LGIM – Multi Factor Equity Fund	11,660	99.8	19.1	0.2
AIL Global Impact Strategy				
Baillie Gifford – Positive Change Fund	333	93.7	2.6	0.3
Nordea – Global Climate and Environmental Strategy	711	98.3	14.0	0.0
Mirova - Global Sustainable Equity Fund	719	100.0	44.4*	0.0

Source: Managers.
*Of the 44.4% of the resolutions that Mirova voted against, 0.012% did not pass (4 resolutions that were voted against did not pass). The themes that caused Mirova to vote against management include concerns with the remuneration scheme (lack of corporate social responsibility (CSR) criteria, existence of stock options, concerns with the fair distribution of value) and board composition concerns – such as lack of employee representative, insufficient female representation, lack of board committee dedicated to the oversight of CSR.

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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 Departments
The AA
Fanum House
Basing View
Basingstoke
Hants
RG21 4EA

pensions@theaa.com
0800 5877877 option 3

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

TRUSTEE'S REPORT
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Compliance matters

HM Revenue & Customs Registration

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

Pension Tracing

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

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

The Pensions Regulator

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

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

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

TPR can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

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

TRUSTEE'S REPORT
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Compliance matters (continued)

The Pension Protection Fund

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

The Pension Protection Fund can be contacted at:

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

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

Questions about pensions

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

MoneyHelper can be contacted at:

Money and Pensions Service
120 Holborn
London
EC1N 2TD

0800 011 3797
www.moneyhelper.org.uk

Resolving difficulties/Internal Dispute Resolution

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

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

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

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

TRUSTEE'S REPORT
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Statement of Trustee's Responsibilities

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

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

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

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

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

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

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

Approval

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

Trustee Director:

Trustee Director:

Date: 12.10.2022

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF 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 2022 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 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information

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

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF 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 trustees

As explained more fully in the Statement of Trustee's Responsibilities set out on page 27, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF AA PENSION SCHEME

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

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: 12 October 2022

FUND ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £000	2021 £000
Employer contributions	4	11,000	10,000
Other income	5	42	-
		11,042	10,000
Benefits paid or payable	6	(56,357)	(58,642)
Payments to and on account of leavers	7	(18,616)	(24,026)
Administrative expenses	8	(4,033)	(4,144)
		(79,006)	(86,812)
Net withdrawals from dealing with members		(67,964)	(76,812)
Returns on investments			
Investment income	9	42,700	33,873
Change in market value of investments	10	48,847	133,334
Investment management expenses	11	(3,280)	(3,835)
Net returns on investments		88,267	163,372
Net increase in the fund during the year		20,303	86,560
Opening net assets		2,805,750	2,719,190
Closing net assets		2,826,053	2,805,750

The notes on pages 33 to 51 form part of these financial statements.

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2022

	Note	2022 £000	2021 £000
Investment assets			
Pooled investment vehicles	13	2,021,229	1,944,566
Derivatives	14	73	-
Insurance policies	15	571,800	589,300
Special purpose vehicles	16	204,300	244,900
AVC investments	17	4,870	5,100
Cash	18	12,383	8,131
Other investment balances	18	5,393	4,042
		2,820,048	2,796,039
Investment liabilities			
Derivatives	14	(91)	-
Other investment balances	18	(165)	-
		(256)	-
Total net investments		2,819,792	2,796,039
Current assets	22	8,818	12,721
Current liabilities	23	(2,557)	(3,010)
Net assets available for benefits at 31 March		2,826,053	2,805,750

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 9 to 11. These financial statements and Actuarial Certificate should be read in conjunction with this report.

The notes on pages 33 to 51 form part of these financial statements.

These financial statements on pages 31 to 51 were approved by the Trustee and were signed on its behalf by:

Trustee Director:

Trustee Director:

Date: 12.10.2022

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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 office is The AA, Fanum House, Basing View, Basingstoke, Hants, RG21 4EA.

3. Accounting policies

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

Functional and presentational currency

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

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

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

Contributions

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

3. Accounting policies (continued)

Other income

Other income is accounted for on an accruals basis.

Investment income

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

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

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

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

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

Change in market value of investments

The change in market value of investments during the year comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

Investment management expenses

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

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

Valuation of investment assets and liabilities

Investments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

3. Accounting policies (continued)

Valuation of investment assets and liabilities (continued)

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 2022.

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.

Asset backed funding

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

4. Contributions

	2022 £000	2021 £000
Employer:		
Deficit funding	11,000	10,000

Under the Schedule of Contributions certified by the Scheme Actuary on 24 February 2020, deficit funding contributions are payable monthly by the Principal Employer at a rate of £1,226,202 per month from April 2021 to March 2022. The Schedule of Contributions specifies that these contributions be offset against monthly payments received by the Scheme from the ABF investment (see note 10). These deficit funding contributions are increased by the published increased in Retail Prices Index subject to an overall increase of 5% and a minimum of 0% from 1 April and are payable to July 2025.

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

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

5. Other income

	2022 £000	2021 £000
Other income	42	-

This is in relation to an adminstrative error in which the Scheme overpaid five death benefits. The administrator agreed to cover this and reimbursed the Scheme for the overpayments.

6. Benefits paid or payable

	2022 £000	2021 £000
Pensions	45,671	44,152
Commutations of pensions and lump sum retirement benefits	10,228	13,954
Lump sum death benefits	458	536
	56,357	58,642

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

7. Payments to and on account of leavers

	2022 £000	2021 £000
Individual transfers to other schemes	18,616	24,021
Refund to members leaving service	-	5
	18,616	24,026

8. Administrative expenses

	2022 £000	2021 £000
Administration and processing	1,324	949
Actuarial fees	617	967
Audit fees	55	49
Legal fees	426	413
Other professional fees	326	474
Scheme levies	1,057	1,135
Trustee fees and expenses	223	145
Sundry expenses	5	11
Bank charges	-	1
	4,033	4,144

For the year ended 31 March 2022 an amount of £29k (2021: £nil) is included within Trustee fees that relate to invoices from the previous year owing to an under accrual.

9. Investment income

	2022 £000	2021 £000
Income from pooled investment vehicles	16,789	7,823
Interest on cash deposits	5	5
Annuity income	25,906	26,045
	42,700	33,873

This year there are nine new investment managers re-registered (transferred from AIL), of which five have contributed to the investment income earned.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

10. Investments

	Opening value at 1 Apr 2021 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Closing value at 31 Mar 2022 £000
Pooled investment vehicles	1,944,566	568,560	(583,671)	91,773	2,021,229
Derivatives	-	207	-	(225)	(18)
Special purpose vehicles	244,900	-	(14,701)	(25,899)	204,300
Insurance policies	589,300	-	-	(17,500)	571,800
AVC investments	5,100	-	(928)	698	4,870
	2,783,866	568,767	(599,300)	48,847	2,802,181
Cash	8,131				12,383
Other investment balances	4,042				5,228
Total net investments	2,796,039				2,819,792

Income is received from the ABF amounting to £12,200k each year from 1 November 2013 for 25 years in equal monthly instalments and is shown under ABF sales. This income increases annually by RPI up to a maximum of 5% p.a. Payments totalling of £14,701k have been received in this Scheme year.

During the year the following significant investment transitions took place:

The Trustee appointed Kempen to manage 10% of the delegated mandate. The transition was funded by transferring c. £153m from AIL to Kempen over three tranches.

Over the year, the Trustee re-registered 9 funds (c. £99m in asset value), consisting of 5 closed ended vehicles and 4 Core UP Property Funds, from being held within the AIL delegated portfolio to being held in the name of the Trustees. This was an operational transfer of ownership with no changes to the underlying investments. In addition the Blackrock UK Property Fund held by the Trustees under a custody model with Bank of New York Mellon was re-registered in to the name of the Trustees.

Other strategic changes to the Scheme over the year included (actions below were implemented upon hitting the 80% funding level trigger):

- De-risking of the overall portfolio target return to 3.9% p.a. above liabilities (subsequently reduced to 3.5% p.a. in May 2022 on hitting 84% funding level trigger);
- Reduction of the investment outperformance objective of the delegated managers to 2.6% (subsequently reduced to 2.4% in May 2022 on hitting 84% funding level trigger); and
- Increase of the target interest and inflation hedge ratio to 80% of low dependency liabilities (subsequently increased to 84% in May 2022 on hitting 84% funding level trigger).

In addition there was there were 42 capital calls (£104m) over the year and 78 distributions (£36m) on the illiquid closed ended mandates (e.g. Private Equity, Private Property, Private Credit).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

10. Investments (continued)

Transaction costs

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

	Equities £000	2022 Total £000
Commissions	2	2
Total	2	2

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.

11. Investment management expenses

	2022 £000	2021 £000
Administration and management fees	3,202	3,859
Management fee rebates	(374)	(258)
Consultancy fees	452	234
	3,280	3,835

12. Taxation

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

13. Pooled investment vehicles

	2022 £000	2021 £000
Bond funds	136,816	81,068
Cash & liquidity funds	-	11,900
Equity funds	71,664	-
Hedge funds	25,215	17,896
LDI funds	56,881	76,303
Other pooled*	7,267	-
AIL delegated investment fund	1,149,517	1,436,678
Private equity funds	237,055	165,574
Property funds	219,628	155,147
Venture capital funds*	106,347	-
Investment trust*	10,839	-
	2,021,229	1,944,566

*These are the new funds transferred from AIL during the year. Additional details of these investments are seen in the table further on in the note.

Other pooled funds consist of Kempen Non-US Listed Alternative Funds. Venture capital funds consist of Ares, Taconic, M&G, York, CVC, Alcentra, EMK, Clearbell and Kempen Macquarie Infrastructure Debt Fund LP. Investment trusts consist of Kempen Other Investment Trusts – UK.

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

	2022 £000	2021 £000
Authorised unit trust	1,396,996	1,539,415
Exchange traded fund	12,949	-
Irish collective asset-management vehicle	41,760	-
Limited partnership	278,200	183,471
Mutual fund	46	205
Open ended investment company	225,100	221,475
Qualifying investor alternative investment fund	18,306	-
Société d'Investissement à Capital Variable	12,789	-
Unit-linked life fund	35,083	-
	2,021,229	1,944,566

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

13. Pooled investment vehicles (continued)

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

	2022 £000	2021 £000
Equity funds	331,798	261,705
Bond funds	150,172	144,787
Diversified growth	167,208	-
Property funds	8,281	152,004
Hedge funds	12,521	335,596
Opportunities portfolio - multi asset funds	-	52,746
Emerging market equity funds	83,665	65,037
Emerging market bond funds	53,276	53,116
Cash and working capital	4,671	(39,370)
LDI investment funds	294,819	411,057
Other/bespoke	43,106	-
	1,149,517	1,436,678

14. Derivatives

	2022 £000	2021 £000
Assets		
Forward foreign exchange	73	-
	73	-
Liabilities		
Forward foreign exchange	(91)	-
	(91)	-
	(18)	

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

14. Derivatives (continued)

Forward foreign exchange - OTC

Contract	Expires within	Currency bought 000	Currency sold 000	Fair value Asset £000	Fair value Liability £000
Forward FX	0-3 months	€2,138	£2,157	19	-
Forward FX	0-3 months	€25	£25	-	-
Forward FX	0-3 months	¥261	£277	16	-
Forward FX	0-3 months	£42	€42	-	-
Forward FX	0-3 months	£2,126	€2,121	-	(5)
Forward FX	0-3 months	£260	¥261	-	-
Forward FX	0-3 months	£10,323	$10,291	-	(32)
Forward FX	0-3 months	$5,059	£5,043	-	(16)
Forward FX	0-3 months	$5,073	£5,041	-	(32)
Forward FX	0-3 months	$159	£156	-	(4)
Forward FX	3-6 months	€2,130	£2,135	5	-
Forward FX	3-6 months	¥262	£261	-	-
Forward FX	3-6 months	£288	€288	-	-
Forward FX	3-6 months	£31	¥31	-	-
Forward FX	3-6 months	£1,635	$1,633	-	(2)
Forward FX	3-6 months	$10,294	£10,327	33	-
Total 2022				73	(91)
Total 2021				-	-

15. Insurance policies

	2022 £000	2021 £000
Insurance policies	571,800	589,300

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

Method and assumptions

The values of the bulk annuity policies as at 31 March 2022 are consistent with the technical provisions calculations for the formal actuarial valuation as at 31 March 2019 using the post retirement discount rate, which is the gilt yield curve without any allowance for outperformance. The assumptions used have been modified only insofar as is necessary to maintain consistency with the Statement of Funding Principles dated 12 February 2020, reflecting the change in the effective date and in relevant market conditions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

16. Asset backed funding

	2022 £000	2021 £000
	204,300	244,900

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 2022, 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 (2021: BBB).
- An illiquidity premium of 1.65% (2021: 1.50%) p.a.
- A recovery rate of 62% (2021: 67%) on the amount payable upon insolvency of the Employer.

17. AVC investments

	2022 £000	2021 £000
Utmost	594	712
Prudential	4,276	4,388
	4,870	5,100

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

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

AVC investments can be further analysed as:

	2022 £000	2021 £000
With profits	1,870	1,870
Unit trusts	594	712
Other*	2,406	2,518
	4,870	5,100

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

18. Cash and other investment balances

	2022 £000	2021 £000
Cash	11,713	8,131
Cash collateral	670	-
Other investment balances	1,670	1,683
Unsettled sales	3,723	2,359
Unsettled purchases	(165)	-
	17,611	12,173

19. Fair value hierarchy

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

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

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

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

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

Investment assets	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**2022 Total £000**
Pooled investment vehicles	87,016	146,547	1,787,666	2,021,229
Derivatives	-	-	73	73
Asset backed funding	-	-	204,300	204,300
Insurance policies	-	-	571,800	571,800
AVC investments	-	3,000	1,870	4,870
Cash	12,383	-	-	12,383
Other investment balances	3,723	-	1,670	5,393
	103,122	149,547	2,567,379	2,820,048
Investment liabilities				
Derivatives	-	-	(91)	(91)
Other investment balances	(165)	-	-	(165)
	(165)	-	(91)	(256)
	102,957	149,547	2,567,288	2,819,792

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

19. Fair value hierarchy (continued)

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

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.

20. Investment risks

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

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

Market risk: this comprises currency risk, interest rate risk and other price risk.

> **Currency risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
>
> **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
>
> **Other price risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

Investment strategy

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

Further details in respect of 'investment strategy' can be found on page 13 of the Trustee's Report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

20. Investment risks (continued)

i. Credit risk

Credit risk arising on bonds is mitigated by investing in pooled investment vehicles holding leveraged index linked and fixed interest gilts of £128.6m (2021: £103.7m) and non-leveraged index-linked gilts of £54.4m (2021: £53.7m), where the credit risk is minimal. The Scheme's investments with the delegated investment managers, AIL and Kempen totalling £1,276.8m (2021: £1,437.2m) were also exposed to indirect credit risk of £233.4m (2021: £197.9m) 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 £42.0m (2021: £47.8m) and direct lending funds of £159.1m (2021: £37.3m).

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 managers.

Within the delegated portfolio, AIL and Kempen, carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of a pooled manager. Pooled investment arrangements used by the Scheme primarily comprise mutual funds, authorised unit trusts, open ended investment companies and limited partnerships (see note 13).

Direct credit risk also arises in respect of the bulk annuity policy held with Canada Life £295.1m (2021: £348.3m) and with Just £221.0m (2021: £241.0m), which is secured to pay a proportion of the Scheme’s liabilities. Whilst insurers in the UK are required to meet stringent solvency requirements, there is nevertheless a small risk of the insurer failing. The Financial Services Compensation Scheme (‘FSCS’) may provide compensation in this unlikely scenario.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

20. Investment risks (continued)

ii. Currency risk

Direct currency risk arises because some of the Scheme's investments £309.9m (2021: £190.7m) are held in overseas markets denominated in overseas currencies. Of the Scheme's investments with AIL and Kempen £111.5m (2021: £64.3m) are held in vehicles denominated in overseas currencies. Indirect currency risk arises because some investments are held in overseas markets via pooled investment vehicles. Some 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 their portfolio positions as a result of changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

iii. Interest rate risk

The Scheme is subject to interest rate and inflation risk because some of the Scheme's investments are held in leveraged and un-leveraged index-linked and fixed interest gilt funds managed by LGIM totalling £143.6m (2021 £157.4m) and in gilts and index linked gilts on leveraged and unleveraged bases, cash and swaps, through pooled vehicles managed by AIL totalling £357.8m (2021: £388.6m) and Kempen totalling £39.3m (2021: n/a). These investments are held in order to mitigate the impact of interest rate and inflation changes on the Scheme's funding position.

If interest rates fall the value of these funds will rise to help offset some of the increase in actuarial liabilities because of a decrease in the discount rate. Via the delegated managers, the Scheme had pooled bond investment vehicle exposure of £233.4m (2021: £197.9m) where the market values could fluctuate from interest rate changes.

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

iv. Other price risk

Other price risk arises principally in relation to the underlying assets in the Scheme's return seeking portfolio through AIL and Kempen as shown below

	2022	2021
	£	£
Global equities	448m	327m
Return seeking bonds and other credit strategies	198m	315m
Hedge funds	23m	305m
Infrastructure	5m	12m
Private equity	-	43m
Property and property debt	-	249m
Diversified growth funds	14m	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

21. Concentration of investments

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

	2022		2021	
	£000	%	£000	%
Canada Life	337,900	12.0	348,300	12.4
Just	233,900	8.3	241,000	8.6
Aon GL EQ N-TRE*	212,854	7.5	-	-
ABF - Scottish Limited Partnership	204,300	7.2	244,900	8.7
Adept SF27*	-	-	182,268	6.5
Insight LDI SO 25 GBPNPV*	169,540	6.0	173,887	6.2
Adept 31*	167,208	5.9	-	-
BlackRock – UK Prop FD Dist UTS	142,241	5.0	-	-

* The Scheme is the sole investor in a delegated investment fund – see note 13. The investment in the AIL Main Portfolio AO1 represents 40.6% (2021: 51.2%) of the net assets of the Scheme.

22. Current assets

	2022 £000	2021 £000
Employer contributions due	917	833
Cash balances	7,814	11,819
Sundry debtors	87	69
	8,818	12,721

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

23. Current liabilities

	2022 £000	2021 £000
Accrued expenses	1,493	898
Accrued benefits	167	1,200
HM Revenue & Customs	14	4
Sundry creditors	883	908
	2,557	3,010

The sundry creditor of £883k (2021: £908k) represents annuity income received in advance.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

24. Employer related investments

There were no direct Employer related investments during the year or at the year end (2021: nil). The Trustee recognises that indirect investment in the Employer's sponsor group, is possible through holdings in pooled investment vehicles. The Trustee believes that any indirect exposure to shares in the Employer sponsor group were less than 5% at any time during the year and at year end.

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

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 £72k (2021: £40k) by the Scheme.

Fees and expenses were paid to the Independent Trustee Director in the amount of £147k (2021: £105k) by the Scheme. At the year end a creditor balance of £39k (2021: £nil) 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
Mr L Jones – Deferred member (2021: Deferred member)
Mr J Stewart – Deferred member (2021: Deferred member)
Mr M Sullivan – Pensioner (2021: Pensioner)
Member-Nominated
Mr C King – Pensioner
Mr S Millman – Deferred member (2021: Deferred member)
Ms G Pritchard – Deferred member
Independent
PAN Trustees UK LLP – non-member (2021: non-member)

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

The Scheme entered into an ABF arrangement during the year ended 2014. An amount of £198m was paid into the ABF which is underpinned by a 25-year loan note backed by royalties payable in respect of the AA's brands. Income is received from the ABF of £12.2m each year for 25 years in equal monthly instalments increasing annually by RPI up to a maximum of 5%. The fair value at the year end is £204.3m (2021: £244.9m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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.

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

Equalisation of normal retirement ages

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

Bulk annuity

The Trustee is undergoing a data cleanse project of the liabilities insured with Canada Life and Just. Depending on the outcome of this project, the Scheme may either have to pay an additional premium, or receive a refund from the premium already paid. The data cleanse period has been extended to 30 September 2022. 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 2022 (2021: £nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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	Commitment Paid	Remaining Capital Commitment
	£000	£000	£000
Alcentra	24,100	11,128	12,972
Arcmont	30,000	20,305	9,695
Ares	60,000	36,983	23,017
BlackRock Quellos	37,222	34,395	2,827
Blackstone	65,931	26,518	39,413
Brockton	40,000	24,528	15,472
BV	9,871	3,594	6,277
Clearbell	105,000	69,168	35,832
CVC	34,547	20,461	14,086
DRC	40,000	30,080	9,920
EMK	8,975	2,490	6,485
GAM	20,000	12,884	7,116
Keyhaven	31,267	29,309	1,959
M&G	25,000	24,430	570
Taconic	28,701	24,252	4,449
York	22,703	18,457	4,246
Warburg	39,482	39,477	5
Total 2022	622,799	428,459	194,341
Total 2021	405,247	254,192	151,055

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF AA PENSION SCHEME FOR THE YEAR ENDED 31 MARCH 2022

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 2022 which is set out in the Trustee's Report on page 53.

In our opinion contributions for the Scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 24 February 2020.

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 Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

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: 12 October 2022

SUMMARY OF CONTRIBUTIONS
FOR THE YEAR ENDED 31 MARCH 2022

During the year ended 31 March 2022 the contributions payable to the Scheme were as follows:

	Employer £000	Employees £000	Total £000
Contributions payable under the Schedules of Contributions and as reported by the Scheme auditor			
Deficit funding	11,000	-	11,000
Contributions payable in addition to those payable under the Schedules and total contributions reported in the financial statements			
Deficit contributions from ABF shown under investment sale proceeds	14,701	-	14,701
Total contributions reported in the financial statements	**25,701**	**-**	**25,701**

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

Trustee Director:

Trustee Director:

Date: 12.10.2022

ACTUARIAL CERTIFICATE

Name of scheme: AA Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period specified in the recovery plan dated 12 February 2020.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 12 February 2020.

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

Signature.. Date....24/2/20....

David Eteen
Fellow of the Institute and Faculty of Actuaries

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

APPENDIX – EXTRACTS FROM STATEMENT OF INVESTMENT PRINCIPLES

Extracts from the Statement of Investment Principles - dated March 2022

Stewardship – Voting and Engagement

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

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

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

6.3
The Trustee supports the Codes on the corporate governance of UK companies and accordingly expects its appointed Investment Managers to comply with these Codes. Voting should fully consider the "comply or explain" basis of the Codes, with explanations given by companies for non-compliance. The Trustee would also expect the Investment Managers always to exercise their voting rights in UK companies, including when appropriate by registering "votes withheld". Regarding non-UK companies, the Trustee expects the Investment Managers similarly to vote its shares where it is practicable to do so taking account of recognised best practice in corporate governance in the country or market concerned.

6.4
On issues not covered by the UK Corporate Governance and Stewardship Codes, or similar overseas best practice guidance, the Trustee would expect the Investment Managers to vote actively on contentious issues, with the objective of securing the best outcome for the shareholders generally and, where appropriate, setting an example that is appropriate to other companies.

6.5
The Trustee would expect that the Investment Managers should always vote in the best interests of the investee company and never vote in any way that is influenced by their own interests, e.g. because the investee company concerned has a pension fund where the assets are managed by certain Investment Managers.

6.6
The Trustee expects Investment Managers to report to it, when voting on contentious issues, particularly on difficult issues of a fundamental or far reaching nature. The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the investment manager.

6.7
The Trustee generally considers that the responsibility of owning shares in companies carries with it the obligation to exercise shareholder rights in a responsible and proactive way, as this is in the general interests of the shareholder community in which the Trustee must participate as a significant investor.