

Registered number: 10098233

**AA PENSION SCHEME
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2023**

AA PENSION SCHEME

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TRUSTEE AND ITS ADVISERS YEAR ENDED 31 MARCH 2023

Trustee	A.A. Pensions Trustees Limited
Company Appointed Directors	Miss L Atkinson Mr M Baker (appointed 12 October 2022) Mr L Jones (resigned 19 June 2023) Mr J Stewart Mr M Sullivan
Member-Nominated Directors	Mr L Jones (appointed 19 June 2023) Mr C King Mr S Millman Mrs G Pritchard (resigned 25 January 2023)
Independent Director	Mr S Delo representing PAN Trustees UK LLP (Chairman)
Principal Employer	Automobile Association Developments Limited
Secretaries to the Trustee	Mrs L Birks (resigned 1 September 2022) Mrs J Jankiewicz (appointed 1 September 2022 and resigned 13 April 2023) Mrs T Gordon (appointed 13 April 2023)
Actuary	Mr D Eteen, FIA Aon Solutions UK Limited
Administrator	Aon Solutions UK Limited
Independent Auditor	Crowe U.K. LLP
Bankers	Bank of Scotland plc (closed 8 August 2023) HSBC plc
Covenant Adviser	RSM Restructuring Advisory LLP
Investment Advisers	Aon Solutions UK Limited Barnett Waddingham LLP (appointed 7 March 2023) Valuation Consulting LLP
Investment Managers	Alcentra European Direct Lending Fund II ('Alcentra') Aon Investments Limited ('AIL') Arcmont Asset Management ('Arcmont') Ares Management LLC ('Ares') BlackRock Investment Management (UK) Limited ('BlackRock') BlackRock Private Equity ('BlackRock Quellos') Blackstone Capital Holdings L.P. ('Blackstone') Brockton Capital LLP ('Brockton') BV Partners ('BV') Clearbell Capital LP ('Clearbell') Columbia Threadneedle Investments ('Threadneedle') (formerly Threadneedle Asset Management Limited) CVC Credit Partners Global Special Situations II S.a r.l. ('CVC') DRC Capital LLP ('DRC') EMK Capital Fund II ('EMK') Invesco Real Estate Finance Fund (GBP), SLP (formerly GAM Fund Management Limited ('Invesco'))

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TRUSTEE AND ITS ADVISERS YEAR ENDED 31 MARCH 2023

Investment Managers (continued)	Insight Investment Management (Global) Limited ('Insight') Kempen Capital Management N.V. ('Kempen') Keyhaven Capital Partners Limited ('Keyhaven') Legal & General Investment Management Limited ('LGIM') Lothbury Investment Management Limited ('Lothbury') M&G Investment Management Limited ('M&G') Mesirow Advanced Strategies Inc. ('Mesirow') Nuveen Real Estate Limited (formerly TH Real Estate) ('Nuveen') Schroders UK Real Estate Fund ('Schroders') Taconic European Credit Dislocation Offshore Fund II L.P. ('Taconic') Warburg Pincus Global Growth-E, L.P. ('Warburg') York Distressed Asset Fund IV (Cayman) Limited ('York')
Fiduciary Managers	Aon Solutions UK Limited Kempen Capital Management (UK) Limited
Fiduciary Overseer	Hymans Robertson LLP (terminated 1 April 2023)
AVC Providers	The Prudential Assurance Company Limited ('Prudential') Utmost Life and Pensions ('Utmost')
Insurance Providers (annuity)	Canada Life Limited ('Canada Life') Just Retirement Limited ('Just')
Custodian	Bank of New York Mellon Corporation ('BNYM')
Legal Advisers	Burness Paul LLP Hogan Lovells LLP Squire Patton Boggs (UK) LLP
Trustee Secretarial Services	Muse Advisory Limited
Contact Details	AA Pensions Departments The AA Fanum House Basing View Basingstoke RG21 4EA pensions@theaa.com 0800 5877877 option 4

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

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 2023.

Constitution and management

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

The Scheme has five categories of benefits:

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

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

The Trustee is shown on page 1.

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

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

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

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

In addition to the professional advisers, the Trustee is supported by the AA Pensions Department. Trustee services are provided by Muse Advisory Limited.

Trustee meetings

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

Scheme changes

There were no changes to the Scheme in the year.

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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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

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	15,191	9,214	24,405
Adjustments to members	(28)	53	25
New spouses and dependants	-	88	88
Retirements	(418)	418	-
Deaths	(23)	(271)	(294)
Trivial commutations	(2)	(19)	(21)
Cessation of pension	-	(18)	(18)
Transfers out	(34)	-	(34)
Members at the end of the year	14,686	9,465	24,151

	Deferreds	Pensioners	Total
Staff	9,320	8,555	17,875
Management Section 1	163	70	233
Management Section 2	52	116	168
Management Section 3	6	-	6
CARE	5,145	724	5,869
Members at the end of the year	14,686	9,465	24,151

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.

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

Included in the above are 3,150 (2022: 3,240) pensioners and 635 (2022: 693) beneficiaries whose benefits are financed by insurance (annuity) policies.

Pensioners include 1,415 (2022: 1,386) individuals receiving a pension upon the death of their spouse who was a member of the Scheme. Pensioners also include 71 (2022: 72) child dependants in receipt of a pension in respect of the following Sections:

	Widows	Child Dependants	Total
Staff	1,365	46	1,411
Management Section 1	6	1	7
Management Section 2	1	-	1
CARE	43	24	67
Members at the end of the year	1,415	71	1,486

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

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 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
April 2022	4.9% on pre-1 July 2010 accrued pension; 4.9% on post 1 July 2010 accrued pension

As the CPI was less than 5.0% for the purposes of the April 2022 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	3.1% increase on 1 April 2022 (CPI capped at 5.0% and floored at 0.0%)
Post 1 July 2010 accrued pension	2.5% increase on 1 April 2022 (CPI capped at 2.5% and floored at 0.0%)

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

Jersey

Pre-23 September 1999:	2.9% increase on 1 April 2022 (Jersey cost of living index floored at 0.0%)
Post 23 Sept 1999:	2.9% increase on 1 April 2022 (Jersey cost of living index capped at 5.0% and floored at 0.0%)

Guernsey

Pre-23 September 1999:	3.2% increase on 1 April 2022 (Guernsey retail price index floored at 0.0%)
Post 23 Sept 1999:	3.2% increase on 1 April 2022 (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.

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Contributions

Contributions were paid in accordance with the Schedules of Contributions certified by the Scheme Actuary on 24 February 2020 and 16 February 2023.

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

As set out in the Schedule of Contributions certified by the Scheme Actuary on 24 February 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.

As set out in the Schedule of Contributions certified by the Scheme Actuary on 16 February 2023:

Deficit contributions are payable as follows:

- ABF contributions are payable monthly by the Employer at a rate of £1,016,667. The Schedule of Contributions specifies that these deficit contributions are increased annually in line with RPI and be offset against monthly payments received by the Scheme from the ABF arrangement.
- Additional cash deficit funding contributions are due from the Employer at an amount of £1,000,000 per month from April 2022 to July 2025.

Going concern

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

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

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Report on Actuarial Liabilities

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

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

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2022. All figures quoted exclude AVC investments from both the assets and liabilities.

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

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") at the valuation date, 31 March 2022, as set out below:

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

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

Method

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

Significant actuarial assumptions

Pre-retirement discount rate: The term dependent rates on the Aon Solutions UK Limited gilt yield curve based on the Gilt price only yield curve at the actuarial valuation date plus 2.20% p.a.

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

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

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

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

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Report on Actuarial Liabilities (continued)

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

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

Deferred revaluations:

- **Final Salary Sections:** revaluation of deferred pensions in excess of GMP are in line with the CPI inflation assumption. Where the total inflation over the period from date of leaving to retirement is higher than the cap applied to the increase for a certain tranche of pension benefit (for example, the 2.5% p.a. compound cap for pensions accruing after 5 April 2009), the assumption for revaluations of deferred pensions in excess of GMP will instead revert to the relevant cap.
- **CARE Section:** Derived from CPI inflation assumption in a similar manner to that used to derive the pension increase assumptions i.e. on the advice of the Scheme Actuary, allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year.

Mortality: for the period in retirement, standard tables S3PMA for male members and S3PFA for female members, adjusted for year of birth with an allowance for improvements between 2013 and 2021. For the 2022 actuarial valuation an allowance has been made for the expected negative impact in the long-term of COVID-19. Applicable average scaling factors for each member category are set out below:

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

An allowance for future improvements has been made in line with the CMI_2021 with an A parameter of 0.25, a Sk parameter of 7 and a long-term annual rate of improvement in mortality rates of 1.5% for men and women.

These arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 16 February 2023. A copy of this certificate is included on page 45 of the annual report.

Next actuarial valuation

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

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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 via pensions@theaa.com.

The Trustee has delegated management of investments to the investment managers shown on pages 1 and 2. These managers, who are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments in line with the investment managers' agreements which are designed to ensure that the objectives and policies captured in the SIP are followed.

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

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

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

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

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

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

Statement of Investment Principles

With effect 30 September 2020, the Trustee updated their SIP for 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 SIP, dated September 2022, but broadly summarise as:

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

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

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Statement of Investment Principles (continued)

Evaluation of Investment Manager Performance and Remuneration: The Trustee will assess the (net of all costs) performance of their investment managers on a rolling three-year basis against the Scheme's investment objectives as per the investment strategy review following the 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 2023 is to hold:

- 30% (2022: 22%) 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.
- 33% (2022: 32%) in un-leveraged index linked 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.
- 35% (2022: 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.
- 2.0% (2022: 1%) in cash to meet pension and other payments.

Following the rise in government bond yields over 2022, the Scheme was overweight from it's strategic allocation (inc. annuities) to core property and illiquids and underweight to the delegated portfolios (which include allocation to Liability Driven Investments ('LDI') hedging). The Trustee instructed sales on the UK Core Property portfolio totalling c. £220m to rebalance to target. The settlement of the proceeds are noted overleaf.

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Investment transitions

During the year the following investment transitions took place between the non-delegated managers:

- Blackrock UK Property fund, (c.£140m) was redeemed as part of rebalancing the Schemes portfolio in Q3/Q4 2022. As at 31 March 2023 c. £1.5m of proceeds were settled (via secondary market sales), the remainder is deferred by the manager for up to 2 years.
- Schroders property was fully redeemed (c.£9m) as part of rebalancing the Schemes portfolio in Q3/Q4 2022. As at 31 March 2023 c. £1.5m of proceeds were settled (via secondary market), the remainder is deferred by the manager for up to 2 years.
- Columbia Threadneedle Property Fund (Threadneedle) was fully disinvested (c.£63m) as part of rebalancing in Q3/Q4 2022 over three transitions over September, November and December 2022.
- Lothbury Property Fund was fully redeemed (c.£6m) as part of rebalancing the Schemes portfolio in Q3/Q4 2022.
- The LGIM leveraged gilt portfolio was switched in to a non-leveraged gilt portfolio. This took place on 17 October 2022.

Within the delegated mandates, the key transitions were as follows:

- Reduction of the interest rate hedge over 12, 13 and 14 of October 2022 to protect the liquidity of the Scheme's assets. The hedge was subsequently increased by 5% on the 16 November and then increased again by c. 15% (interest rates) via the implementation of a swaption within the AIL delegated mandate on 21 November 2022.

Early in 2023, the Trustee appointed Barnett Waddingham as its investment adviser. Following their appointment, work began to review and amend the Scheme's investment strategy. This work continues and is expected to do so over the remainder of the year.

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

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 2023 is summarised as follows:

Period	Scheme return (% p.a.)	Benchmark return (% p.a.)
1 year	-39.2	-33.5
3 years	-11.6	-10.2
5 years	-5.5	-3.1

Source: BNYM

Scheme performance & activity

Over the year to 31 March 2023, the Scheme returned -39.2%, underperforming the benchmark by 5.7%, at -33.5% as reported by BNYM.

Significant volatility in the gilt market occurred following the UK's 'mini-budget' in September, affecting many UK schemes using leveraged Liability Driven Investments ('LDI'). The Bank of England temporarily announced an emergency £65bn bond-buying programme to stabilise the government debt market after an expansionary fiscal package was announced. The package increased investor concern over the sustainability of public finances, resulting in a considerable spike in yields. The sharpness of the selloff was exacerbated by the forced unwinding of LDI positions, as UK pension schemes worked to provide collateral to LDI managers following sharp yield increases. While the impact of the rise in the gilt yields has had a negative impact on the Scheme's investments, the value of the Scheme's actuarial liabilities have also decreased.

The benchmark return reflects the level of interest and inflation hedging implemented by the Scheme in 2022. During Q4 2022, the hedge ratio of the Scheme was reduced (12 and 13 of October) to protect the Scheme's liquid assets. From the point at which hedging was reduced, and until 16 November 2022, the benchmark reflected the higher hedge ratio and the Scheme assets underperformed over this period.

Global equities generated negative returns over the last twelve months. Equities suffered a sharp sell-off over the first half of 2022 as a result of the geopolitical risk from Russia's ongoing invasion of Ukraine and the monetary policy tightening by central banks in an effort to elevate inflationary pressures. However, equity markets recouped more than half of the losses over the last six months of the year as markets felt confident that a deep recession would be avoided, and investor concerns on tighter monetary policy abated.

The delegated investment portfolio with AIL returned -52.5% over the year, underperforming the investment objective¹ by 15.6%. The quarterly returns contributing to the -52.5% yearly return on the delegated portfolio were as follows; -28.2% in Q2 2022 and -20.7% in Q3 2022 (both quarters driven by rising interest rates and inflation expectations as well as fears of a slowing pace of economic growth); -21.9% in Q4 2022 (further rise in government bond yields and negative growth markets) and +6.8% in Q1 2023 (positive returns in growth markets following calming of recession fears).

The delegated investment portfolio with Kempen returned -45.6% over the year. The drivers for the negative performance were similar to the AIL delegated mandate. The Kempen mandate had a higher hedge over Q4 2022 which resulted in a lower underperformance.

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)

LGIM passive gilts performed negatively over the year, returning -85.5%. LGIM passive gilts produced negative returns across the first three quarters, due to the sharp rise in nominal and real interest rates. Performance turned positive in Q1 2023 as yields fell back due to increase recession risk.

Core UK property returns were poor over the year as the market corrected due to higher interest rates. The combined Core UK Property portfolio returned -11.1%.

The combined illiquids portfolio returned 4.2% over the year, driven by strong performance by the Scheme's private equity and private credit managers.

Within the private equity funds, strongest attribution came from BV, EMK and Warburg with absolute performance of 51.9%, 27.2% and 8.8% respectively over the year, as reported by BNYM.

Within the Private property funds Brockton returned -2.5%, Clearbell II, III and IV returned -1.7%, +15.4% and -37.7% respectively, as reported by BNYM.

Within the Private credit funds, DRC returned +5.5%, Invesco +1.2%, Ares +6.5%, Arcmont +7.8%, Taconic +18.0% and CVC +12.4% in absolute terms, as reported by BNYM.

Engagement Policy Implementation Statement ('EPIS')

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

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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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Further information

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

Individual benefit statements are provided to deferred members on request.

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

The Trustee of AA Pension Scheme care of:

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

aa.pensions@aon.com
0345 850 6406

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

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

pensions@theaa.com
0800 5877877 option 4

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.

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Other matters

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

Registrar of Pension Schemes

The Trustee is required to provide certain information about the Scheme to the Registrar of Pension Schemes.

This has been forwarded to:

The Registrar of Pension Schemes
PO Box 1NN
Newcastle Upon Tyne
NE99 1NN

0191 225 6316
communications@thepensionsregulator.gov.uk

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Other 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 an employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

The Pension Protection Fund can be contacted at:

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

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

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

The Government appointed Pensions Ombudsman can investigate complaints brought by members and beneficiaries against the Trustee or the Scheme's Administrator in relation to administration or disputes of fact of law. The Pensions Ombudsman can be contacted at:

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

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

AA PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2023

Statement of Trustee's Responsibilities

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

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

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

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

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

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

Approval

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

Trustee Director:

Trustee Director:

Date: 11 October 2023

AA PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE 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 2023 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 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information

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

AA PENSION SCHEME

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

Other information (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee

As explained more fully in the Statement of Trustee's Responsibilities set out on page 17, 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 fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation including the investment transaction reports and the controls over such transactions have been considered in the AAF01/20/ISAE3402 Assurance Report on Internal Controls.
- Diversion of bulk annuity income due to the Scheme from annuity providers. This is addressed by testing that income received from the annuity providers is reconciled by the administrator to pensions paid to pensioner members.
- Diversion of the asset backed funding income due to the Scheme. This is addressed by testing that income received in accordance with the asset backed funding agreement.

AA PENSION SCHEME

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

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

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

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

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

Use of our report

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

Crowe U.K. LLP
Statutory Auditor
London

Date: 11 October 2023

AA PENSION SCHEME

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £000	2022 £000
Employer contributions	4	12,000	11,000
Other income	5	-	42
		12,000	11,042
Benefits paid or payable	6	(61,815)	(56,357)
Payments to and on account of leavers	7	(6,348)	(18,616)
Administrative expenses	8	(5,425)	(4,033)
		(73,588)	(79,006)
Net withdrawals from dealing with members		(61,588)	(67,964)
Returns on investments			
Investment income	9	41,992	42,700
Change in market value of investments	10	(970,867)	48,847
Investment management expenses	11	(3,273)	(3,280)
		(932,148)	88,267
Net (decrease)/increase in the fund during the year		(993,736)	20,303
Opening net assets		2,826,053	2,805,750
Closing net assets		1,832,317	2,826,053

The notes on pages 23 to 42 form part of these financial statements.

AA PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2023

	Note	2023 £000	2022 £000
Investment assets			
Pooled investment vehicles	13	1,188,857	2,021,229
Derivatives	14	187	73
Insurance policies	15	413,000	571,800
Asset backed funding	16	190,200	204,300
AVC investments	17	4,131	4,870
Cash	18	22,622	12,383
Other investment balances	18	3,072	5,393
		1,822,069	2,820,048
Investment liabilities			
Derivatives	14	(114)	(91)
Other investment balances	18	-	(165)
		(114)	(256)
Total net investments		1,821,955	2,819,792
Current assets	22	13,261	8,818
Current liabilities	23	(2,899)	(2,557)
Net assets available for benefits at 31 March		1,832,317	2,826,053

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included in the Trustee's Report on pages 7 and 8. These financial statements and Actuarial Certificate should be read in conjunction with this report.

The notes on pages 23 to 42 form part of these financial statements.

These financial statements on pages 21 to 42 were approved by the Trustee and were signed on its behalf by:

Trustee Director:

Trustee Director:

Date: 11 October 2023

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

1. Basis of preparation

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

2. Identification of financial statements

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

The address of the Scheme's registered office is The AA, Fanum House, Basing View, Basingstoke, 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 they fall 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.

Where tax liabilities are settled on behalf of members, for example where the lifetime allowance or annual allowance is exceeded, the tax due is accounted for on the same basis as the benefit.

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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

3. Accounting policies (continued)

Administrative expenses

Administrative expenses are accounted for on an accruals basis.

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 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.

Transaction costs

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

Investment management expenses

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

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

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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

3. Accounting policies (continued)

Valuation of investment assets and liabilities (continued)

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

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

Insurance (annuity) policies are valued by the Actuary at the present value of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date. These policies are to provide pension benefits for a proportion of the Scheme's pensioner and dependant members. Insurance (annuity) policies bought to provide members' benefits are included in the Statement of Net Assets (Available for Benefits) at their actuarial value as determined by the Actuary as at 31 March 2023.

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

AVC funds are included within the Statement of Net Assets on the basis of fair values provided by the AVC providers, at the year end.

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

Asset backed funding

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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

4. Contributions

	2023	2022
	£000	£000
Employer:		
Deficit funding	12,000	11,000

Under the Schedule of Contributions certified by the Scheme Actuary on 16 February 2023, deficit funding contributions are payable monthly by the Principal Employer at a rate of £1,016,667 per month from November 2013 to July 2025. The Schedule of Contributions specifies that these contributions be offset against monthly payments received by the Scheme from the ABF investment (see note 10). These deficit funding contributions are increased by the published increase in Retail Prices Index over the year up to the previous 30 September, subject to an overall increase of 5% and a minimum of 0% from 1 April and are payable to July 2025.

In addition, monthly deficit contributions from April 2022, up to and including July 2025 of £1,000,000, will be paid by the Principal Employer to the Scheme in accordance with the Recovery Plan dated 16 February 2023 in order to improve the Scheme funding position.

5. Other income

	2023	2022
	£000	£000
Other income	-	42

The prior year's amount is in relation to an administrative 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

	2023	2022
	£000	£000
Pensions	50,852	45,671
Commutations of pensions and lump sum retirement benefits	10,466	10,228
Lump sum death benefits	490	458
Taxation where lifetime or annual allowance exceeded	7	-
	<u>61,815</u>	<u>56,357</u>

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

7. Payments to and on account of leavers

	2023	2022
	£000	£000
Individual transfers to other schemes	6,348	18,616

8. Administrative expenses

	2023	2022
	£000	£000
Administration and processing	1,430	1,324
Actuarial fees	1,661	617
Audit fees	92	55
Legal fees	395	426
Other professional fees	672	326
Scheme levies	818	1,057
Trustee fees and expenses	348	223
Sundry expenses	7	5
Bank charges	2	-
	5,425	4,033

Actuarial fees are higher over the year to 31 March 2023 than the prior year as they include fees in relation to the triennial valuation as at 31 March 2022 and major project work, namely Barber equalisation and initial work in relation to GMP equalisation.

Other professional fees include fees relating to ongoing LDI and collateral reviews from the Fiduciary Overseer.

9. Investment income

	2023	2022
	£000	£000
Income from pooled investment vehicles	15,587	16,789
Interest on cash deposits	244	5
Annuity income	26,161	25,906
	41,992	42,700

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

10. Investments

	Opening value at 1 Apr 2022	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value at 31 Mar 2023
	£000	£000	£000	£000	£000
Pooled investment vehicles	2,021,229	411,534	(431,515)	(812,391)	1,188,857
Derivatives	(18)	1,096	(186)	(819)	73
Asset backed funding	204,300	-	(15,375)	1,275	190,200
Insurance policies	571,800	-	-	(158,800)	413,000
AVC investments	4,870	-	(607)	(132)	4,131
	<u>2,802,181</u>	<u>412,630</u>	<u>(447,683)</u>	<u>(970,867)</u>	1,796,261
Cash	12,383				22,622
Other investment balances	5,228				3,072
Total net investments	<u>2,819,792</u>				<u>1,821,955</u>

Income is received from the ABF amounting to £12,200k each year from 1 November 2013 for 25 years in equal monthly instalments and is shown under ABF sales (see note 4). This income increases annually by RPI up to a maximum of 5% p.a. Payments totalling of £15,375k have been received in this Scheme year.

During the year the following significant investment transitions took place:

- Blackrock UK Property fund, (c.£140m) was redeemed as part of rebalancing the Schemes portfolio in Q3/Q4 2022. As at 31 March 2023 c. £1.5m of proceeds were settled (via secondary market sales), the remainder is deferred by the manager for up to 2 years.
- Schroders property was fully redeemed (c.£9m) as part of rebalancing the Schemes portfolio in Q3/Q4 2022. As at 31 March 2023 c. £1.5m of proceeds were settled (via secondary market), the remainder is deferred by the manager for up to 2 years.
- Columbia Threadneedle Property Fund (Threadneedle) was fully disinvested (c.£63m) as part of rebalancing in Q3/Q4 2022 over three transitions over September, November and December 2022.
- Lothbury Property Fund was fully redeemed (c.£6m) as part of rebalancing the Schemes portfolio in Q3/Q4 2022.
- The LGIM leveraged gilt portfolio was switched in to a non-leveraged gilt portfolio. This took place on 17 October 2022. This equates to around £170m of sales and £220m of purchases.
- Kempen portfolio includes c. £140m of purchases and c.£117m of sales, overall due to LDI rebalancing events.

Within the delegated mandates, the key transitions were as follows:

- Reduction of the interest rate hedge over 12, 13 and 14 of October 2022 to protect the liquidity of the Scheme's assets. The hedge was subsequently increased by 5% on the 16 November and then increased again by c. 15% (interest rates) via the implementation of a swaption within the AIL bespoke fund on 21 November 2022.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

10. Investments (continued)

Transaction costs

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

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

	Pooled investment vehicles £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

	2023 £000	2022 £000
Administration and management fees	3,048	3,202
Management fee rebates	(449)	(374)
Adviser fees	674	452
	3,273	3,280

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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

13. Pooled investment vehicles

	2023	Restated
	£000	2022
		£000
Bond funds	71,331	136,816
Cash and liquidity funds	24,023	-
Equity funds	-	32,351
Hedge funds	30,711	25,215
LDI funds	42,132	96,194
Other pooled	10,960	7,267
AIL delegated investment fund	509,511	1,149,517
Private equity funds	244,738	237,055
Property funds	125,815	219,628
Venture capital funds	129,635	106,347
Investment trust	1	10,839
	1,188,857	2,021,229

2022 LDI funds have been restated to include Kempen holdings.

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:

	2023	2022
	£000	£000
Authorised unit trust	743,475	1,396,996
Exchange traded fund	-	12,949
Irish collective asset-management vehicle	42,132	41,760
Limited partnership	300,172	278,200
Mutual fund	48	46
Open ended investment company	99,552	225,100
Qualifying investor alternative investment fund	-	18,306
Société d'Investissement à Capital Variable	3,478	12,789
Unit-linked life fund	-	35,083
	1,188,857	2,021,229

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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

	2023	2022
	£000	£000
Equity funds	79,476	331,798
Bond funds	16,161	150,172
Diversified growth	38,900	167,208
Property funds	9,121	8,281
Hedge funds	2,495	12,521
Emerging market equity funds	-	83,665
Emerging market bond funds	6,998	53,276
Cash and working capital	45,434	4,671
LDI investment funds	299,390	294,819
Other/bespoke	11,536	43,106
	509,511	1,149,517

14. Derivatives

	2023	2022
	£000	£000
Assets		
Forward foreign exchange	187	73
	187	73
Liabilities		
Forward foreign exchange	(114)	(91)
	(114)	(91)
	73	(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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

14. Derivatives (continued)

Forward foreign exchange - OTC

Contract	Expires within	Currency bought 000	Currency sold 000	Fair value	
				Asset £000	Liability £000
Forward FX	0-3 months	€4,180	£3,609	-	(64)
Forward FX	0-3 months	€950	£839	4	-
Forward FX	0-3 months	£125	€141	-	(2)
Forward FX	0-3 months	£4,389	€4,989	-	(5)
Forward FX	0-3 months	£50	\$60	-	(1)
Forward FX	0-3 months	£7,221	\$8,879	-	(40)
Forward FX	0-3 months	\$3,661	£2,972	11	-
Forward FX	0-3 months	\$4,630	£3,852	108	-
Forward FX	0-3 months	\$648	£540	16	-
Forward FX	0-3 months	€400	£355	2	-
Forward FX	0-3 months	€4,989	£4,404	5	-
Forward FX	0-3 months	€86	£76	-	-
Forward FX	0-3 months	£357	\$440	-	(2)
Forward FX	0-3 months	£121	\$150	-	-
Forward FX	0-3 months	\$8,879	£7,209	41	-
Total 2023				187	(114)
Total 2022				73	(91)

15. Insurance policies

	2023 £000	2022 £000
Insurance policies	413,000	571,800

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 2023 are consistent with the technical provisions calculations for the formal actuarial valuation as at 31 March 2022 using the post retirement discount rate, which is the gilt yield curve with 0.25% p.a. of outperformance. The assumptions used have been modified only insofar as is necessary to maintain consistency with the Statement of Funding Principles dated 15 February 2023, reflecting the change in the effective date and in relevant market conditions.

Term-dependent rates are used for the technical provisions basis. The discount rates shown below are estimates of the single-equivalent rates that would produce a similar calculated value of the liabilities of the bulk annuity policies, as at 31 March 2022 and 31 March 2023:

	2023 (% p.a.)	2022 (% p.a.)
Post retirement Discount rate	4.01	2.01

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

16. Asset backed funding

	2023 £000	2022 £000
	190,200	204,300

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 2023, 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 (2022: BBB).
- An illiquidity premium of 1.75% (2022: 1.65% p.a.)
- A recovery rate of 62% (2022: 62%) on the amount payable upon insolvency of the Employer.

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

	2023 (% p.a.)	2022 (% p.a.)
Gilt yields – 5 years	3.47	1.44
Breakeven RPI – 5 years	3.52	4.81
Gilt yields – 10 years	3.54	1.64
Breakeven RPI – 10 years	3.58	4.36

17. AVC investments

	2023 £000	2022 £000
Utmost	501	594
Prudential	3,630	4,276
	4,131	4,870

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

AVC investments can be further analysed as:

	2023 £000	2022 £000
With profits	2,364	1,870
Unit trusts	501	594
Other*	1,266	2,406
	4,131	4,870

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

18. Cash and other investment balances

	2023 £000	2022 £000
Cash	12,622	11,713
Cash collateral	-	670
Other investment balances	2,766	1,670
Unsettled sales	306	3,723
Unsettled purchases	-	(165)
	25,694	17,611

19. Fair value hierarchy

FRS 102 requires for each class of financial instrument an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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

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

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

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

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

19. Fair value hierarchy (continued)

	Level 1 £000	Level 2 £000	Level 3 £000	2022 Total £000
Investment assets				
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
	<u>103,122</u>	<u>149,547</u>	<u>2,567,379</u>	<u>2,820,048</u>
Investment liabilities				
Derivatives	-	-	(91)	(91)
Other investment balances	(165)	-	-	(165)
	<u>(165)</u>	<u>-</u>	<u>(91)</u>	<u>(256)</u>
	<u>102,957</u>	<u>149,547</u>	<u>2,567,288</u>	<u>2,819,792</u>

This year's derivative assets (foreign forward exchange - OTC) have been reclassified to level 2, the prior year is unchanged at level 3.

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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 10 of the Trustee's Report.

i. Credit risk

Credit risk arising on bonds is mitigated by investing in pooled investment vehicles holding leveraged index linked and fixed interest gilts of £47.9m (2022: £128.6m) and non-leveraged index-linked gilts of £59.3m (2022: £54.4m), where the credit risk is minimal. The Scheme's investments with the delegated investment managers, AIL and Kempen totalling £579.5m (2022: £1,276.8m) was also exposed to indirect credit risk of £26.6m (2022: £233.4m) 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 £26.4m (2022: £42.0m) and direct lending funds of £189.5m (2022: £159.1m).

Direct credit risk arises from the Scheme's investments in pooled investment vehicles, as there is the possibility that the pooled fund managers will fail to discharge their obligations to investors. This risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

Within the delegated portfolio, AIL 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).

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

20. Investment risks (continued)

Direct credit risk also arises in respect of the bulk annuity policy held with Canada Life £245.8m (2022: £337.9m) and with Just £167.2m (2022: £233.9), which is secured to pay a proportion of the Scheme's liabilities. Whilst insurers in the UK are required to meet stringent solvency requirements, there is nevertheless a small risk of the insurer failing. The Financial Services Compensation Scheme ('FSCS') may provide compensation in this unlikely scenario.

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

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

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

ii. Currency risk

Direct currency risk arises because some of the Scheme's investments £298.2m (2022: £309.9m) are held in overseas markets denominated in overseas currencies. Of the Scheme's investments with AIL and Kempen, £71.0m (2022: £111.5m) 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 underlying assets of the delegated managers may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions.

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 £65.0m (2022: £143.6m) and in gilts and index linked gilts on leveraged and unleveraged bases, cash and swaps, through pooled vehicles managed by AIL totalling £359.4m (2022: £357.8m) and Kempen totalling £42.1m (2022: £39.3m). 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 £26.6m (2022: £233.4m) 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.

During the year, gilt yields rose causing the values of the bond and liability driven investment funds, asset backed funding and the annuity policies to fall, however, these market movements will have affected the valuation of the liabilities in the same way.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

20. Investment risks (continued)

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

	2023	2022
	£	£
Global equities	80m	448m
Return seeking bonds and other credit strategies	23m	198m
Hedge funds	2m	23m
Infrastructure	24m	5m
Diversified growth funds	-	14m

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

21. Concentration of investments

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

	2023		2022	
	£000	%	£000	%
Canada Life	245,800	13.4	337,900	12.0
Aon GL EQ N-TRE ^{1 2}	-	-	212,854	7.5
ABF - Scottish Limited Partnership	188,925	10.3	204,300	7.2
Insight LDI SO 25 GBP NPV ¹	176,289	9.6	169,540	6.0
Just	167,200	9.1	233,900	8.3
Adept 31 ^{1 2}	-	-	167,208	5.9
BlackRock – UK Prop FD Dist UTS	115,264	6.3	142,241	5.0

¹ The Scheme is the sole investor in a delegated investment fund – see note 13. The investment in the AIL Main Portfolio AO1 represents 27.9% (2022: 40.6%) of the net assets of the Scheme.

² The holdings in GL EQ N-TRE and Adept 31 are less than 5% of net assets this year.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

22. Current assets

	2023 £000	2022 £000
Employer contributions due	1,000	917
Prepayments	3,843	-
Cash balances	8,304	7,814
Sundry debtors	114	87
	<u>13,261</u>	<u>8,818</u>

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

23. Current liabilities

	2023 £000	2022 £000
Accrued expenses	1,370	1,493
Accrued benefits	574	167
HM Revenue & Customs	30	14
Sundry creditors	925	883
	<u>2,899</u>	<u>2,557</u>

Sundry creditors represents £925k (2022: £883k) of annuity income received in advance.

24. Employer related investments

There were no direct Employer related investments during the year or at the year end (2022: 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.

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 £131k (2022: £72k) by the Scheme.

Fees and expenses were paid to the Independent Trustee Director in the amount of £217k (2022: £147k) by the Scheme. At the year end a creditor balance of £53k (2022: £39k) 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 (2022: Deferred member)
Mr M Baker – non-member
Mr L Jones – Deferred member (2022: Deferred member)
Mr J Stewart – Deferred member (2022: Deferred member)
Mr M Sullivan – Pensioner (2022: Pensioner)

Member-Nominated

Mr C King – Pensioner (2022: Pensioner)
Mr S Millman – Deferred member (2022: Deferred member)

Independent

PAN Trustees UK LLP – non-member (2022: 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 AA Pensions Department provides support services to the Trustee. Secretarial services are provided Muse Advisory Limited.

The Scheme entered into an ABF arrangement during the year ended 2014. An amount of £198m was paid into the ABF which is underpinned by a 25-year loan note backed by royalties payable in respect of the AA's brands. Income is received from the ABF of £12.2m each year for 25 years in equal monthly instalments increasing annually by RPI up to a maximum of 5%. The fair value at the year end is £190.2m (2022: £204.3m).

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

26. Contingent assets and liabilities

GMP Equalisation

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

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

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

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

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

Equalisation of normal retirement ages

Following the Barber judgement in May 1990, the Scheme took steps to equalise Normal Retirement Ages ('NRAs') in April 1992. As a result of preparation for the GMP equalisation exercise, it was identified that there was some uncertainty surrounding the method of equalising NRAs adopted in 1992 as the approach used did not meet all the necessary requirements.

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

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

AA PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

26. Contingent assets and liabilities (continued)

Equalisation of normal retirement ages (continued)

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

Bulk annuity

The Trustee is undergoing a data cleanse project of the liabilities insured with Canada Life 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 is ongoing. Given the uncertainty surrounding the results and subsequent financial impact of this project, it is not possible to make a reasonable estimate of any likely cost or refund arising, and therefore no estimate has been included in these financial statements.

Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not deem these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined. In the opinion of the Trustee, the Scheme had no other contingent assets and liabilities as at 31 March 2023 (2022: £nil).

27. Capital commitments

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

Managers	Total Commitment £000	Commitment Paid £000	Remaining Capital Commitment £000
Alcentra	24,100	10,038	14,062
Arcmont	30,000	25,315	4,685
Ares	60,000	47,987	12,013
BlackRock Quellos	39,412	36,273	3,139
Blackstone	71,340	39,209	32,131
Brockton	40,000	16,223	23,777
BV	12,542	7,226	5,316
Clearbell	105,000	74,968	30,032
CVC	36,580	28,579	8,001
DRC	28,571	25,332	3,239
EMK	9,332	4,817	4,515
GAM	20,000	10,582	9,418
Keyhaven	32,511	30,648	1,863
M&G	25,000	25,000	-
Taconic	30,389	25,679	4,710
York	24,039	22,802	1,237
Warburg	41,806	36,768	5,038
Total 2023	630,622	467,446	163,176
Total 2022	622,799	428,459	194,341

AA PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF AA PENSION SCHEME FOR THE YEAR ENDED 31 MARCH 2023

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 2023 which is set out on page 44.

In our opinion contributions for the Scheme year ended 31 March 2023 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 24 February 2020 for the period 1 April 2022 to 15 February 2023 and 16 February 2023 for the period 16 February 2023 to 31 March 2023.

Scope of work on Statement about Contributions

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

Respective responsibilities of trustees and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedules 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: 11 October 2023

AA PENSION SCHEME

SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2023

During the year ended 31 March 2023 the contributions payable to the Scheme were as follows:

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

	Employer £000	Employees £000	Total £000
Contributions payable under the Schedules of Contributions and as reported by the Scheme auditor			
Deficit funding	12,000	-	12,000
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	15,375	-	15,375
Total contributions reported in the financial statements	27,375	-	27,375

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

Trustee Director:

Trustee Director:

Date: 11 October 2023

AA PENSION SCHEME

ACTUARIAL CERTIFICATE

Name of scheme: AA Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2022 to be met by the end of the period specified in the recovery plan dated 15 February 2023.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 15 February 2023.

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

DocuSigned by:
.....
.....
132F1449C29D47C...
Signature Date..... Feb 16, 2023

David Eteen
Fellow of the Institute and Faculty of Actuaries

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

AA PENSION SCHEME

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

Engagement Policy Implementation Statement (‘EPIS)

The purpose of the EPIS is for us, the Trustee of the AA Pension Scheme (the “Scheme”), to explain what we have done during the year ending 31 March 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles (“SIP”). It includes:

1. How our policies in the SIP about asset stewardship (including both voting and engagement activity) in relation to the Scheme’s investments have been followed during the year; and
2. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the ‘most significant’ votes cast over the reporting year.

Our conclusion

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

In our view, the Scheme’s material investment managers were able to disclose good evidence of voting and/or engagement activity, and the activities completed by our managers align with our stewardship expectations. We believe our voting rights have been implemented effectively on our behalf.

We delegate the management of some of the Scheme’s assets to our fiduciary managers, Aon Investments Limited (“Aon”) and Van Lanschot Kempen (“VLK”). We believe the activities completed by our fiduciary managers to review the underlying managers’ voting and engagement policies, and activities align with our stewardship expectations.

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How voting and engagement policies have been followed

The Scheme is invested entirely in pooled funds, and so the responsibility for voting and engagement is delegated to the Scheme’s investment managers, which is in line with our policy. We reviewed the stewardship activity of the material investment managers carried out over the Scheme year and in our view, most of the investment managers were able to disclose good evidence of voting and/or engagement activity. More information on the stewardship activity carried out by the Scheme’s investment managers can be found in the following sections of this report.

Over the reporting year, we monitored the performance of the Scheme’s investments on a quarterly basis and received updates on important issues from our investment adviser, Aon Investments Limited (“Aon”), Q2 2022 – Q4 2022 and from Barnett Waddingham Q1 2023. We received quarterly Environment Social Governance (“ESG”) ratings from Aon for the funds the Scheme is invested in where available.

During the year, we received training on ESG, stewardship topics and TCFD, and agreed our policies in relation to these.

Each year, we review the voting and engagement policies of the Scheme’s investment managers to ensure they align with our own policies for the Scheme and help us to achieve them.

In October 2023 the Trustees are to receive training on stewardship priorities with the view to set up stewardship priorities for the Scheme at the following Investment Committee meeting.

The Scheme’s stewardship policy can be found in the SIP: here <https://aapensions.com/document-library/financial-information>

What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which ESG issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ between asset classes.

Source: UN PRI

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

Our fiduciary managers’ engagement activity

We invest some of the Scheme’s assets via our fiduciary managers, Aon and VLK. These are fund of funds arrangements, where Aon and VLK selects the underlying investment managers on our behalf.

Aon

The Scheme’s assets with Aon are invested in a wide range of asset classes including equities, global fixed income, multi asset credit, diversified alternatives and hedge funds.

We delegate monitoring of ESG integration and stewardship of the underlying managers to Aon. We have reviewed Aon’s latest annual Stewardship Report and we believe it shows that Aon is using its resources to effectively influence positive outcomes in the funds in which it invests.

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

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

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

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

VLK

The Scheme’s assets with VLK are invested across a range of asset classes including equities, global fixed income and diversified alternatives.

We delegate monitoring of ESG integration and stewardship of the underlying managers to VLK. We have reviewed VLK’s latest annual Stewardship Report and we believe it shows that VLK is using its resources to effectively influence positive outcomes in the funds in which it invests.

VLK 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. VLK differentiates between the following sections within its ESG report:

- **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 engagement s is measures via an internal milestone framework.

What is fiduciary management?

Fiduciary management is the delegation of some, or all, of the day-to-day investment decisions and implementation to a fiduciary manager. But the trustees still retain responsibility for setting the high-level investment strategy.

In fiduciary management arrangements, the trustees will often delegate monitoring ESG integration and asset stewardship to its fiduciary manager.

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- **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.

VLK has committed to becoming a net zero wealth manager by 2050, with a 50% reduction by 2030. In 2022 VLK began to directly select equities for the portfolio and only select companies which have low carbon intensity and targets which align with the Paris Agreement and Dutch National Climate Agreement.

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

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Our managers’ voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company’s stock. Understanding and monitoring the stewardship that investment managers practice in relation to the Scheme’s investments is an important factor in deciding whether a manager remains the right choice for the Scheme.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Scheme’s equity-owning investment managers to responsibly exercise their voting rights.

Voting statistics

The table below shows the voting statistics for each of the Scheme’s material funds with voting rights for the year to 31 March 2023.

	Number of resolutions eligible to vote on	% of resolutions voted	% of votes against management	% of votes abstained from
In Aon’s Active Global Equity Strategy (AII fiduciary mandate)				
• GQG - Global Equity Fund	816	99.8%	10.3%	4.7%
• Harris - Global All Cap Equity Strategy	889	100.0%	8.0%	0.0%
In Aon’s Emerging Market Equity Strategy (AII fiduciary mandate)				
• GQG - Emerging Markets Equity Fund	1,073	96.5%	8.8%	5.4%
• TT International - Emerging Markets Unconstrained Strategy	1,005	99.0%	10.4%	1.8%
In Aon’s Global Multi-Factor Equity Strategy (AII fiduciary mandate)				
• LGIM - Multi-Factor Equity Fund	11,712	99.8%	20.2%	0.1%
In Aon’s Global Impact Strategy (AII fiduciary mandate)				
• Nordea - Global Climate and Environmental Fund	824	99.2%	5.6%	1.6%
• Mirova - Global Sustainable Equity Fund	703	100.0%	43.0%	0.0%
Underlying manager in VLK’s fiduciary mandate				
• SSGA - World TPI Climate Transition Index Equity Sub-Fund*	16,588	99.1%	8.4%	0.5%

Source: Managers

*The voting statistics provided by SSGA suggests that abstained votes are being counted as votes against management resulting in double counting within the voting statistics.

Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues

Source: UN PRI

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

Use of proxy voting advisers

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. They can also provide voting execution, research, record keeping and other services.

Responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser’s recommendations.

The table below describes how the Scheme’s managers use proxy voting advisers.

Why use a proxy voting adviser?

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support.

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	Description of use of proxy voting advisers <i>Wording provided directly by managers</i>
GQG Partners LLC (“GQG”) (Aon fiduciary mandate)	<p>Portfolio management is responsible for proxy voting decisions. While the majority of portfolio company proxy votes are company-management-initiated, routine in nature, and voted in accordance with GQG’s proxy voting policy, some proxy categories warrant an escalated review by GQG. The categories warranting a review generally represent proxies that are strategic to the company. Therefore, GQG escalates certain categories of proxy votes to a designated GQG investment analyst with the responsibility to ensure that those proxies are being voted in the best interests of GQG’s clients given the potential significance of the proxy vote to the company’s shareholders.</p> <p>To augment our independent research, we use Institutional Shareholder Services Inc. (“ISS”) as an additional source of information to guide our voting. While we find ourselves voting with ISS on the majority of issues, we do not blindly follow their lead and will vote against their recommendations when we deem it necessary.</p>
Harris Associates (“Harris”) (Aon fiduciary mandate)	<p>Harris Associates uses ISS for proxy voting advisory services. We follow our Proxy Voting Policy, except where the analyst covering a stock recommends voting otherwise. In these cases, final decision rests with our Proxy Voting Committee.</p>
TT International (Aon fiduciary mandate)	<p>We use ISS for our proxy voting requirements. ISS provides us the proxy research, which is then reviewed by TT. Whilst we are guided by ISS, we will always vote in what we believe is our clients’ best interests. We specifically discuss meetings where ISS issues a recommendation against management and hold internal discussions. The voting decisions are ultimately the portfolio managers’ responsibility. We internally record our rationale where we diverge from ISS recommendations. We recently also added Glass Lewis as a provider of proxy research to have a second opinion in cases where ISS recommends voting against management, or where we may want to do further analysis on management and shareholder proposals. We use ISS’ standard voting policy. We believe that their principles-based voting policy is often more stringent than custom-made policies.</p>
Legal and General Investment Management (“LGIM”) (Aon fiduciary mandate)	<p>LGIM’s Investment Stewardship team uses ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.</p>
Nordea Asset Management (“Nordea”) (Aon fiduciary mandate)	<p>In general, every vote we cast is considered individually on the background of our bespoke voting policy, which we have developed in-house based on our own principles.</p> <p>Our proxy voting is supported by two external vendors (ISS and Nordic Investor Services) to facilitate proxy voting, execution and to provide analytic input. In 2021 these two vendors have merged.</p>
Mirova (Aon fiduciary mandate)	<p>Mirova utilizes ISS as a voting platform for related services such as ballot collecting, vote processing and record keeping. Mirova subscribes to the ISS research, however its recommendation are not prescriptive or determinative to our voting decision.</p>

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State Street Global Advisors (“SSGA”)
(Aon fiduciary mandate)

We use a variety of third-party service providers to support our stewardship activities. Data and analysis from service providers are used as inputs to help inform our position and assist with prioritisation. However, all voting decisions and engagement activities are undertaken in accordance with our in-house policies and views, ensuring the interests of our clients remain the sole consideration when discharging our stewardship responsibilities. We have contracted ISS to assist us with managing the voting process at shareholder meetings. We use ISS to: (1) act as our proxy voting agent (providing SSGA with vote execution and administration services), (2) assist in applying our voting guidelines, (3) provide research and analysis relating to general corporate governance issues and specific proxy items, and (4) provide proxy voting guidelines in limited circumstances. In addition, we also have access to Glass Lewis and region-specific meeting analysis provided by the Institutional Voting Information Service. Research and data provided by these third parties complement our in-house analysis of companies and individual ballot items. All final voting decisions are based on our proxy voting policies and in-house operational guidelines.

Source: Managers

Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Scheme’s investment managers to provide a selection of what they consider to be the most significant votes in relation to the Scheme’s funds. A sample of these significant votes can be found in the appendix.

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Our managers’ engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Scheme’s material managers. The managers have provided information for the most recent calendar year available. Some of the information provided is at a firm-level i.e. is not necessarily specific to the fund invested in by the Scheme.

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	Firm level	
Underlying managers in Aon’s fiduciary mandate:			
GQG - Global Equity Fund	36	80	Environment - Climate change, Pollution and waste Social - Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying), Human capital management (e.g. inclusion & diversity, employee terms, safety) Strategy, Financial and Reporting - Risk management (e.g., operational risks, cyber/information security, product risks)
Harris - Global All Cap Equity Strategy			<i>Not provided</i>
GQG - Emerging Markets Equity Fund	35	80	Environment - Climate change, Natural resource use/impact (e.g. water, biodiversity) Social - Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying), Human capital management (e.g. inclusion & diversity, employee terms, safety) Strategy, Financial and Reporting - Risk management (e.g., operational risks, cyber/information security, product risks)
TT International - Emerging Markets Unconstrained Strategy	25	91	Environment - Natural resource use/impact (e.g. water, biodiversity), Pollution, Waste Social - Human and labour rights (e.g. supply chain rights, community relations) Governance - Remuneration Strategy, Financial and Reporting - Risk management (e.g. operational risks, cyber/information security, product risks)
LGIM - Multi-Factor Equity Fund	279	1,224	Environment - Climate change Social - Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Inequality, Public health Governance - Remuneration
Nordea - Global Climate and Environmental Fund	36	994	Environment - Pollution, Waste, Climate change Social - Human and labour rights (e.g. supply chain rights, community relations) Governance - Board effectiveness – Diversity Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting)
Mirova - Global Sustainable Equity Fund	33	115	Environment - Climate change, Pollution, Waste Social - Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety) Governance - Board effectiveness – Diversity, Remuneration
Aegon Asset Management (“Aegon”) - European Asset	132	441	Environment - Climate change Social - Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying)

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Backed Securities (ABS) Fund			Governance - Board effectiveness – Diversity Other - Proprietary ESG assessment
T. Rowe Price - Dynamic Global Bond Fund	16	778	Environment - Pollution, Waste, Climate change Social - Human capital management (e.g. inclusion & diversity, employee terms, safety) Governance - Remuneration Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting), Strategy/purpose, Capital allocation
M&G - Sustainable Total Return Credit Investment Fund	7	157	Environment - Climate change, Net Zero Social - Human and labour rights (e.g. supply chain rights, community relations), Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying) Governance - Remuneration, Leadership – Chair/CEO
Aberdeen (“Aberdn”) – Climate Transition Bond Fund	44	2,484	Strategy, Financial and Reporting - Capital allocation, Reporting (e.g. audit, accounting, sustainability reporting), Financial performance, Strategy/purpose, Risk management (e.g. operational risks, cyber/information security, product risks) Other - Climate, Environment, Human Rights & Stakeholders, Corporate Behaviour, Corporate Governance
LGIM - Global Diversified Credit SDG Fund	79	1,224	Environment - Climate change, Natural resource use/impact (e.g. water, biodiversity) Social - Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety) Governance - Board effectiveness – Diversity, Remuneration Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting)
Leadenhall Capital Partners (“Leadenhall”) - Insurance Linked Securities	309	321	Environment - Climate change Governance - Board effectiveness – Diversity, Remuneration, Shareholder rights Strategy, Financial and Reporting - Capital allocation, Strategy/purpose
Invesco - Real Estate Finance Fund¹	<i>Not applicable</i>	183	Environment - Climate change, Natural resource use/impact (e.g. water, biodiversity) Social - Human and labour rights (e.g. supply chain rights, community relations), Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying) Governance - Leadership – Chair/CEO, Remuneration Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting)
Warburg Pincus - Global Growth Fund¹	<i>Not provided</i>	>45	Social - Diversity, equity, and inclusion (DE&I), Corporate social responsibility Governance - Cybersecurity Strategy, Financial and Reporting - Sustainability strategy/ESG reporting
BV Partners – BVIP Fund X	<i>Not provided</i>	15	<i>Not provided</i>
VLK¹	39 ²	196	UN SDGs Environment - Affordable and clean energy, Life below water, Life on land Social - Good health and well-being, Decent work and economic growth

Source: Managers

¹Invesco, Warburg Pincus and VLK did not provide fund level themes; themes provided are at a firm-level.

²Engagement with Investment Managers.

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Data limitations

At the time of writing, the following managers did not provide all the information we requested:

- Harris (AIL fiduciary mandate) did not provide any engagement data requested.
- LGIM and M&G did provide fund level engagement information but not in the industry standard ICSWG guide.
- Invesco, Warburg Pincus and BV Partners did not provide fund level engagement data. Warburg Pincus and BV Partners provided limited engagement information, including a detailed illustrative example of their engagement activity at a firm level and provided details of their ESG policies.
- No engagement/voting data is reported for Diversified Alternatives Strategy and Opportunities Strategy within the Aon fiduciary mandate as these strategies includes investing in currencies, gold, ILS etc., where engagement is not relevant.
- VLK could not provide the engagement data for its underlying fund but did provide firm-level engagement data.

This report does not include commentary on the Scheme’s liability driven investments/gilts or cash because of the limited materiality of stewardship to these asset classes.

Further this report does not include the additional voluntary contributions (“AVCs”) due to the relatively small proportion of the Scheme’s assets that are held as AVCs.

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Appendix – Significant Voting Examples

In the table below are some significant vote examples provided by the Scheme’s managers. We consider a significant vote to be one which the manager considers significant. Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below

GQG - Global Equity Fund (Aon fiduciary mandate)	Company name	Petroleo Brasileiro SA
	Date of vote	Apr-2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	<i>Not provided</i>
	Summary of the resolution	Approve Remuneration of Company’s Management and Fiscal Council
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	No
	Rationale for the voting decision	A vote AGAINST this proposal is warranted the company’s disclosure lacks transparency regarding key remuneration figures.
	Outcome of the vote	Pass
	Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	<i>Not provided</i>
	On which criteria have you assessed this vote to be "most significant"?	Vote against management, potential impact on financial and/or stewardship outcomes, and size of the holding in the mandate.
Harris - Global All Cap Equity Strategy (Aon fiduciary mandate)	Company name	Alphabet Inc.
	Date of vote	01-Jun-2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	6.2%
	Summary of the resolution	Approve Recapitalization Plan for all Stock to Have One-vote per Share
	How you voted	For
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	No
	Rationale for the voting decision	We agree with the proponent that a one-vote-per-share capital structure would further align economic interest and voting power. We therefore voted FOR this resolution.
	Outcome of the vote	Failed
	Implications of the outcome e.g. were there any lessons learned	<i>Not provided</i>

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	and what likely future steps will you take in response to the outcome?	
	On which criteria have you assessed this vote to be "most significant"?	Vote against management
GQG - Emerging Markets Equity Fund (Aon fiduciary mandate)	Company name	America Movil SAB de CV
	Date of vote	20-Dec-2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	<i>Not provided</i>
	Summary of the resolution	Approve/Amend Conversion of Securities
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	No
	Rationale for the voting decision	Although the proposal to convert different share classes into a single share class would represent an improvement in the company's corporate governance structure, a vote AGAINST this item is warranted because: * The company has not disclosed the full text of the proposed bylaw amendments, related to the shares' conversions, which, according to the company, will be disclosed after the shareholder meeting; and * The full impact of the article amendments on shareholders' rights is unclear, in a context in which current holders of the L shares would lose the right to appoint two board members as well as certain economic rights.
	Outcome of the vote	Pass
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	<i>Not provided</i>	
On which criteria have you assessed this vote to be "most significant"?	Vote against management, potential impact on financial and/or stewardship outcomes, and size of the holding in the mandate.	
TT International - Emerging Markets Unconstrained Strategy (Aon fiduciary mandate)	Company name	OCI NV
	Date of vote	24-May-2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	1.3%
	Summary of the resolution	Amend Remuneration Policy
	How you voted	Against Management

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	<p>We communicated our voting decision to the company on a call, our third engagement on this topic. OCI’s remuneration policy change got 74.73% approval, and they needed 75%, so they cannot institutionalise the special awards and delink pay further from financial elements (which they arguably did already last year by lowering the % of pay that is linked to financials to 40%). They did get enough support for the one-off special awards for this year, which we had also supported. Our 2.5m shares are about a quarter of the difference between vote 6 and vote 7 – in other words we were not the only ones to exercise independent and nuanced thinking on this issue.</p>
<p>Where you voted against management, did you communicate your intent to the company ahead of the vote?</p>	
<p>Rationale for the voting decision</p>	<p>OCI proposed one-off share awards for the CEO for 2021, as the LTIP did not pay out second year in a row. This is worth \$700k and will vest in three years and will be subject to a holding period of 2 more years afterwards. OCI also proposed to institutionalise these special awards into the policy – up to 100% of salary. This could be for anything, including the non-financial objectives had have already included under the plan changes last year (such as decarbonisation investments). We had voted against that because they did not put this to a shareholder vote last year. They need to put it to a shareholder vote this year because of Dutch regulation and need 75% approval. Both ISS and Glass Lewis recommended voting against both this year’s special award and the change in policy to include these going forward. We voted against the policy change but in favour of the one-off awards as TSR was strong.</p>
<p>Outcome of the vote</p>	<p>Failed</p>
<p>Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?</p>	<p>The company is likely to come back for remuneration policy changes next year - we will engage with them if we are shareholders.</p>
<p>On which criteria have you assessed this vote to be "most significant"?</p>	<p>High dissent (25.3%); priority topic for us with existing engagements (executive remuneration alignment with shareholders).</p>
<p>LGIM - Multi-Factor Equity Fund (Aon fiduciary mandate)</p>	<p>Company name</p> <p>Eli Lilly and Company</p>
	<p>Date of vote</p> <p>02-May-2022</p>
	<p>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</p> <p>0.9%</p>
	<p>Summary of the resolution</p> <p>Require Independent Board Chair</p>
	<p>How you voted</p> <p>LGIM voted in favour of the shareholder resolution (management recommendation: against).</p>
	<p>Where you voted against management, did you communicate your intent to the company ahead of the vote?</p> <p>LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an Annual General Meeting (“AGM”) as our engagement is not limited to shareholder meeting topics.</p>

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	Rationale for the voting decision	Shareholder Resolution - Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.
	Outcome of the vote	Failed
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
	On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).
Nordea - Global Climate and Environmental Fund (Aon fiduciary mandate)	Company name	Republic Services
	Date of vote	16-May-2022
	How the manager voted	Against Management
	Did the manager communicate its intent to the company ahead of the vote?	No
	Summary of the resolution	Report on third-party civil rights audit (shareholder proposal)
	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	4.8%
	Outcome of the vote	Failed
	Rationale for the voting decision	Given that an independent civil rights audit would aid the shareholders to better assess the effectiveness of the company's efforts to address the issue of any inequality within their operation, this merits shareholder approval.
	Implications of the outcome	We will continue to vote for such proposals in this company as well as in other relevant companies.
	Criteria on which the vote is considered significant?	Significant votes are those that the manager feels are against its principles, and where it feels it needs to enact change in the company.
Mirova - Global Sustainable Equity Fund (Aon fiduciary mandate)	Company name	SunRun Inc.
	Date of vote	01-Jun-2022
	How the manager voted	Against Management
	Did the manager communicate its intent to the company ahead of the vote?	Yes - We articulated our preference for the removal of stock options from the compensation structure and provided feedback on potential ESG metrics for the plan.
	Summary of the resolution	Executive Compensation and Director Elections (2 resolutions)
	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.9%
	Outcome of the vote	Pass

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

	Rationale for the voting decision	Prior to executing our vote, members of the sustainability research team engaged with SunRun to discuss the structure of the compensation plan. We advocated for the elimination of stock options and explained our rationale. The company has very responsive and committed to examining this possibility. We further gave insight into possible meaningful sustainability metrics that the plan could incorporate as the company grows.
	Implications of the outcome	We found this company to be quite open and eager to receive shareholder feedback. It was helpful to have the ESG analyst that focuses on climate change and the energy sector part of the call to provide detailed insight regarding the various potential sustainability criteria the company could incorporate into the plan.
	Criteria on which the vote is considered significant?	Relevant to engagement strategy, core company.
SSGA - World TPI Climate Transition Index Equity Sub-Fund (Aon fiduciary mandate)	Company name	Amazon.com, Inc.
	Date of vote	25-May-2022
	How the manager voted	Against
	Did the manager communicate its intent to the company ahead of the vote?	We do not publicly communicate our vote in advance.
	Summary of the resolution	Report on Climate Change
	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	3.5%
	Outcome of the vote	Failed
	Rationale for the voting decision	This proposal does not merit support as the company’s disclosure and/or practices related to climate change are reasonable.
	Implications of the outcome	Where appropriate we will contact the company to explain our voting rationale and conduct further engagement.
	Criteria on which the vote is considered significant?	Environmental Proposal

Source: Managers

APPENDIX II – STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

Background

1.1

Under the Pensions Act 1995 (Pensions Act), the Directors of A.A. Pensions Trustees Limited ("the Trustee") and as amended by subsequent legislation are required to prepare a statement of principles governing investment decisions ("the Statement") of the AA Pension Scheme ("the Scheme"). This document contains that Statement.

1.2

In the process of preparing this Statement, the Trustee has:

- Consulted Automobile Association Developments Limited (AADL) ("the Sponsoring Employer") and will consult the Employer before revising this Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- Sought advice from the Scheme's Investment Consultant.
- Had regard to the requirements of The Occupational Pension Schemes (investment) Regulations 2005 when considering the suitability and diversification of investments and the Trustee will consider those requirements on any review of this Statement or any change in its investment policy. The Trustee will refer to this Statement when necessary to ensure that the Trustee exercises its powers of investment so as to give effect to the principles set out here as far as is reasonable.
- Made revisions in the light of the Myners' Principles and specifically Myners' recommendations relating to the content of Statement of Investment Principles.

1.3

Before drawing up this Statement, the Trustee has obtained and considered written advice from the Scheme's Investment Consultant – Aon Solutions UK Limited. The Trustee will review this Statement regularly, at least every three years and without delay after any significant change in investment policy.

1.4

The appendices are a key part of this Statement and provide details on the current asset allocations and investment arrangements.

1.5

Copies of this Statement have been given to the Employer and the Scheme's Investment Consultant. Future revisions will be circulated similarly.

Scheme Details

1.6

The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

1.7

Members of certain sections of the Scheme are contracted-out of the State Second Pension under the Pension Schemes Act 1993. The Scheme holds a valid contracting-out certificate.

1.8

Administration of the Scheme is managed by the Trustee, which has overall responsibility for the investment of the Scheme's assets and, at present, these are invested via a range of external managers.

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1.9

In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy and delegates the responsibility for selection of specific investments to appointed Investment Managers, which may include an insurance company or companies.

The Investment Managers provide the skill and expertise necessary to manage the investments of the Scheme competently.

2. GOVERNANCE

2.1

The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skill, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities. An Investment Committee has been established to handle the majority of the investment matters and make recommendations to the Trustee where decisions are required to be taken by the Trustee.

2.2

The Trustee recognises that decisions relating to the extent of interest rate and inflation hedging within the investment strategy are of particular interest to the Employer. While ultimate responsibility for this decision rests solely with the Trustee, the Trustee will endeavour to reach agreement with the Employer before making any changes to its interest rate and inflation hedging arrangements.

2.3

The Trustee's principal responsibilities with regard to investment are:

- Reviewing the investment policy for the Scheme following the results of each actuarial review and/or asset liability modelling exercise, in consultation with the Investment Committee and the Investment Consultant.
- Consulting with the Employer and the Investment Committee before amending this Statement.
- Monitoring compliance of the investment arrangements within this Statement in connection with the investment powers which have been delegated to the Investment Committee.
- Monitoring and amending the overall governance arrangements together with the Investment Committee.

2.4

The Investment Committee's principal responsibilities with regard to investment are:

- Formulating an appropriate asset allocation policy for the Scheme for review and agreement by the Trustee.
- Reviewing, at least every three years and without delay after any significant change in investment policy, the content of this Statement and modifying it, if deemed appropriate, in consultation with the Trustee Board and the Investment Consultant.
- Appointing and dismissing Investment Managers and agreeing with them their mandates and remuneration.
- Assessing performance and strategy of the Investment Managers by means of regular, but not less than annual, reviews.

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- Agreeing with the Investment Managers any restrictions that may be enacted and monitoring the agreements.
- Reviewing investment manager benchmarks, performance targets and fees on an ongoing basis.
- Agreeing with the Scheme's investment managers, when necessary, the details of investment switches within the overall rebalancing policy.
- Reviewing periodically transaction and rebalancing reports including any reports prepared in connection with large transitions.
- Reviewing periodically current standing, performance and operations of investment advisors, custodians etc.
- Appointing, or replacing, an independent performance measurer.
- Recommending potential custodians to the Trustee where felt necessary.
- Recommending the appointment, retention or replacement, of the Trustee's Investment Advisor.
- In respect of interest rate swaps contracts, appointing managers, agreeing contracts, collateral issues (including investment of and sourcing of), measuring services of managers/swaps and, if necessary, bringing swaps contracts to a premature end.
- Reviewing and considering important statutory, government sponsored or regulatory reports and recommendations in connection with pension fund investments, including reports on current topical matters, e.g. corporate governance, investment transaction costs, Socially Responsible Investing.
- Investigating and recommending potential new investment areas (e.g. alternative assets) and/or fund managers from time to time to the Trustee.
- Recommending appropriate benchmarks for ratification by the main Trustee following advice from the Investment Consultant.
- Monitoring and, where appropriate, taking action to limit the risks identified in section 11 of this Statement.
- Initiating asset/liability reviews and overseeing any changes to asset allocation strategy and fund managers ratified by the Trustee, in an efficient manner in order to minimise transition costs.
- Reporting to the main Trustee on a regular basis.
- Dealing with such other investment matters as are delegated by the Trustee.

2.5

Decisions affecting the Scheme's investment strategy will be taken with appropriate advice from the Investment Consultant along with the Trustee's other advisors. Details of current advisors and Investment Managers, along with their respective responsibilities, are provided in Appendices A and B.

2.6

The Trustee agrees with the Myners' Principle of separate competition for actuarial and investment consulting contracts. Actuarial and investment consulting services are provided by Aon.

2.7

Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Scheme. The Trustee of the Scheme draws on the skills and expertise of external advisors including the Investment Managers, the Custodian (Bank of New York Mellon) and the Investment Consultant. A schedule of their responsibilities is provided in Part B of the Investment Policy Implementation Document.

2.8

The Pensions Act 1995 distinguishes between investments where the management is delegated to an Investment Manager under a written contract and

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those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

2.9

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include direct investments in bulk annuity policies from Canada Life Limited and Just Retirement Limited as well as vehicles available for members' - Additional Voluntary Contributions (AVCs). When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Manager(s).

2.10

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the Investment Managers) against the following criteria:

- The best interests of the members and beneficiaries;
- Security;
- Quality;
- Liquidity;
- Profitability;
- Nature and duration of liabilities; and
- Tradability on regulated markets.
- Use of derivatives

2.11

The Trustee's Investment Consultant has the knowledge and experience required under the Pensions Act 1995.

2.12

The Trustee expects the Investment Managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this Statement so far as is reasonably practicable.

3. OBJECTIVES OF THE SCHEME

3.1

The general investment objectives of the Scheme are:

- The acquisition of suitable assets having due regard to the risks set out in Section 11 of this Statement which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Scheme provides.
- To limit the risk of the assets failing to meet the Statutory Funding Objective, both over the long-term and on a shorter-term basis. To minimise the long-term costs of the Scheme by maximizing the return on assets whilst having regard to the objectives shown above.

3.2

The investment objectives of the Scheme are not framed relative to the performance of other pension funds.

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3.3

The Trustee, and Investment Managers who have delegated discretion, exercise their powers in a manner calculated to ensure the security, quality, liquidity and profitability of the Scheme. The Trustee invests the assets in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

4. STRATEGIC ASSET ALLOCATION

Scheme Details

4.1

The Scheme's strategic asset allocation is driven by the financial characteristics of the Scheme, in particular the Scheme's liabilities and the risk tolerance of the Trustee and the Employer.

4.2

The Trustee seeks to achieve the Scheme's investment objectives through investing in a suitably diversified mix of real and nominal assets that takes account of investment risk and return. The Trustee ensures that the majority of the assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level.

4.3

The Scheme's strategic asset allocation has been set following an asset/liability review which considered the full range of investment opportunities available to the Scheme, including an assessment of all the major asset classes and some alternative asset classes.

4.4

In setting the investment policy, the Trustee has had regard to the influence that this will have on the Statutory Funding Objective and the likelihood of this measure falling below 100%.

4.5

The Trustee's policy is to make the assumption that equities will probably outperform gilts over the long term and assumes that active investment management can be expected to add value. The Trustee also recognises the potential volatility in equity returns, particularly relative to the Scheme's liabilities.

4.6

The Trustee considers its policy concerning compliance with the Statutory Funding Objective under the Pensions Act 2004 in light of the results of each formal actuarial valuation.

4.7

The Trustee also holds an interest in AA Pension Funding Limited Partnership (a Scottish Limited Partnership formed under the Limited Partnerships Act 1907). This asset provides an income stream that is payable through an interest in AA Pension Funding Limited Partnership, which will hold a loan note due in 2038 (twenty five year loan note at time of issue) backed by royalties payable in respect of the AA brand (owned by AA Brand Management Limited). The Scheme's direct involvement in the structure will be as a Limited Partner.

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Diversification

4.8

The choice of the strategic asset allocation benchmark specified in Part C of the Investment Policy Implementation Document is designed to ensure that the Scheme's investments are adequately diversified.

4.9

The Trustee uses, or permits the Investment Managers to use, derivative instruments if they contribute to a reduction of risks or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Suitability

4.10

The Trustee has taken advice from the Investment Consultant to ensure that the benchmark specified in Part C of the Investment Policy Implementation Document is suitable for the Scheme given its liability profile.

4.11

Direct investments in the sponsor are limited to a maximum of 5% of total Scheme assets.

4.12

The Trustee has received legal advice that its interest in the AA Pension Funding Limited Partnership does not constitute an employer-related investment for the purposes of the Pensions Act 1995

Liquidity

4.13

The Trustee, together with the Scheme's administrators, will ensure that they hold sufficient cash to meet the likely benefit payments from time to time. The Trustee's policy is that there should be sufficient investments in liquid and readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Scheme's overall investment policy.

4.14

In addition, the Trustee will review its investment policy in light of actuarial valuations of the Scheme.

Additional Voluntary Contributions (AVCs)

4.15

The Scheme no longer provides a facility for members to pay AVCs into the Scheme. The current providers for members that have previously paid AVCs into the Scheme are The Prudential Assurance Company Limited ('Prudential') and Utmost Life and Pensions ('Utmost') (transferred from Equitable Life, on 1 January 2020). The Trustee's objective is to provide a range of funds which will provide a suitable long term return for those members, consistent with members' reasonable expectations. In keeping with their policy for the main Scheme assets, the

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Trustee's policy is to seek to achieve the objective through offering to members a suitable mixture of real and monetary assets. The performance of Prudential and Utmost is monitored and compared to that of other AVC providers by the Scheme Trustee.

5.

MANAGER STRUCTURE

5.1

The Trustee has considered the use of both passive and active investment management when developing and reviewing the Scheme's strategy. The resultant allocation to active and passive management is formed following a consideration of the efficiency (risk/return balance), liquidity and level of transaction costs likely to prevail within each market as well as the impact of the Investment Manager fees on future expected (net) returns.

5.2

The Trustee employs a number of Investment Managers to promote adequate diversification by investment management organisation and investment style.

5.3

In 2010 the Trustee delegated certain decision making powers and investment management of some of the assets to Aon Investments Limited (formerly Hewitt Risk Management Services Limited Delegated Consulting Service (DCS)). In 2010, a 15% strategic allocation was made to the multi-asset DCS portfolio, which invested in the delegated liability fund (DLF) and Delegated Growth Fund (DGF). The DLF invested in liability matching assets and the DGF invested in growth assets. A 5% strategic allocation was made to DCS to invest in alternative asset classes only. In 2012, the Trustee made a 6% strategic allocation to a separate DLF mandate to increase inflation hedging on the portfolio. A further 9% strategic allocation was made to a separate DGF to further diversify risk. In 2014, after carrying out an investment strategy review the Trustee decided to further diversify away from equities and allocated a further 10% strategic allocation to the multi-asset DCS portfolio. In the second half of 2015 it was agreed by the Trustee that the four separate DCS mandates would be consolidated into one.

In 2021, the Trustee re-registered 5 illiquid holdings and 4 UK Core Property Funds from being held within DCS, in to the name of the Trustees. This strategic decision had no bearing on the underlying investments but passed ownership and control of the assets to the Trustees. The Trustee also instructed DCS make no further reallocation to illiquids and UK Core Property, with any new investments made by the Trustee on an advisory basis.

In 2020/2021, the Trustee also reviewed the delegated structure and appointed manager. The Trustee concluded that in the near term 90% of the delegated holding would be managed by Aon Investments Limited and 10% would be managed by Kempen Capital Management with the intention of making a longer term decision on the delegated manager in the next year. The onboarding of Kempen took place over Q4 2021.

Further details can be found in Part D of the Investment Policy

Implementation Document.5.4

The Investment Managers have been set mandate-specific benchmarks which have clear performance objectives attached. No peer group-type benchmarks are employed. Where appropriate, explicit risk parameters have been developed to which the Investment Managers are expected to adhere and against which they will be monitored. The overall benchmark specified is designed to ensure that the Scheme's investments are adequately diversified and suitable for the Scheme

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given its liability profile, funding level and covenant of the Employer.

5.5

The Investment Managers should demonstrate that the skill they exercise in managing the portfolio and the process that they follow are both consistent with these objectives given the level of risk adopted. The current Investment Manager structure and performance targets are attached in Part E of the Investment Policy Implementation Document.

5.6

The Investment Managers are paid a fee for their services. These fees are a combination of ad valorem fees paid on the basis of assets under management and performance related fees.

5.7

In 2018, the Trustee invested some of the Scheme's gilts into a "pensioner buy-in" annuity contract from Canada Life Limited, an insurance company, to secure some of the liabilities. This investment is held specifically to provide an accurate hedge against the individual liabilities of part of the Scheme membership, and is only expected to be replaced if eventually converted to individual annuity contracts for these members. In September 2019, the Trustee invested in a second buy-in transaction with Just Retirement Limited and again it is held specifically to provide an accurate hedge against the individual liabilities of a similar profile of the Scheme membership.

Soft Commissions

5.8

The Investment Managers may not directly or indirectly carry out any transactions on behalf of the Scheme which accrue benefits to them under any Soft Commission Agreement.

6. RESPONSIBLE INVESTMENT

6.1

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their Investment Consultant when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

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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

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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.

Members' Views and Non-Financial Factors

6.8

In setting and implementing the Scheme's investment strategy the Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

7. MONITORING

7.1

The financial performance of the Investment Managers will be measured by the Custodian. The Investment Consultant will prepare a summary report on a quarterly basis, detailing the financial performance of the Investment Managers. This report will also cover any developments of significance within each of the investment organisations.

7.2

The Investment Committee holds regular meetings with the Investment Managers to satisfy it, that the Investment Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

7.3

The Trustee is assisted by manager research undertaken by the Investment Consultant.

7.4

The appointment of Investment Managers will be reviewed by the Investment Committee and the Trustee at least every three years and without delay after any significant change in investment policy. This will be based on the results of its monitoring of performance and process and of the Investment Manager's compliance with the requirement in the Pensions Act concerning diversification and suitability where relevant.

8. ARRANGMENTS WITH INVESTMENT MANAGERS

8.1 The Trustee monitors 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 includes monitoring the extent to which investment managers:

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- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their Investment Consultant.

The Trustee shares the policies, as set out in this Statement, with the Scheme's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee policies.

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee policies. Where necessary, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, the Trustee will express its expectation to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

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.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

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.

9. MONITORING OF INVESTMENT MANAGER COSTS

9.1

The Trustee is aware of the importance of monitoring the investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by investment managers that can increase the overall cost incurred by their investments.

The Trustee will receive annual cost transparency reports from their Investment Consultant in conjunction with ClearGlass, whom the Trustee has engaged with to collect Scheme information on a consistent basis. These reports present information in line with prevailing regulatory requirements for investment managers and allows the Trustee to understand exactly what they are paying to their investment managers. The reports clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the investment managers appointed by the Trustee;
- The amount of portfolio turnover costs (transaction costs) incurred by investment

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managers;

- Any charges incurred through the use of pooled funds (custody, admin, audit fees etc)
- The impact of costs on the investment return achieved by the Scheme.

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Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The investment managers monitor the level of portfolio turnover (defined broadly as the amount of purchases plus sales). The Scheme's Investment Consultant monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

10. EVALUATION OF INVESTMENT MANAGER PERFORMANCE AND REMUNERATION

10.1

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

The Trustee will consider advice as necessary from their Investment Consultant on the ongoing suitability of the terms of investments, including the ongoing reasonableness of remuneration paid to managers in light of fees for other similar quality investment funds.

11. RISK MANAGEMENT

11.1

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme and continues to monitor these risks:

Solvency risk and interest rate and inflation mismatching risk:

- Measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to current and alternative investment policies (for example, using risk budgeting).
- Managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategy, through the choice of the benchmark and through ongoing triennial actuarial valuations.
- Managed through holding assets, such as gilts, index linked gilts and the multi asset DCS mandate which hedge against some of the interest rate and inflation risk associated with the liabilities.
- Current target hedge ratios for interest rate and inflation hedging are around 80% of the risks measured on the low-dependency basis, and the target hedge ratios are intended to increase in future in line with the low-dependency funding level. Actual hedge ratios are expected to be within the range + / - 5% of the target hedge ratios.

Corporate governance risk:

- Measured by the level of concentration in individual stocks, thereby reducing the risk of possible negative investment values.

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Sponsor Risk:

- Measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit.
- Managed through assessing the interaction between the Scheme and the Employer's business.

Manager Risk:

- Measured by the expected deviation of the prospective risk and return, as set out in the Investment Managers' objectives in Part E of the Investment Policy Implementation Document.
- Managed through the diversification of the Scheme's assets across a range of Investment Managers with different styles, the ongoing monitoring of the Investment Managers and the negotiation of Investment Management Agreements.
- The risk of a default by the annuity providers, Canada Life Limited and Just Retirement Limited, with whom bulk annuities are held. The Trustee and its advisors actively considered the strength of the insurers before entering into the policy whilst also considering the wider regulatory framework within which insurers are required to operate. The Trustee and its advisers will continue to monitor Canada Life Limited and Just Retirement Limited as well as the broader annuity market environment from time to time.

Liquidity Risk:

- Measured by the level of cashflow required by the Scheme over a specified period.
- Managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Market Risk:

- Measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from country specific issues.
- Managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Counterparty Risk:

- Measured by the exposure to each counterparty as a percentage of the overall exposure.
- Managed by transacting with a wide range of counterparties, transacting only with reputable organisations that are regarded as having good credit and undertaking regular monitoring and reviews of all counterparties.

Custody Risk:

- Measured by assessing the Custodian's ability to settle trades on time and provide secure safekeeping of the assets under custody.
- Managed through the agreement with the third party Custodian and ongoing monitoring of the custodial arrangements and discussing the performance of the Custodian with the Investment Managers when appropriate. Restrictions are applied to who can authorise transfer of cash and the account to which transfers can be made.

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Cash Risk:

- Measured for the Scheme through the guidelines with the Investment Managers with respect to their policy on diversification of cash deposits.
- Managed through investment in liquidity funds with the custodian and cashholdings via the Trustee bank.

Currency Risk:

- Measured through diversification of the Scheme's overseas assets across a range of currencies.
- Managed through the Scheme's currency hedging programme.

Conflict of Interest Risk:

- The Trustee recognises that the Scheme's Investment Consultant – Aon has a policy on managing conflicts of interest and the Trustee has satisfied itself that Aon have sufficient safeguards in place to protect the Trustee from conflicts.

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12. CONFIRMATION OF APPROVAL

Dated: March 2022

Agreed on behalf of The Trustee:

Name: Mr Jay Stewart

Position: Chairman of AA Pension Scheme Investment Committee

Seen by Sponsoring Employer:

Name: Katherine Horrell

Position: Group Treasurer

Automobile Association Developments Limited