Plumbing and Mechanical Services (UK) Industry Pension Scheme

41st ANNUAL REPORT TO MEMBERS

By the Trustee, Plumbing Pensions (UK) Ltd.
For the year ended 5th April 2016.

Chairman	**Appointed**
A Pickering, CBE	1981 (as Director)

Employer Directors	**Appointed**
J Anderson	2016
A Beaumont	2016
S Bilclough (resigned 14/12/2015)	2014
J Breakell	2006
R Frew	2013
G Matheson	2012
R E Price, MBE	2008
M Silmon (resigned 1/4/2016)	2010

Employee Directors	**Appointed**
J Allott	2006
S Foley	2013
S Syson	2009
M Tuff	2006

Secretary and Pensions Manager
R.D. Burgon, B.A., M.Litt., F.P.M.I.,Hon.FCIPHE, Hon. FSoPHE

Deputy Pensions Manager
K.J. Yates FIA

Consulting Actuaries
Willis Towers Watson Limited

Bankers
Bank of Scotland
.

Independent Auditors
Chiene + Tait LLP, C.A.

Investment Consultants
Aon Hewitt

Global Custodians
JPMorgan Chase Bank

Legal Advisers
Linklaters LLP
Pinsent Masons LLP

Investment Managers
Baillie Gifford & Co
BlackRock Investment Management (UK) Ltd
DTZ Investment Management Ltd
Legal & General (Pensions Management) Ltd
Macquarie Infrastructure and Real Assets (Europe) Ltd
Prudential Corporate Assurance Co Ltd
Schroder Investment Management Ltd
Veritas Asset Management LLP

Plumbing and Mechanical Services (UK) Industry Pension Scheme

The Plumbing and Mechanical Services (UK) Industry Pension Scheme is operated and administered by a trustee company, Plumbing Pensions (UK) Ltd, Bellevue House, 22 Hopetoun Street, Edinburgh EH7 4GH

The Scheme is one of the largest in the construction industry. Its assets are valued in the region of £1.6 billion.

The Scheme was established in 1975 and applies to plumbing operatives and apprentices employed by firms in the plumbing and mechanical services industry in the United Kingdom. Employers can also operate the Scheme for other employees, and for directors if the firm is a limited company.

In places this report is technical, but the Scheme has made every effort to make it understandable to members and beneficiaries. If you have questions, please write to the Scheme or call the helpline on: 08457-656565.

Plumbing and Mechanical Services (UK) Industry Pension Scheme

Trustee

Plumbing Pensions (UK) Ltd. is the Trustee of the Industry Pension Scheme. The membership of the company consists of three participating bodies: the Association of Plumbing and Heating Contractors Ltd and the Scottish and Northern Ireland Plumbing Employers' Federation, which each nominate three directors, and Unite the Union which nominates four directors. Responsibility for nominating and removing directors rests with the three participating bodies. The Trustee company appoints an Independent Chairman.

Preservation of pension entitlement

The Scheme is an industry-based scheme. Its terms allow employee members to move freely from one firm to another without adversely affecting their pension entitlement. Pension credits for all members, whether currently contributing or not, are increased in a similar way each year. In the case of non-contributory members, the Guaranteed Minimum Pension (GMP) element of the pension credits may receive a slightly different level of bonuses in order to comply with government legislation.

Additional Voluntary Contributions (AVCs)

Employee members can make AVCs to secure extra benefits at retirement. As with contributions to the main Scheme, these additional contributions attract income tax relief.

The AVC provider is Prudential Assurance Company Ltd. Members interested in making AVC contributions are invited to contact the Plumbing Pensions (UK) Edinburgh office.

Trustee's review of the year

Pension increases for pensioners and existing members for 2016/2017

This year, the following increases are being applied:

Pensions in payment accrued prior to 6 April 1997, apart from the statutory requirement to increase members' post – 5 April 1988 GMP pensions	Nil
GMP accrued up to 5 April 1988	increases applied by State Scheme
GMP accrued between 6 April 1988 and 5 April 1997	Nil
Pensions in excess of the GMP built up between 6 April1997 and 5 April 2005	Nil
Pensions in excess of the GMP built up after 6 April 2005	Nil

Pension credits held by existing members, who have not reached retirement, on pension built up prior to 6 April 2004, the promised bonus under the Scheme Rules	1.5%
Pension credits held by existing members, who have not reached retirement, on pension built up after 5 April 2004.	0.8%

Note: The GMP is approximately the pension that members would have earned under the State Earnings Related Pension Scheme (SERPS) before 6th April 1997 if they had not ‘contracted-out’ of it. No GMP builds up for pensionable service after 6th April 1997.

Plumbing and Mechanical Services (UK) Industry Pension Scheme

Contributions

The Directors can report that contributions to the Scheme in the year to 5th April 2016 saw an increase from £11,452,817 to £11,962,124.

Benefits

There are now over 11,900 pensioners and dependants receiving benefits from the Scheme. This is reflected in the increase in benefits paid in the year to 5th April 2016 from £43,070,263 to £48,175,131.

Trustee training

New Directors of the Trustee company are required to participate in an induction process at an early stage of their involvement with the Scheme. In addition, training sessions for all Directors are arranged as part of the programme of Directors' meetings including an annual training day each November. Directors of the Trustee Company are also encouraged to participate in the "E-learning" programme developed by the Pensions Regulator.

Important message to member firms

Under the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, member firms must give new members a Guide to the Scheme within two months of joining. Copies of the Guide are available on request from the Administration Department.

Statement of Investment Principles

The Directors have produced a Statement of Investment Principles. A copy is available on request from our Administration Department in Edinburgh.

Statement of Funding Principles

The Directors have produced a Statement of Funding Principles. This statement is included on pages 9-14 of this report.

Transfer values

- Members who leave service or who opt out of the Scheme can choose to transfer the value of their benefits to approved arrangements. The Scheme confirms that all transfer values are calculated and verified in the way prescribed by regulations under the Pensions Act 1995.

- All transfer values paid by the Scheme allow for the full value of the promised preserved benefits but do not include any allowance for discretionary increases or bonuses.

- Members should remember that it is important to take independent financial advice before making any decision to transfer.

Plumbing & Mechanical Services (UK) Industry Pension Scheme

Schedule of Contributions for the period 1 January 2016 to 31 December 2020

This schedule of contributions has been prepared by the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme ("the Scheme"), after obtaining the advice of the Actuary, Nicola MacKay FIA of Towers Watson Limited. The Trustee has discussed and agreed this schedule with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers).

1. Contributions by the participating employers

The participating employers shall contribute in line with the following table for each benefit scale:

Benefit Scale	**Participating employers' contribution rates as percentage of Earnings***		
	Up to 31 March 2017	**From 1 April 2017 to 31 March 2018**	**From 1 April 2018**
2017 scale	N/A	7.50%	7.50%
Basic scale	7.5%	9.2%	10.6%
H2	10.5%	11.8%	13.0%
H3	12.5%	14.6%	16.6%
H4	14.5%	17.0%	19.4%

*Earnings are as defined in the Scheme's Rules.

These contributions shall be paid to the Scheme no later than 19 days after the end of the calendar month to which they relate.

At the latest actuarial valuation dated 5 April 2014, the Scheme's Statutory Funding Objective was met and as such a recovery plan is not required.

In addition to the contributions shown above, the participating employers shall

pay the following:

a. Additional contributions as may be required under the Scheme's Rules in specific circumstances (for example to cover augmentations). The amounts of such contributions are to be advised by the Scheme Actuary.

b. Such other contributions as may from time to time be agreed by the Trustee and the participating employers (as represented above).

2. Employee contributions

Employees shall contribute in line with the following table:

Benefit Scale	Employees' contribution rates as percentage of Earnings*		
	Up to 31 March 2017	From 1 April 2017 to 31 March 2018	From 1 April 2018
2017 scale	N/A	3.75%	3.75%
Basic scale	3.75%	4.6%	5.3%
H2	5.25%	5.9%	6.5%
H3	6.25%	7.3%	8.3%
H4	7.25%	8.5%	9.7%

These contributions shall be deducted from members' pay and paid to the Scheme by the relevant employer no later than 19 days after the end of the calendar month in which they were deducted from pay.

3. Treatment of expenses and the Pension Protection Fund levy

Investment management costs, administrative and other non-investment expenses (including levies to the Pension Protection Fund) are met from the Scheme's resources. An ongoing funding reserve is included within the Scheme's technical provisions to meet these expenses.

Actuary's certification of Schedule of Contributions

Name of scheme: Plumbing & Mechanical Services (UK) Industry Pension Scheme

1. Adequacy of rates of contributions

   I hereby 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 5 April 2014 to continue to be met for the period for which the schedule is in force.

2. Adherence to Statement of Funding Principles

   I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 16 December 2015.

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

Nicola MacKay
Scheme Actuary
Fellow of the Faculty and Institute of Actuaries

Towers Watson Limited
2 Lochrin Square
96 Fountainbridge
Edinburgh, EH3 9QA

18 December 2015

Plumbing & Mechanical Services (UK) Industry Pension Scheme

Statement of funding principles

This statement has been prepared by the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme ("the Scheme") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Actuary, Nicola MacKay FIA. The Trustee has discussed and agreed it with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers).

Statutory Funding Objective

The Statutory Funding Objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions, based on its obligated benefits, and this statement sets out the Trustee's policy for securing that this objective is met.

Method and assumptions

It has been agreed that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective obligated benefits arising from service completed before that date, including allowance for prospective non-discretionary increases both before and whilst benefits are in payment. This method of calculating technical provisions is known as the projected unit credit method. Assets will be taken into account at market value.

It has been further agreed that:

- When setting the discount rate used to calculate the capital value of future cashflows, the investment return which would be required to meet the Statutory Funding Objective stated above, based on the existing assets and obligated benefits, will be determined, on the advice of the actuary. The Trustee will then consider whether this return is achievable with a high enough degree of confidence taking into account the Scheme's likely future investment policy and the yields available on index linked and conventional Government bonds of duration appropriate to the duration of the liabilities and an element of additional return expected from other assets held by the Scheme. The discount rate adopted in relation to the technical provisions may differ from that used to assess the adequacy of future contributions payable to the Scheme.

- The discount rate set by reference to the investment return derived by the above process will be acceptable if, taking into account the Scheme's expected future asset allocation, it is anticipated that the return can be achieved over the next 10 years with the expectation that at least 70% of possible outcomes will give a more favourable investment return and 30% will result in less favourable returns (referred to as the "70% confidence level"). These expectations will be based upon a realistic asset return model (such as the Towers Watson Investment Model using assumptions at the valuation date).

- Future price inflation will be set by considering, amongst other things, the markets' expectations of future inflation levels. Such expectations are derived by taking into account, for example, information from the index linked and fixed interest bond markets at the effective date of the actuarial valuation. Data published by the Bank of England will also be taken into account.

- The price inflation assumption will be used as the basis for determining the various pension increase assumptions for the different types of Scheme pension (both pre and post retirement), after making suitable allowance for any relevant restrictions.

- Demographic assumptions will have regard to an analysis of the Scheme's actual experience, and views about how this may change in future.

Taken together, the assumptions derived as described above are prudent given the actual current investment allocation of the Scheme, and are consistent with the Trustee's desired level of confidence that assets equal to the technical provisions will prove adequate to meet accrued benefits as they fall due without the need for further contributions from the members or the participating employers.

The Trustee and the participating employers have agreed to adopt the same methodology to determine the cost of ongoing benefit accrual in respect of active members as for determining technical provisions. However, the confidence level adopted may differ, subject to the constraint outlined on the first page of this Statement.

The above is based on the Scheme remaining open to new entrants and on the collective covenant of the participating employers remaining broadly unchanged.

This does not preclude changes in methods and assumptions in the future where justified by a change of legal, demographic or economic circumstances, if such a change is sensible and agreeable to both the Trustee and the participating employers.

Discretionary benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion, the principal details of which are set out below. The Trustee is obligated to provide the following annual pre-retirement bonuses:

- credits in respect of contributions before 6 April 2004 will increase at least in line with national average earnings

- credits in respect of contributions after 5 April 2004 will increase at least in line with price inflation

The Trustee is obligated to provide the following annual post-retirement bonuses:

- nothing for credits in respect of contributions before 6 April 1997 (apart from the statutory requirement to increase members' post-5 April 1988 GMP pensions)

- the lesser of consumer price inflation and 5% for credits in respect of contributions between 6 April 1997 and 5 April 2005 inclusive

- the lesser of consumer price inflation and 2.5% for credits in respect of contributions after 5 April 2005

The Trustee may grant discretionary increases above these obligated benefits. The Trustee has decided to make no allowance for discretionary increases in determining the Scheme's technical provisions.

Under the Scheme Rules, a participating employer, with the agreement of the Trustee (having considered actuarial advice), may provide increased or additional benefits to any member, spouse or dependant. No advance allowance is made in the funding arrangements for the potential increase in the liabilities of the Scheme arising from the exercise of such discretions. The cost of any such increase would be met by a special contribution by the participating employer at the time the discretion was exercised.

Actuarial valuation as at 5 April 2014

The Trustee (having taken the advice of the Actuary) and Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers) have agreed assumptions for the actuarial valuation as at 5 April 2014, in line with the process described above.

In particular, at the valuation date, it was determined that the investment return required to meet the Scheme's Statutory Funding Objective in respect of obligated benefits that had accrued to the valuation date was 4.0% per annum. Taking into account the Scheme's asset allocation, it is anticipated that, over the next 10 years, that level of investment return can be achieved with the expectation that broadly 75% of possible outcomes will give a more favourable investment return and 25% will result in less favourable returns (referred to as the "75% confidence level"). These expectations have been based upon the Towers Watson Investment Model using assumptions at the valuation date.

In respect of determining the cost of ongoing benefit accrual in respect of active members, a 15 year period was used to assess the investment returns required to meet the accrual costs with a 75% confidence level. On this basis, the investment return required for ongoing accrual is 4.9% per annum. A five year control period has been introduced at this valuation in respect of the cost of ongoing benefit accrual.

It is therefore agreed that all of the above meets the Scheme's Statutory Funding Objective.

Financial assumptions as at 5 April 2014

The derivation of the discount rates is noted above. The other assumptions used for the 2014 valuation are set out below:

	% per annum
Price inflation (RPI)	3.2
Price inflation (CPI)	2.2
National Average Earnings/future pay growth	4.2
Increases to pension credits once in payment:	
Non-GMP credits earned before 5 April 1997 (GMPs receive statutory increases)	0.0
Credits earned between 6 April 1997 and 5 April 2005 inclusive	2.2
Credits earned after 5 April 2005	2.2
Increases to pension credits in deferment:	
Credits accrued before 5 April 2004	4.2
Credits accrued after 5 April 2004	3.2
Investment returns	
Accrued benefits	4.0
Ongoing benefit accrual for active members	4.9

Demographic assumptions as at 5 April 2014

Following an analysis of the actual experience of the Scheme's pensioners, mortality is assumed to follow the SAPS "heavy" table for all pensioners (i.e. including normal and ill health retirements) with a multiplier of 86% for both males and females.

Future improvements in longevity are assumed to follow the CMI core projection model with 1.5% a year improvement trend.
This assumption is unchanged from the previous valuation. Details (including sample rates) of the demographic assumptions are shown in the appendix to this statement.

Expenses

Investment management costs, administrative and other non-investment expenses (including Pension Protection Fund levies) are met from the Scheme's resources. As at 5 April 2014, an ongoing funding reserve of £56 million has been included within the technical provisions to meet these expenses.

Eliminating a shortfall

Based on the analysis set out above, the Scheme was fully funded as at 5 April 2014 on any discount rate which had an associated confidence level of 70% or less. As such, no recovery plan is required at this time.

Frequency of valuations

In the normal course of events, the Trustee will request subsequent funding valuations three years after the preceding one. The Actuary will also provide an estimate of the up-to-date financial position of the Scheme as at each 5 April between valuations.

Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the participating employers or members of the Scheme to contribute to the assets held by the Scheme.

Paying funding surpluses to the employer

The rules do not permit funding surpluses to be paid to the employers, unless the Scheme is being wound up, all entitlements have been secured in full and the Trustee has increased all or any benefits or provided additional benefits to the extent that they consider appropriate.

Cash equivalent transfer value calculations

The Trustee will ask the Actuary to advise them at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

The law permits the Trustee to reduce cash equivalent transfer values paid to members if the Actuary advises that the Scheme's assets are not sufficient to provide them in full to all members, on the method and assumptions adopted for that purpose. Should such a situation arise, the Trustee would consider whether such a reduction would be appropriate in all of the prevailing circumstances. Full transfer values are currently being paid and the Actuary has confirmed that the assets are sufficient to provide them for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

Dates of review of this Statement

This Statement will be reviewed, and if necessary revised, by the Trustee either

- within 15 months of the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has
  - used its powers to modify future accrual of the Scheme; or
  - directed as to the manner in which technical provisions are to be calculated or the period over which failure to the statutory funding objective is to be remedied; or
  - imposed a schedule of contributions.

The Trustee may also elect to review, and if necessary revise, the statement at other times.

Appendix – Statistical assumptions

In service – mortality specimen rates

Sample rates per 1,000 members at each age

Age	Men	Women
25	-	-
30	1	1
35	1	1
40	3	2
45	5	3
50	8	4
55	9	4
60	10	5
65	15	7

Retirement in normal health from active or deferred pensioner status

All members are assumed to retire at their normal retirement age.

Spouses' and dependants' pensions

The proportion of deceased members assumed to give rise to a spouse's or dependant's pension is 80% for males and 70% for females.

Age difference between members and dependants

All members are assumed to have an age difference (male - female) of three years.

Allowance for option of members to commute pension for cash at retirement

Members are assumed to commute the maximum permissible amount of their pension for a tax free lump sum at retirement, using current commutation rates.

Date of statement for reference purposes: 16 December 2015

Investment report

General

The Scheme is structured on specialist lines. This means that different investment organisations are responsible for each major category of asset, reflecting their particular expertise.

The structure, together with details of the assets held by each manager at 5th April 2016, is shown in the table below.

As mentioned in the past, the Scheme's assets are split into a Return Seeking Portfolio and Matching Portfolio (further details are provided in a later section).

The majority of the assets held by each manager are regarded as being readily realisable – that is, they can be sold or disposed of within a reasonable period of time. This is with the exception of infrastructure and direct property assets which, we estimate, may take several months to be sold.

Return Seeking Portfolio

Manager	**Assets managed**	**Value at 5th April 2016 (£)**
Legal & General Investment Management Ltd	Global Equities (Market Capitalisation Indexed)	£212,962,124
Legal & General Investment Management Ltd	Global Equities (Alternatively Indexed)	£92,997,636
Legal & General Investment Management Ltd	UK Equities (Market Capitalisation Indexed)	£52,232,282
Baillie Gifford & Co.	Global Equities	£125,889,951
Trilogy Global Advisors[2]	Global Equities	£152,671
Schroder Investment Management Ltd	Global Equities	£134,300,264
Veritas Asset Management	Global Equities	£161,157,061
BlackRock Investment Management (UK) Ltd	UK Equities	£136,504,562
Macquarie Investment Management	Infrastructure	£79,339,464
DTZ Investment Management[1]	Property	£166,531,150

Matching Portfolio

Manager	**Assets managed**	**Value at 5th April 2016 (£)**
Legal & General Investment Management Ltd	Index Linked Gilts	£143,364,278
Legal & General Investment Management Ltd	Corporate Bonds	£316,358,449

Source: JPMorgan, Fund managers

Notes: [1]The property valuation shown above for DTZ Investment Management includes cash held at the bank and property assets held directly.

[2]The assets held with Trilogy were residual assets left after its termination during 2015.

As at 5th April 2016, the total portfolio was valued at £1,625.5m, which compares with £1,636.2m as at 5th April 2015.

In November 2009, DTZ Investment Management was appointed to manage a segregated property portfolio. In 2012 the commitment made to the manager was increased by £25m to £125m. In June 2013 the decision was made to further increase this to £150m and in November 2014 this was further increased to £160m. As at 5th April 2016, the manager has called the full £160m target.

The Directors of the Scheme continue to monitor the timeframe in which further property purchases will be made. Cash requirements are also monitored internally and a process for determining where cash withdrawals are sourced from has been agreed with the Scheme's investment advisor.

As at 5th April 2016 the Scheme's assets were split between the major asset categories as follows:

%	Invested in
23.5	Global Equities (Active) [1]
18.9	Global Equities (Indexed)
9.1	UK Equities (Active)
3.2	UK Equities (Indexed)
28.2	Bonds
4.9	Infrastructure
10.2	Property
2.0	Cash

Source: JPMorgan, Fund managers.
Note: [1]Includes alternative indexation equity funds.
[2]Numbers may not sum due to rounding.

The Directors have produced a Statement of Investment Principles, in accordance with the Pensions Act 1995 (the Pensions Act), which reflects revisions to the Pensions Act as required by both the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the statement is available on request.

The Directors' main priority when considering the investment policy is to ensure that the promises made about members' pensions may be fulfilled. To ensure this, investments are spread by type of investment (equities, bonds, property etc.) and geographically. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Scheme.

The Scheme's investment performance

Throughout the year, the Directors continued to play an active role in monitoring the management and performance of the investments of the Scheme.

Following a review in January 2011, the Scheme's investments were broken down into a Matching Portfolio, which aims to match part of the benefits due to members, and a Return Seeking Portfolio, which aims to deliver long term growth.

The Directors participate in an independent investment monitoring service which reports on the performance of each individual manager within both Portfolios. This service calculates the return achieved over the year and other time horizons and compares it against the benchmark return. For the Return Seeking Portfolio, the Directors monitor overall Scheme returns versus a benchmark return.

Over the year to 5th April 2016, there were changes made to the Scheme's investments. The main changes were as follows:

- The Scheme invested into a new global equity manager, Baillie Gifford. The manager was selected to replace Trilogy Global Advisors. The transition of assets occurred towards the end of 2015, with a residual amount remaining in Trilogy as at 5 April 2016.
- DTZ informed the Directors that the segregated property mandate will reach £170m once existing properties being refurbished are let. The current target size is £160m. The Directors noted their comfort in the property allocation and have had a series of conversations with DTZ regarding the long term strategy of the portfolio. The Directors are content with the direction of travel of the property portfolio and continue to consider the opportunities and risks in the portfolio carefully.

Investment returns for periods to 31st March 2016

1 year		3 years (% p.a.)		Since inception (1.7.95) (% p.a.)	
Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
3.5	0.6	8.8	6.0	7.5	7.1

Source: JPMorgan, Aon Hewitt.

Note: Up until 31st December 2010, the figures above provided returns for all the Scheme's assets. As of 1 January 2011, the decision was taken to remove the matching bond assets from this calculation.

Custodian arrangements

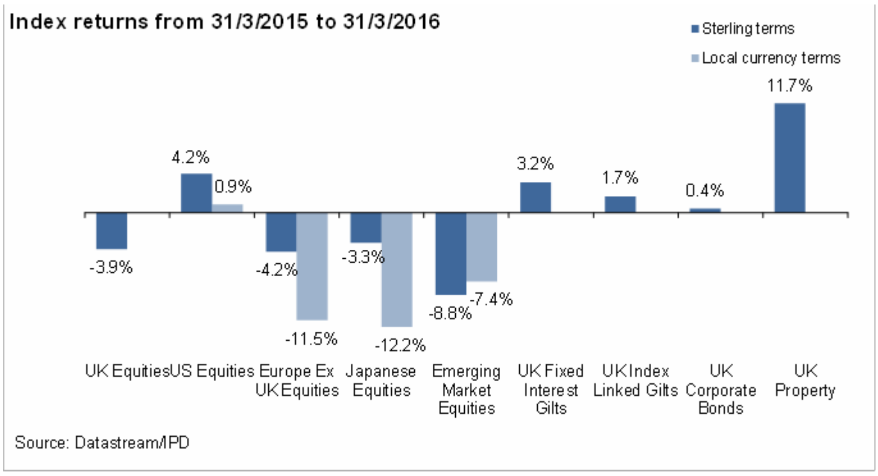
The Directors have appointed JP Morgan Chase Bank as custodian of the Scheme's segregated assets. The custodian is responsible for the safe keeping of share certificates and other documents relating to the ownership of listed investments. Investments are held in the name of the custodian's nominee company, in line with common practice for pension scheme investments. Documents relating to unlisted investments, for example properties, are held at the company's Head Office, and are registered in the Scheme's name.

The Directors are responsible for ensuring that the Scheme's assets continue to be securely held. They review the custodian arrangements from time to time and the Scheme Auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

For pooled investments, such as the Legal & General Investment Management equity and corporate bond holdings, the fund manager is responsible for arranging appropriate custodial arrangements.

Investment Market Background

Summary: 12 months to March 2016



General Background

- Economic momentum slowed globally over the year to March 2016, with the US suffering from a fall in confidence and business activity, weaker Chinese economic growth, and global trade failing to grow. Eurozone economic growth steadily improved as the weaker euro boosted exports, but Japan's economy experienced two (non-consecutive) quarters of recession over the year. UK growth remained steady around the 2% mark, although fears over a 'Brexit' from the EU ignited some concerns over the UK's future economic prospects.
- After intense speculation on the timing of the US interest rate lift off, the Federal Reserve (Fed) pulled the trigger in December, raising the target federal funds band from 0-0.25% to 0.25-0.5%. However, expectations over the timing of future rate rises were tempered heavily on increasing economic uncertainty. In the Eurozone, ongoing concerns over weak growth and deflation caused the European Central Bank (ECB) to expand quantitative easing (QE) in Q1 2016 and bring interest rates even lower. The Bank of Japan (BoJ) continued with its aggressive QE programme in an effort to ramp up inflation. Monetary easing also continued in China. Concern over the effectiveness of developed market central bank easing actions grew, causing unexpected market moves after the easing announcements.
- In May 2015, the UK electorate voted in a conservative government after great outcome uncertainty. In Greece, after months of negotiations over austerity conditions, the left wing Syriza Greek government came to a bailout agreement with its creditors. A snap election, in which Alexis Tsipras was re-elected, followed soon after. In the second half of 2015, the European migrant crisis became one of the dominant themes in news headlines. After UK Prime Minister David Cameron secured a deal with Brussels over reformed terms of the UK's EU membership, a referendum over a British exit from the EU was set for June 2016.
- After the brent crude oil price rebounded back to nearly $70 per barrel in spring 2015, prices fell again, eventually hitting lows of $28 per barrel in January 2016. All other major commodity prices also fell over the year as Chinese growth weakened. This helped to keep global inflation low and the US, UK and various other economies experienced inflation levels close to zero over the 12 months.
- Over the year, the MSCI All Country World Index returned -4.9% in local currency terms and -1.2% in sterling terms as sterling weakened

broadly in the second half of the period over Brexit fears. Equities experienced especially violent falls in August, triggered by an unexpected managed devaluation of the Chinese renminbi, and in January, over global growth worries.

- UK gilt yields fell over the twelve months to March 2016, with yields at some maturities falling to record lows. The Fed's first interest rate rise in almost a decade finally took place in December, but concern over growth in the US and the rest of the world prevented yields from rising higher.
- UK corporate bond spreads over government bonds widened by 46 bps (0.46%) over the period as the increase in risk aversion and falling oil prices had an impact.
- UK property returns were strong, with the IPD Monthly Index rising 11.7% over the period.

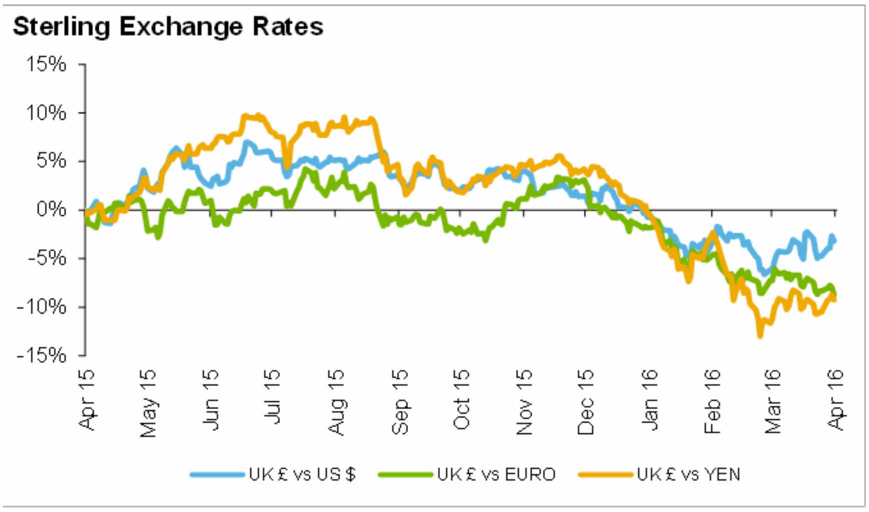
UK Equities

- Despite the UK experiencing sturdy economic growth, the UK equity market returned -3.9% over the period. The market's sizeable resource component exposed the market to falling commodity prices.
- The best performing sectors were consumer goods (17.5%) and technology (11.9%) while the basic materials (-26.4%) sector was by far the laggard.
- UK mid cap equities (1.7%) outperformed both small (1.6%) and large (-5.3%) cap equities. This marked large cap underperformance was a result of its higher international and commodity exposures.

Overseas Equities

- The US was the only region to provide a positive return over the period. Relative performance was strong against a backdrop of reduced risk appetite. US equities provided a 0.9% return in local currency terms, but the strong US dollar brought the sterling return up to 4.2%.
- Continental European equities returned -11.5% in local currency terms whilst sterling weakness in Q1 of 2016 brought the sterling return up to -4.2%. Accommodative monetary policy from the ECB was offset by weak Eurozone and global growth.
- Japanese equities performed very strongly at the beginning of the period, boosted by domestic equity buying and additional quantitative easing, even as economic data was weak. However, Q1 2015 saw the Japanese stock market underperform other markets as Chinese weakness and yen strength both weighed on exporters. Concern over policy effectiveness and the economy reversed positive investor sentiment. Japanese equities provided the lowest local currency return (-12.2%) but sterling returns (-3.3%) were better as the yen strengthened versus sterling over the year.
- Emerging market performance was weak, mainly caused by ongoing uncertainty over China's growth and weak commodity prices. There was also concern over the impact of Fed monetary policy on the region. However, emerging markets outperformed in Q1 2016 as lower US rate expectations took the pressure off EM currencies. Emerging market equities returned -7.4% in local currency terms and -8.8% in sterling terms over the full period.

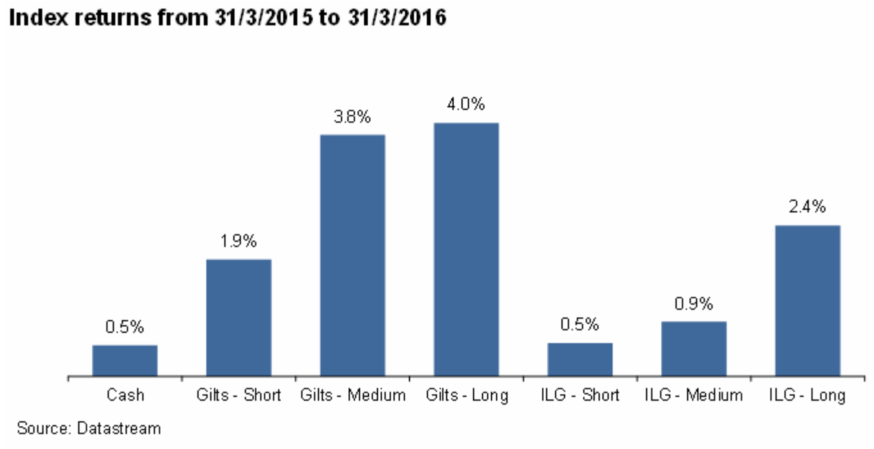
Currencies and Interest Rates



Source: Datastream

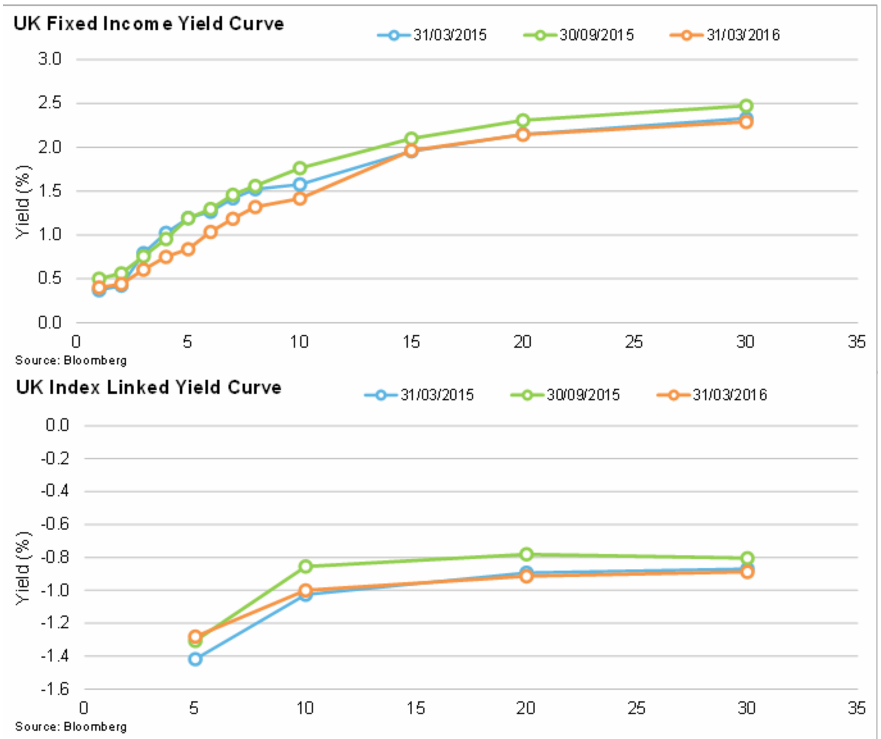
- UK policy rates remained at 0.5%, unchanged since March 2009. Decent UK economic data and aggressive monetary easing in the Eurozone caused sterling to appreciate early in the period. However, sterling depreciated broadly later on the back of jitters over the impending EU referendum and broad strength in both the euro and yen. Sterling ended the year down 5.2% on a trade-weighted basis.
- The Federal Funds rate target band was raised from 0-0.25% to 0.25-0.5% in December 2015. However, the push back in interest rate rise expectations after December saw the dollar weaken against the strong euro and yen. The US dollar appreciated by 3.3% against sterling over the year.
- The ECB, in response to the lack of inflationary pressures in the economy, kept in pursuit of easier monetary policy. However, the euro appreciated by 5.3% on a trade-weighted basis and by 9.6% against sterling over the year as Brexit fears pressured sterling and the ECB focused more on domestic stimulus.
- The BoJ left rates at 0-0.1%, unchanged since December 2008, and continued with its aggressive quantitative easing programme. However, the currency strongly appreciated as global equity market volatility increased the appeal of the “safe haven” currency and investors grew sceptical of QE impact on the yen. The yen appreciated by 5.0% over the year on a trade-weighted basis, and by 10.2% against sterling.

Gilt Returns



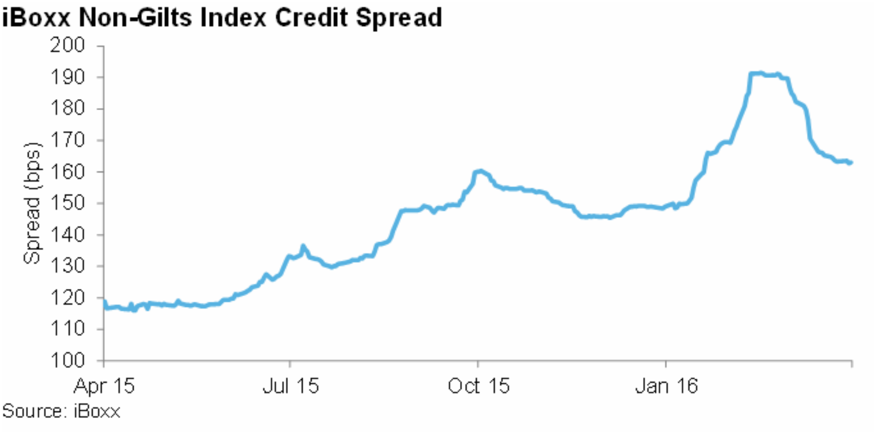
- UK fixed gilts returned 3.2% and index-linked gilts returned 1.7% over the whole period.
- Long dated fixed interest gilt returns were the highest, outperforming short and medium term maturities. The same occurred for index-linked gilts.
- Index-linked gilts underperformed fixed gilts at all maturities as index-linked yields fell by less at long maturities and actually rose marginally at medium maturities.

Fixed Interest and Index-Linked Yield Curves



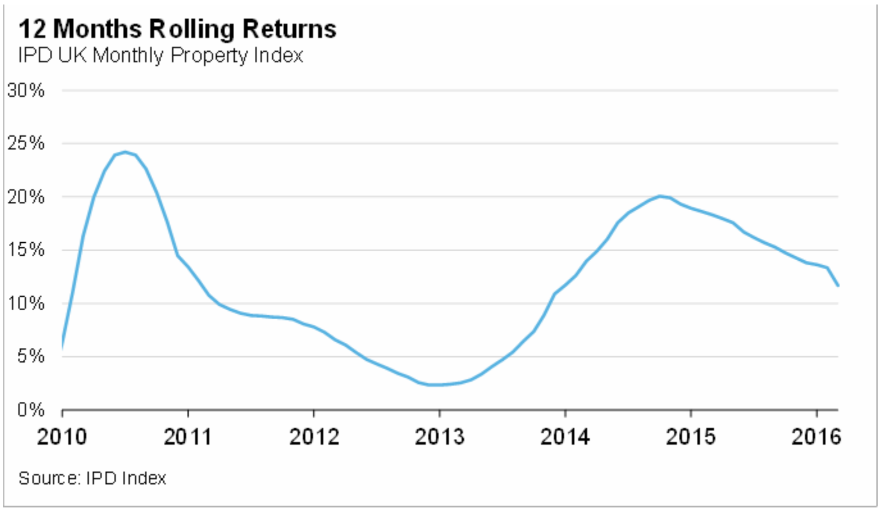
- Gilt yields were little changed over the year. Fixed gilt yields rose during the start of the period before falling back again, most notably in Q1 2016, during which the UK 20-year fixed gilt yield fell by approximately 40 basis points (0.40%). The index-linked curve flattened, with longer dated yields falling marginally and medium maturities rising.

UK corporate bonds



- UK iBoxx non-gilt credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) widened by 46 bps (0.46%) to 163 bps (1.63%) over the year, but spreads rose as high as 191 bps (1.91%) in Q1 of 2016. UK non-gilts returned 0.4%, underperforming gilts.
- The widening in spreads came as investors re-priced risk assets more cautiously over the year.
- Credit spreads widened the most for BBB-rated issues whilst AAA-rated spreads widened the least.

UK Property



- The IPD Monthly Index moved up by 11.7% over the year. Whilst this is still a strong return, momentum in UK property returns is slowing.
- The income return was 5.5%. Capital value growth was 5.9%, while rental value growth was 4.1%.

Investment Report & Accounts Risk Disclosures

Investment risks

The Scheme's investment strategy is set out in the Scheme's Statement of Investment Principles and the Directors determine its investment strategy after taking advice from its Investment Advisor.

FRS 102 (an accounting standard) requires the disclosure of information in relation to certain investment risks. Information on the Director's approach to risk management, market and credit risk is set out in this note. Under accounting standards, market risk includes currency risk, interest rate risk and other price risk.

The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Directors manage 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 segregated investment managers and monitored by the Directors through regular reviews of the investment portfolio.

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 asset will fluctuate because of changes in foreign exchange rates.

• **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

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

In the below table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/ not at all.

Category	Credit Risk	Market risk			2016 Value (£)	2015 Value (£)
		Currency	Interest rate	Other price		
Bonds	●	○	●	◐	143,364,278	143,823,377
Equities	◐	●	○	●	558,004,513	573,310,023
Property	◐	○	◐	●	166,531,150	146,650,000
Pooled investment vehicles					753,889,951	760,631,786
Direct	◐	◐	○	◐		
Indirect	●	●	●	●		
Cash	◐	○	◐	◐	4,453,212	216.86
Total Investments					**1,626,243,104**	**1,624,415,403**

Source: JP Morgan, investment managers, Aon. Note: Direct and indirect pooled investment vehicles include the Macquarie European Infrastructure Fund and the corporate bonds and equities held with Legal & General Investment Management.

Credit risk

Direct Credit Risk

The Scheme is exposed to direct credit risk as a result of its investment in pooled vehicles and the risk of investment manager failure. Direct credit risk exposure is mitigated through appropriate structuring of the pooled arrangements, with assets segregated from the assets of the manager in accordance with applicable regulations, such as Financial Conduct Authority client asset rules and regulation by the Prudential Regulation Authority.

Investment in the majority of the Scheme's pooled funds is held with Legal and General Assurance (Pensions Management) Limited (“PMC”) by way of purchase of an insurance policy. The PMC has appointed Legal & General Investment Management Limited (“LGIM”) to act as the investment manager to the PMC. LGIM manage the assets which are owned by the PMC which writes only a small enough amount of pure life insurance to qualify as a life company and this is more than covered by its capital and reserves.

The assets underlying the policy, therefore, are effectively ring-fenced.

The Directors carry out due diligence upon the appointment of new pooled investment managers. The Investment Advisor monitors any changes to the operating environment of the pooled managers on an ongoing basis.

The Scheme is also subject to credit risk because the Scheme directly invests in bonds and has cash balances. Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal. Credit risk arising on cash is mitigating in this instance by holding cash with what are considered reputable financial institutions.

Indirect Credit Risk

Indirect exposure to credit risk arises from the underlying bond and property investments.

The bond assets held within the pooled investment vehicles are corporate bonds. The objective of taking on indirect credit exposure to corporate bonds is to obtain a higher return than would be obtained from investing solely in government bonds.

The Directors accept the credit risk associated with this type of investment as it currently believes it is being rewarded for taking on this risk. Nonetheless this will be monitored closely, working with the Investment Advisor, and may change.

The credit risk within the current strategy is managed by ensuring that guidelines of funds are appropriate and provide a sufficient level of credit quality and diversification of issuers.

Property is subject to the risk of the underlying tenant defaulting, hence preventing the receipt of cashflows. This risk is partially mitigated through the ownership of the building which enables the property to be let to a different tenant or an alternative use to be employed should such a default occur.

Currency risk

The Scheme is subject to currency risk through some of the Scheme’s investments held in overseas markets through pooled investment vehicles (indirect exposure) and segregated equity mandates. This exposure is mitigated through the diversified nature of the funds and risk controls within those funds.

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds. The bonds held in the Matching Portfolio were broadly set in relation to the Scheme's liabilities and are therefore expected to move in a similar manner to the scheme's liabilities. The Directors review the composition of the Matching Portfolio when considered appropriate to do so.

Other price risk

Other price risk arises principally in relation to the Return Seeking portfolio. The Directors understand this risk and the purpose of accepting this risk is to ensure that, when considered as a whole, the assets of the Scheme form a suitability diversified portfolio in terms of the type of risk taken and the sources of expected return.

Additionally, before each appointment, the Directors receive advice from the Scheme's Investment Advisor on the suitability and risks to the Scheme of both the asset class and fund manager being appointed. The Directors takes advice from its Investment Advisor as to the continuing suitability of the asset classes and managers in which the Scheme invests.

Plumbing and Mechanical Services (UK) Industry Pension Scheme

Employers operating the Scheme

Suspended employers at 6th April 2015	97
Contributing employers at 6th April 2015	429
Total employers at 6th April 2015	526
Add new employers	3
Employers ceasing to operate the Scheme	4
Suspended employers at 5th April 2016	111
Contributing employers at 5th April 2016	414
Total employers at 5th April 2016	525

Employee members

The number of employee members in the Scheme as at 6th April 2015, as compared with the previous year, is given below. The number for the year to 5th April 2016 will not be available until the Scheme has received and processed all annual returns for that year from firms operating the Scheme.

As at 6th April	***2015***	***2014***
Employee members in contributing employment during the year	3,664	3,507
Employee members *not* in contributing employment during the year	20,991	21,672
Totals	24,655	25,179

Beneficiaries

The number of beneficiaries from the Scheme for the year to 5th April 2016, as compared with the previous year, is given below:

Year to 5th April	***2016***	***2015***
Lump sum payments during the year		
Death in service	3	2
Retirement	547	497
Commuted pensions (small pensions paid out in a lump sum)	576	329
Beneficiaries receiving regular payments at the year end		
Pensioners	9,142	8,896
Widows	2,783	2,730
Children	5	5

Financial Statements and statistics

Extracts from the Annual Financial Statements for the year to 5th April 2016 as compared with the previous year, are given on page 30.

The Financial Statements have been prepared and audited in accordance with the Pensions Act 1995. Full copies of the Financial Statements are available on request.

Trust Deed and Rules and explanatory booklets

Copies or extracts of the Trust Deed and Rules are available, on request, to any participating employer or employee member. As the Trust Deed and Rules are highly technical, explanatory booklets are sent to employers and employee members. More copies are available on request. The booklets summarise the terms of the Scheme for both employers and employees.

For more information about the Scheme or a copy of the full Financial Statements, please contact: The Pensions Manager, Plumbing Pensions (UK) Ltd, Bellevue House, 22 Hopetoun Street, Edinburgh EH7 4GH. Tel: 08457 656565.

Plumbing and Mechanical Services (UK) Industry Pension

Scheme Summarised Financial Statements

Fund Account, year ended 5th April 2016

	2016(£)	2015(£)
Contribution and benefits		
Contributions receivable	11,962,124	11,452,817
Section 75 Debt	1,000,000	0
Transfers in	250,632	390,257
	13,212,756	11,843,074
Benefits	48,175,131	43,070,263
Payments to and account of leavers	1,650,768	1,438,838
Administrative expenses	2,621,854	2,394,100
	52,447,753	46,903,201
Net withdrawal from dealings with members	(39,234,997)	(35,060,127)
Returns on investments		
Investment income	22,352,094	20,093,368
Change in market value of investments	5,054,624	179,104,932
Investment management expenses	(4,387,366)	(4,178,131)
Net returns on investments	23,019,352	195,020,169
Net increase in the fund during the year	(16,215,645)	159,960,042
Net assets of the scheme:		
At 6 April 2015	1,644,566,589	1,484,606,547
At 5 April 2016	1,628,350,944	1,644,566,589

Net Assets Statement, year ended 5th April 2016

	2016(£)	2015(£)
Investments		
Pooled funds	674,550,451	695,920,324
Equities	528,577,686	554,832,529
Index-linked	141,383,606	142,320,471
Currency Contracts	342	320
Infrastructure	79,339,464	68,200,591
Property	165,221,239	148,616,240
Cash Deposits	31,760,564	21,955,473
Receivables/Payables	956,540	216,212
	1,621,789,892	1,632,062,160
AVC Investments	3,758,609	4,142,662
Current assets and liabilities	2,802,443	8,361,767
Net assets of the Scheme at 5 April 2016	1,628,350,944	1,644,566,589

Trustee's Statement on Summarised Financial Statements

The summarised financial statements set out on page 30 have been extracted from the full financial statements which were approved on 20th September 2016 and do not constitute The Plumbing and Mechanical Services (UK) Industry Pension Scheme's statutory financial statements. The full financial statements have been audited and the auditors' opinion was unqualified. The auditors' statement about contributions was qualified.

During the year there were 1,082 occasions totalling £2,667,723 where members' contributions were not received by the scheme within the timescales set out in the schedule of contributions certified by the actuary dated 18th December 2015. The breaches are monitored by the Plumbing and Mechanical Services (UK) Industry Pension Scheme and 47 occasions totalling £99,634 have been notified to The Pensions Regulator as appropriate.

These summarised financial statements may not contain sufficient information to allow for a full understanding of the financial affairs of The Plumbing and Mechanical Services (UK) Industry Pension Scheme. For further information the full financial statements, the auditors report on these financial statements and the report of the trustee should be consulted. Copies of the full financial statements can be obtained from The Pensions Manager, Plumbing Pensions (UK) Limited, Bellevue House, 22 Hopetoun Street, Edinburgh, EH7 4GH.

Approved by the Board of Directors of Plumbing Pensions (UK) Limited acting as sole Trustee of the Scheme on 20th September 2016 and signed on behalf of the Board of Directors by:-

____________ - Director – J Allott

____________ - Director – R E Price, MBE

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE OF
THE PLUMBING and MECHANICAL SERVICES (UK) INDUSTRY PENSION SCHEME

We have audited the financial statements of the Plumbing and Mechanical Services (UK) Industry Pension Scheme for the year ended 5 April 2016, which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3(c) 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 it in an auditors' 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 and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustee and auditor
The Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/apb/scope/private.cfm

Opinion
In our opinion:

- the financial statements show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2016, and of the amount and disposition at that date of its assets and liabilities, other than the 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

- the financial statements contain the information specified in Regulation 3 of and the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

CHIENE + TAIT LLP
Chartered Accountants and Statutory Auditor
61 Dublin Street
Edinburgh EH3 6NL

20 September 2016

Plumbing and Mechanical Services (UK) Industry Pension Scheme

Areas in which the Fund is invested

Pooled UK Equity Index Overseas Equity Index UK Corporate Bonds	 £52,232,282 £305,959,724 £316,358,445	 3% 19% 20%
Property	£165,221,239	10%
Equities UK Overseas	 £147,525,668 £381,052,018	 9% 23%
Index Linked securities UK	 £141,383,606	 9%
Infrastructure	£79,339,464	5%
Currency Contracts Currency receivable Currency payable	 £80,461 (£80,119)	 0.0% (0.0%)
Cash deposits and accruals Sterling Foreign currency Accruals	 £31,651,342 £109,222 £956,540	 2% 0% 0%
Total	£1,621,789,892	

Note: There are also investments in Additional Voluntary Contributions with Prudential, totalling £3,758,609.
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Additional information

You should also be aware of the following information, which the Scheme must publish under the Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 1992.

- Plumbing and Mechanical Services (UK) Industry Pension Scheme is approved by the Inland Revenue Share Scheme and Pensions Office under reference SF19/20555.

- All benefits paid as a result of membership of the Scheme are provided from its assets. This is why the contribution rates shown and the Scheme's funding level is subject to regular reviews. Participating employers intend to maintain the funding level at a rate that is appropriate to pay the benefits described in the Scheme Guide, but they have no contract to pay benefits if the Scheme's resources cannot do so.

- All lump sum death-in-service benefits are payable at the discretion of the Trustee Company. This means they will not form part of members' estates for tax purposes.

- All assets of the Scheme are invested in accordance with the 1992 Self-Investment Regulations.

- As required by the Pensions Act 1995, the Scheme has an internal procedure for resolving any disputes. This is a two-stage process. In the first instance, you must address your complaint to the Pensions Manager at Bellevue House, 22 Hopetoun Street, Edinburgh EH7 4GH, and he will refer it to a sub-committee of the Trustee Board. In normal circumstances, you will receive a full response within two months. If you are dissatisfied with this response, you will be entitled to refer the matter directly to the Trustee Board within six months of receiving it. The Trustee will then reply directly to you, within three months, where possible.

  It is hoped that any dispute will be sorted out by the Pensions Manager or the Trustee. If not, you may contact the Pensions Advisory Service (TPAS) or the Pensions Ombudsman.

- The Pensions Advisory Service Limited (TPAS) is available to help members and beneficiaries with any difficulties they have not resolved with the Trustee Company. TPAS can be contacted at: **11 Belgrave Road, London SW1V 1RB Tel: 0300 1231047 or by visiting the website and completing the on-line enquiry form at: http://www.pensionsadvisoryservice.org.uk/online-enquiry**

- If TPAS cannot resolve a problem, you can apply to the Pensions Ombudsman for an adjudication. He is able to investigate and rule on any complaint or dispute of fact or law in relation to the Scheme. **He may be contacted at the same address as TPAS, but his telephone number is 0207 6302200 or by email: enquiries@pensions-ombudsman.org.uk**

- The Pensions Regulator (TPR) can intervene in the running of the Scheme where the Trustee, Employers or professional advisers have failed in their duties and in other circumstances. TPR can be contacted at: **Napier House, Trafalgar Place, Brighton BN1 4DW Tel: 0345 600 0707 or by email: www.thepensionsregulator.gov.uk**

- The Scheme has sent information about the Scheme and a list of employers associated with it to the Registrar of Occupational and Personal Pension Schemes in accordance with the Register Regulations.