



Report  
and  
Accounts

# TRW Pension Scheme

For the year ending 31 March 2001

# **TRW Pension Scheme**

## **Report and Accounts** For the year ending 31 March 2001

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The Scheme is registered with the Pension Schemes Registry  
under Registration Number 101699992

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# Report of the Trustee

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## Trustee and Advisers

<b>Principal Employer</b>	LucasVarity Ltd
<b>Trustee</b>	TRW Pensions Trust Limited
<b>Directors of the Trustee Company</b>	B G Mason - Chairman P Almond <i>from 8 November 2000</i> A J Anthony <i>until 30 November 2000</i> H Fletcher * <i>from 25 May 2000</i> D Jewell* A E Killian <i>from 25 May 2000</i> C Long-Leather <i>until 5 April 2000</i> W K Maciver J C Plant P Palmer* M J Varley* J Timbrell * <i>until 5 April 2000</i>
<b>Secretary</b>	R Middleton
<b>Investment Managers</b>	TRW Investment Management Company Limited Capital International C B Hillier Parker Investors
<b>Investment Advisers</b>	Schroder Investment Management Limited Ives Associates
<b>Investment Performance Measurement</b>	The WM Company
<b>Custodian of Assets</b>	State Street Bank & Trust Company
<b>Actuaries</b>	Hymans Robertson Scheme Actuary : R Bowie
<b>Auditors</b>	Ernst & Young LLP
<b>Bankers</b>	Barclays Bank plc
<b>Solicitors</b>	Allen & Overy Pinsent Curtis Biddle - Property Steedman Ramage - Property (Scotland)
<b>Property Valuer</b>	Wetherall Green & Smith
<b>Administrators &amp; addresses for enquiries or complaints</b>	TRW Benefit Administration (UK) 2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE  Towers Perrin, Lambourn Square, Newbury Business Park, Newbury, Berkshire RG12 2RE

\*The Directors marked with an asterisk are member nominated Directors.

## **Constitution of the Scheme**

The Directors of the Trustee Company are pleased to present their first report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2001.

### **Trustee**

The Trustee of the Scheme is TRW Pensions Trust Limited. The Trustee Company's Board has nine Directors, named on page 2. Five are Directors for the Principal Employer and those marked by an asterisk are Member Nominated Directors. All appointments and replacements are made by the Principal Employer. In appointing Member Nominated Directors the Principal Employer takes into consideration any persons duly nominated by the TRW Pension Scheme Consultative Committee. This is a committee of employee and pensioner members recognised by the Principal Employer for the purposes of consultation in connection with the Scheme.

The Directors do not receive any remuneration either from the Trustee Company or the Scheme. Contributions from Directors of the Trustee Company have been paid in accordance with the Scheme rules and with the recommendations of the Actuary. They all have copies of the guidance published by the Occupational Pensions Regulatory Authority.

### **Principal Employer**

The principal employer is LucasVarity Ltd which is a wholly owned subsidiary of TRW Inc.

### **Scheme Mergers**

On 20 September 1999 the Board agreed to the merger of the TRW Executive Pension Plan into the Lucas Pension Scheme. This was a very small closed scheme comprising 13 employee members, 11 deferred members and 19 pensioners. Before agreeing to the merger the Board received the advice of the Scheme solicitor and the Scheme actuary. Their decision was confirmed at a further Board meeting on 7 March 2000. The merger became effective from 1 September 2000.

On 18 December 2000 following advice from the Scheme solicitor and the Scheme actuary the Board agreed in principle to a merger proposal by TRW Inc. The Company's proposal was to merge the TRW Steering Systems Retirement Benefit Scheme, the TRW (UK) Pension Scheme and the Largotim Retirement Benefits Scheme into the Lucas Pension Scheme. The merged scheme would then be re-named the TRW Pension Scheme. The agreement to the proposal was subject to a merger agreement detailing a range of benefit improvements to be implemented on the date of the merger. The merger deed was signed on 27 February 2001 and the merger took place on 1 March 2001. The Scheme was re-named the TRW Pension Scheme from 1 March 2001. The name of the Trustee company was also changed from Lucas Pensions Trust Limited to TRW Pensions Trust Limited from 1 March 2001.

## **Retirements and Appointments**

Mrs J Timbrell and Mr C Long-Leather retired from the Board on 5 April 2000 and Mr A J Anthony on 30 November 2000. The Board wishes to place on record its appreciation of the valuable contribution they made during their period of office.

Mrs A E Killian and Mrs H Fletcher were appointed from 25 May 2000 and Mr P M Almond from 8 November 2000.

## **Legal Status**

The Scheme was established by a Trust Deed dated 30 June 1928 and is now governed by a Definitive Trust Deed dated 30 March 1993, a Deed of Amendment dated 14 July 1993, three Deeds of Amendment dated 14 July 1998 and a Merger Deed dated 27 February 2001. The closed sections and the senior retirement benefits section are defined benefit pension arrangements. The open section is a defined benefit pension arrangement with a defined contribution underpin.

The Scheme is a contracted out salary related (COSR) scheme. It is contracted out of the State Earnings Related Pension Scheme (SERPS) on the basis of the 'Reference Scheme' test.

Exempt approval has been granted by the Inland Revenue for the purpose of Chapter I of part XIV of the Income and Corporation Taxes Act 1988. The Trustee Board knows no reason why such approval should be prejudiced or withdrawn.

## **Participating Employer**

The only participating employer whose employees are entitled to be members of the Scheme is TRW Limited.

## **Trustee Meetings**

The Board met five times during the year to consider matters relating to the administration of the Scheme. The Board has, by resolutions passed at ordinary meetings, set up a number of sub-committees to deal with specified matters.

The quorum for the transaction of the business of the Directors is five, three of whom are to be Directors for the Company, and two Directors for Scheme members. Trustee decisions are usually unanimous but they may be taken by a majority vote.

A sub-committee meets monthly to deal with ill health early retirement applications and items of trustee discretion. Other sub-committees meet as required to produce reports for the Board. The recommendations of all sub-committees are confirmed by the Directors at their next ordinary Board meeting.

An annual meeting is held in early autumn, when the Board meets the TRW Pension Scheme Consultative Committee.

## **Trust Deed and Rules**

A copy of the Trust Deed and Rules is available for examination in all Personnel Departments. Personal copies can be obtained on written application to TRW Benefit Administration (UK); the cost is £25.

## **External Advisers**

The Scheme's actuaries Hymans Robertson and its solicitors Allen & Overy have advised TRW and its subsidiaries during the year ended 31 March 2001.

## **Auditors**

Ernst & Young, the Scheme Auditor, transferred its business to a limited liability partnership, called Ernst & Young LLP incorporated under the Limited Liability Partnership Act 2000, on 28 June 2001. Ernst & Young resigned on that date, and the Trustee has filled the vacancy in the office of Scheme auditor by appointing Ernst & Young LLP.

## **Review of External Advisers and Service Providers**

In line with UK pension scheme best practice, the Trustee has a policy of submitting all its external advisers and service providers to a review procedure. The following advisers and service providers were subject to a review during the year.

- On 1 November 1999 the Board agreed to a revised asset allocation benchmark. The new benchmark included an allocation of 5% of Scheme Assets to property. The Board agreed that the property portfolio would be built up gradually. In consequence of this decision the Board appointed a number of additional advisers.
  - On 23 May 2000, CB Hillier Parker were appointed as property investment manager. The appointment was made following a formal review process.
  - On 21 September 2000 Pinsent Curtis Biddle were appointed as property solicitor.
  - On 15 November 2000 Wetherall Green & Smith were appointed as property valuer.
  - On 14 May 2001 Steedman Ramage were appointed as Scottish property solicitor.
- On 23 May 2000 Capital International were appointed as the emerging markets investment manager in place of Genesis Investment Management Limited. The appointment was made following a formal review process.

# Financial Review

## Market value of the Fund

The accounts show that during the year the value of the Scheme's assets, that have been accumulated to meet its commitments decreased by £168 million. At the year end the value of the Scheme's assets was £3,510 million compared to £3,678 million at 31 March 2000.

The decrease in fund value is accounted for as follows:

▪ Change in market value of investments	£327 million
less	
▪ Excess of income over expenditure	£42 million
▪ Investment income (net of expenses)	<u>£117 million</u>
	£168 million

## Fund Account

Compared with the year ending 31 March 2000 there was an increase in income of £188 million and a decrease in expenditure of £258 million. The main reasons for these changes are as follows:

### Income

During the year the Scheme's investment income increased by £21.5 million and the transfers in from other pension arrangements increased by £170 million. The increase in transfers-in was a result of the Scheme mergers. Contributions reduced by £3.5 million.

### Expenditure

Transfers out of the Scheme due to business sales reduced from year to year by £261 million. This includes an over provision in last year's accounts. Benefits paid out of the Scheme increased by £3 million.

## Members' Contributions

The normal contributions and the additional voluntary contributions of members in service at 31 March 2001 have all been forwarded to the Trustee in line with the timescales agreed between the Trustee and the Company with one exception. One weekly payroll at the time of changing to monthly payments omitted to forward to the Trustee £96.24 of employee contributions in accordance with the agreed timescales. The payment arrived 10 weeks after the last day permitted by the Pensions Act 1995. The Trustee has informed the Occupational Pensions Regulatory Authority.

## Actuarial Valuation

The latest actuarial valuation was made by Hymans Robertson on 31 March 2000. They reported the result to the Board on 21 September 2000. The purpose of the valuation is to assess the current financial position of the Scheme and to determine what contributions need to be paid by the Company to provide for the benefits set out



under the rules of the Scheme.

The actuaries reported that the Scheme remains in a strong financial position and recommended that Company contributions remain suspended until the next actuarial valuation when the position will be reviewed.

The actuaries further reported that the Scheme is over-funded relative to the surplus regulations but not to an extent which requires corrective action beyond the extension of the cessation of Company contributions. The Scheme also comfortably meets the Minimum Funding Requirement.

The actuarial statement by the Scheme Actuary appears on page 40.

A copy of the latest full actuarial report is available for examination in Human Resource Departments. A personal copy can be obtained on written application to TRW Benefit Administration (UK); the cost is £5.

The Trustee received actuarial advice prior to the Scheme merger. The Scheme Actuary considered the effect of the merger on the Scheme's funding level as having a negligible overall impact.

# Membership

There were 66,771 members of the Scheme at 31 March 2001 compared with 62,779\* at 31 March 2000. The change in membership during the year is as follows:

## Current Members

	Current members at 31 March 2000	7,339 *
Plus:	New entrants during the year	505
	TRW merger - current members	2,192
Less:	Left employment	1,096
	Business Sales	70
	Retirements:	
	Normal	3
	Early Voluntary	67
	Early Redundancy	621
	Ill Health	29
	Died in service	8
	Current members at 31 March 2001	8,142

## Pensioners

	Pensioners at 31 March 2000	38,425 *
Plus:	Retirements during the year	720
	Deferred Pensions commencing	443
	Dependants pensions commencing during the year	530
	TRW merger - current pensioners	1,918
Less:	Deaths of pensioners	2,097
	Full Commutations	87
	Pensioners at 31 March 2001	39,852

## Deferred Pensioners

	Deferred Pensioners at 31 March 2000	17,015 *
Plus:	Current members who left the Scheme during the year and became deferred pensioners	840
	TRW merger - deferred pensioners	1,481
Less:	Pensions commencing during the year	443
	Deaths of deferred pensioners	41
	Transfers to other pension arrangements	75
	Deferred pensioners at 31 March 2001	18,777
	Total Membership	66,771

*\* These figures have been adjusted from those shown in the 2000 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2000 due to late notifications.*

## **Automatic Membership**

New employees automatically become members of the Scheme. They can opt-out of the Scheme at any time by giving one complete month's notice and by completing a withdrawal form. These forms are available in Human Resource Departments or from TRW Benefit Administration (UK).

## **Rejoining the Scheme**

Employees who refuse membership or who leave the Scheme whilst still in employment can automatically either join or rejoin at the beginning of any month for a period of five years from when they either refused membership or opted out. They can only rejoin the Scheme once. A health declaration form must be completed by an employee who wishes to join or rejoin the Scheme after a period of five years has elapsed since they either refused membership or opted-out of the Scheme. The form is reviewed by the Company and in the case of opters-out by the Company and the Trustee. Scheme membership commences at the beginning of the month after the completed application form has been reviewed and the employee has been informed in writing that their application has been accepted. Employees may be offered restricted membership of the Scheme.

# **Scheme Benefits**

## **Benefit Changes and Basic Scheme Information**

In consequence of the Scheme merger the following benefit changes have taken place.

### **Inflation protection**

Pensions in payment and deferred pensions that are in excess of any Guaranteed Minimum Pension are guaranteed to rise each year by the lesser of:

The annual rise in prices as measured by the Retail Prices Index (RPI), or 5% a year.

From the 1 March 2001 the 5% limit on guaranteed RPI protection was increased to 7% a year.

### **5 year pension guarantee**

If a member dies within five years of their retirement date a lump sum is paid to their dependants. It is the difference between the member's monthly pension in payment and the spouse's monthly pension for the unexpired period of the 60 month guarantee period.

It has been agreed that from 1 March 2000 the lump sum payment will be the member's monthly pension multiplied by the unexpired period of the 60 month guarantee. The offset of the spouse's pension has been removed.

### **Death in Service lump sum payment**

If a member dies whilst in employment a lump sum payment is made to the member's family or dependants.

The existing position was:

- Married - 3 times the member's salary at death
- Single - 4 times the member's salary at death plus a refund of twice the member's contributions.

For deaths after the 1 March 2001 the married person's lump sum payment was increased to 4 times the member's salary at death.

### **Member's contributions to the Scheme**

When members of most closed sections and the open SRBS section have completed 29 years company service they cease making contributions to the Scheme on the following 1 April.

After 29 years, Scheme membership is free. The free contribution provision only applies if employees joined the Scheme at their first opportunity and have remained in

continuous membership.

It has been agreed from 1 March 2001 to introduce a second definition to qualify for a free pension. Contribution will cease on the earlier of the two definitions.

The new definition is that contributions will cease for all Scheme members (except closed 57 ½ section and the closed TRW sections) on 1 April after 25 years Scheme membership.

### **Date on which pensions are paid**

Pensions are paid for most pensioners on the last day of the month. From July 2001 pensions are paid on the twentieth day of the month. This will mean, when most members retire, their payment date will be the same as when they were in employment.

### **Equal Treatment**

The benefit improvement package implemented on 12 November 1991 equalised benefits (as between men and women) of all current employees at that date. On 13 December 1994 the Trustee approved the actions required in order to equalise the pension benefits of 3,000 former employees who retired, deferred their pension or died between 17 May 1990 and 11 November 1991. The benefits of those affected were equalised in the Scheme year 1995-1996 and back-dated to the time of retirement or death.

The benefits of Scheme members in employment on or after 17 May 1990 are now equalised except in relation to guaranteed minimum pensions. These are based on the State pension ages of 65 (men) and 60 (women). This has a consequential effect on the calculation of benefits in excess of the guaranteed minimum pension.

### **Pension Increases**

#### **Effective 1 April 2001 (Except for the closed TRW section members, TRW pensioners and deferred pensioners)**

- Pensions in payment and deferred pensions are guaranteed under the rules of the Scheme to increase annually by 7% or, if less, the percentage movement in the General Index of Retail Prices (RPI). The Scheme bases its increases on the percentage movement in the RPI in the twelve months ending in January 2001. The full percentage rise in the RPI for the year ended 31 January 2001 was 2.7% and this was the increase applied from 1 April 2001.
- Pensioners over State pension age received the 2.7% increase on the excess of their pension over any Guaranteed Minimum Pension (GMP). GMPs are guaranteed to rise fully in line with the RPI providing the GMP is not already greater than what members would have received had they been members of the State Earnings Related Pension Scheme. GMPs earned before April 1988 are increased by the State scheme. The Scheme provides increases on GMPs earned after April 1988 in line with the RPI up to a maximum of 3% a year. The State requires these increases to be based on the percentage movement in the RPI in the twelve months ending in September 2000. The annual increase in the RPI to September 2000 was 3.3%. GMPs earned after 1988 have been increased, therefore, by 3% from 1 April 2001.

- The Scheme increases detailed above apply only to pensioners who retired on or before 31 March 2000. For members who retired on or after 1 April 2000 the increase applied was 1/12th of the full increase for each complete month of retirement.
- Temporary Pensions and Early Retirement Supplements were increased by the percentage cost of living increase that was applied to State pensions from 6 April 2001. This increase was 3.3% and matched the increase in the RPI for the twelve months to September 2000.

### **Additional Voluntary Contributions**

The actuaries have certified that the rate of interest to be applied to cash accumulation AVC balances held in the Scheme for the whole Scheme year ending 31 March 2001 is 6%. Contributions paid during the year receive half this rate. For members paying cash accumulation AVCs who retire, die or transfer the cash equivalent of their deferred pension from the Scheme between 1 April 2000 and 31 March 2001 a terminal bonus will be paid providing they commenced paying AVCs before 1 April 1993. It will be 10% of the interest portion of the AVC account.

### **Money Purchase Underpin Account**

This is only applicable to members of the new employee section of the Scheme. Each year, twice the member's contributions are credited to the account. At the end of the Scheme year interest is applied to the balance of the account as at the end of the previous Scheme year. The rate of interest is the full rate of return of the Scheme. This is made up of dividends from the Scheme's investments and movements - up or down - in the capital value of these investments.

The full rate of return of the Scheme for the year ending 31 December 2000 was minus 0.9%. Money purchase underpin accounts have been adjusted accordingly.

### **Transfer payments to the Scheme**

The Scheme had a special transfer account, designed to receive payments from other pension arrangements until 31 March 1997. From 1 April 1998 a new arrangement for transfers-in to the Scheme was introduced. In exchange for the transfer value the Scheme provides a paid-up pension. The paid-up pension increases both before and after retirement in a similar way to a deferred pension. If it is received early it is subject to the Scheme's early retirement actuarial reduction. With one proviso, the Scheme will accept a transfer payment if it is sufficient to provide for any GMP liability for which the Scheme becomes responsible.

The proviso concerns transfers from occupational pension schemes where either the whole or part of the liability being transferred accrued after 17 May 1990. The Trustee will only accept a transfer payment if the transferring employer and the transferring Trustee provide a signed undertaking to the Principal Employer and the Trustee. The undertaking confirms that the transfer payment will be calculated on a basis that takes full account of their obligation to provide benefits for and in respect of the member which are equal as between men and women. The undertaking also confirms that if it is

established in the future that the transfer payment was not calculated on that basis they will make a further payment to the Trustee to increase the transfer payment to the amount it would have been had it been calculated on that basis. They also undertake to add to the transfer payment compound interest at a rate equal to the base rate of Barclays Bank plc during the period.

Transfer payments made into the transfer account before 1 April 1997 received the minus 0.9% rate of return achieved by the Scheme for the year ended 31 December 2000.

## **Transfer payments from the Scheme**

Transfer payments made from the Scheme to other approved pension arrangements are the greater of:

- The cash equivalent of the deferred pension, or, where appropriate
- The money purchase underpin account

The calculation of transfer payments are made on the basis determined by the Scheme's actuaries and meets the requirements of the *Pension Schemes Act 1993* and the *Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996 No. 1847)*. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

## **Earnings Cap**

The earnings cap is the restriction on pensionable pay for members who joined the Scheme after 31 May 1989. The restriction also applies to those who joined the Scheme before that date if they have elected to become subject to the post 31 May 1989 Inland Revenue limits.

The earnings cap for the tax year 2000 - 2001 was £91,800.

## **Financial Planning Service**

The Company has set up an independent financial planning service for employees and their dependants. The service is provided by two independent financial advisers, authorised by the Investment Management Regulatory Organisation (IMRO), who are able to provide a consistent country wide service. The advisers are Momentum Financial Services Ltd and Marsh Financial Services Ltd. Momentum Financial Services Ltd were, prior to them becoming a separate company, the financial services division of Aon Consulting

Employees can choose to see a consultant from either of the adviser companies. The cost of the service is borne by the employee, either by commission the adviser receives on investments placed or by the payment of direct fees. The financial advice given is personal to each individual and is a matter between them and their chosen adviser. Neither the Trustee nor TRW can endorse, or be held responsible for, the outcome of the advice, if taken.

## Legislative and Regulatory Changes

The introduction of Stakeholder pensions has dominated the pensions arena during the year under review. It is a requirement for non-exempt employers to have introduced a Stakeholder Scheme by 5 October 2001. The details of these policies have been slow to emerge. They were officially launched from 6 April 2001. TRW are exempt from the requirement to provide access to a Stakeholder Pension.

Two law cases have had an impact during the year on UK pension provision. These are, *Marsh & McLennan Companies UK Limited and Marsh Mercer Pension Fund Trustees Limited v The Pensions Ombudsman and Ian Williamson* (Williamson) and *Preston v Wolverhampton Healthcare NHS Trust* (Preston).

### Equalisation

The *Williamson* case concerned the equalisation of GMPs. GMPs are the benefit that a scheme has to provide in respect of any membership between 1978 and 1997, due to the Scheme being contracted out of the State earnings related pension scheme (SERPS). This is broadly the equivalent to the amount of SERPS pension that a member has given up by being a member of the Scheme.

As this is based on State pensions, there have been differences between the benefits provided to men and women. The case arose because the Pension Ombudsman, in an earlier determination found in favour of Mr Williamson to the effect that GMPs should be the same for both sexes and he added that he did not expect anyone to be made worse off because of his determination. The Marsh Trustee appealed to the High court who decided that this was a decision that the Ombudsman was not able to reach. The case is inconclusive on the matter of GMP equalisation.

### Part Timers

The *Preston* case concerned the rights of part timer employees to a pension scheme. It has limited effect on the TRW Pension Scheme as the Scheme has allowed part time employees to be members since April 1979.

The House of Lords decision means that part timers may be able to claim membership of the scheme back to 8 April 1976. To be successful a claim must be made within six months of leaving service. Contributions, however, that should have been paid during the claimed service will have to be repaid.

Unfortunately, the judgement left many questions unanswered such as how tax relief for the back-paid contributions should be claimed and what should be done about SERPS or GMPs for the period claimed.



## **Further information about the Scheme**

### **Re-instatement Scheme policy**

In October 1994 the Securities and Investments Board (SIB) announced details of a programme to secure redress for people wrongly sold personal pensions. SIB's preferred method of redress is re-instatement in the occupational scheme. The TRW Pension Scheme's policy on re-instatement is as follows:

### **Opters-out of the Scheme who are still in TRW employment**

- **Future benefits**

Employees are eligible to join the new employee section of the Scheme at the beginning of any month, providing they have not been out of the Scheme for more than five years. If a period in excess of five years has elapsed they may rejoin the Scheme subject to the procedure detailed on page 9.

- **Previous benefits**

Whilst the Scheme will accept transfer payments from a personal pension it will not re-instate opted-out service.

### **Employees who have left TRW employment and transferred their benefits out of the Scheme**

Past benefits will not be re-instated. The Scheme will not accept such transfer payments.

The Trustee makes a charge to complete questionnaires from personal pension providers. The charge, which is subject to annual review, is currently £250.

### **Improved employee communication service**

In recent years it has become necessary for personnel officers to know more about pensions. This is due to:

- An increasing awareness of the importance of pensions by employees.
- The requirements of the increasingly complex legislative framework around occupational pensions.
- The Company's policy to improve the quality of their communications with Scheme members.

In order to make a significant improvement in the quality of service that members receive, the Company has appointed one person on most major sites to be responsible for pension communication. These pension communicators are normally members of either the Personnel or Payroll Departments.

TRW Benefit Administration (UK) has supported this initiative by providing an extensive training programme on pensions and scheme administration. During the course, participants are set coursework which is marked and graded. At the end of the course they sit two examinations; a general pensions paper and a scheme administration paper.

The service is:

- □ A focal point for local pension administration and for providing answers to simple queries.
- □ Provides pension expertise on most TRW sites.
- □ Co-ordinates member counselling and the general promotion of the Scheme.

## **Pensions Act 1995 - Compliance**

### **Appointment of advisers**

The Act requires the Trustee to appoint its own advisers. The following advisers were appointed under the requirements of the Act. All the advisers have formally accepted the appointments and confirmed that they will notify the Trustee should any conflicts of interest arise in relation to the Scheme.

- |  |  |
|--|--|
| ▪ Scheme actuary                                     | Ronald Bowie of Hymans Robertson   |
| ▪ Auditor  | Ernst & Young LLP  |
| ▪ Investment managers                                | TRW Investment Management Company Limited<br>Capital International<br>C B Hillier Parker   |
| ▪ Custodian  | State Street Bank and Trust Company  |
| ▪ Solicitors   | Allen & Overy<br>Pinsent Curtis Biddle - Property<br>Steedman Ramage - Property (Scotland) |
| ▪ Property Valuer                                    | Wetherall Green & Smith  |
| ▪ Investment Advisers                                | Schroder Investment Management Ltd<br>Ives Associates                                      |
| ▪ Temporary Administrators<br>of closed TRW sections | Towers Perrin  |
| ▪ Performance Measurement                            | W M Company  |

### **Member nominated directors**

The Act introduced a requirement for occupational pension schemes whose trustee is a company to have member nominated directors. Regulations were issued detailing the prescribed rules for appointing directors. The employer can, however, opt-out of the Act's requirements by putting forward an alternative proposal and seeking approval for the alternative proposal through a statutory consultation procedure.

The Company notified the Trustee that it intended to seek an opt-out in order to retain the method of appointing directors of the Trustee Company that had been in place for many years.

Following the statutory consultation procedure the Trustee was informed on 26 March 1997 that the Company's alternative was approved. Following the Scheme merger on 1 March 2001 the 1997 opt-out is under review.

### **Contracting out**

The Scheme is contracted out of the State Earnings Related Pension Scheme on the basis of the 'Reference Scheme' test` (see page 4).

## **Board procedures**

The Trustee has reviewed its procedures to ensure they conform with the Act's requirements.

## **Internal disputes resolution procedure**

On 13 January 1997 the Board approved an internal disputes resolution procedure. The procedure can be summarised as follows:

- Queries and complaints should initially be referred to the TRW Benefit Administration (UK).
- If the complaint is not resolved to the complainant's satisfaction they may apply to have their case reviewed under the internal disputes resolution procedure. This procedure comprises two formal stages. The query/complaint must be set out in writing in a specified manner. The complainant will then receive an answer to their query/complaint in writing.
- The two stages are as follows:
  - Review by the committee of the Trustee Board.
  - Review by the Trustee Board if the complainant is not willing to accept the first stage decision.

Full information on how to refer a query/complaint to the internal disputes resolution procedure is available by writing to the Secretary to the Trustee at the TRW Benefit Administration (UK).

## **Transfers**

New transfer out factors were introduced from 6 April 1997 to ensure the Scheme meets the requirements of the Act. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments (see page 13).

## **Statement of investment principles**

On 23 May 2000 the Trustee revised its Statement of Investment Principles. See pages 43 to 44 for a copy of the revised statement.

## **Disclosure of information**

During the year a revised Summary of Benefits leaflet was produced for the open section of the Scheme. The new leaflet contains all the information required by the disclosure of information regulations.

## **Member contributions**

The Principal Employer has put in place procedures that seek to ensure the Trustee receives member contributions by the nineteenth day of the month following the month in which they were deducted from salaries.

## **Pensioner representation on the consultative committee**

Since April 1996 four pensioner representatives have been co-opted on to the TRW Pension Scheme Consultative Committee. Their term of office is for three years. Applicants must be over state pension age and complete an application form. The consultative committee then consider all the applicants and select four pensioners to be co-opted on to the committee.

# Investment Report

## Investment managers

The lead investment manager is TRW Investment Management Company Limited. The emerging market investment manager is Capital International and the property investment manager is CB Hillier Parker. TRW Investment Management Company Limited and Capital International are regulated by IMRO. CB Hillier Parker is regulated by the Securities and Futures Authority and is a member of the Royal Institute of Chartered Surveyors. All are authorised under the Financial Services Act 1986 to undertake investment business.

The investment management costs are borne by the Scheme and detailed in the accounts. TRW Investment Management Company Limited is a wholly owned subsidiary of TRW Inc.

## Custody of Investments

State Street Bank & Trust Company is the external independent custodian of the Scheme's non-property assets. A custodian agreement has been drawn up between State Street Bank & Trust Company and TRW Pensions Trust Limited that details the terms on which the custodian will hold the Scheme's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Scheme's assets were held by the custodian under the control of the Trustee. Physical documents are held in a strong room and access is limited by the custodians own strict security procedures. Regular reconciliations of the holdings are carried out and a copy of the State Street report on internal controls is kept and reviewed by the lead investment manager.

The Scheme's investments held by the custodian are registered as follows:

- United Kingdom investments are in the name of a nominee of the custodian with the designation 'account TRW Pensions Trust Limited' or some other account designation specifying they are the assets of TRW Pensions Trust Limited.
- United States investments are in the name of a nominee with the designation on the books and records of the custodian which is specific to TRW Pensions Trust Limited added to the nominee's name.
- Other investments are in the name of either the custodian or a nominee with a designation to make clear the registered holder is not the beneficial owner.

The custodian will only release title documents after a series of security checks have taken place. These include:

- A dual electronic instruction to the custodian involving the use of 'passwords'.
- Daily authorisation of sales by a senior staff member of TRW Investment Management Company Limited, and approved as soon as practicable by the Managing Director of TRW Investment Management Company Limited.

- Payment has been received by the custodian.

Cash is placed on short term deposit with banks in the name of the Trustee company.

Pinsent Curtis Biddle provide custody services for the property documentation relating to the property investments of TRW Pensions Trust Limited. They have secure deeds rooms and operate a computerised deeds record system. No deeds can be removed from the deeds room except by specific request from the relevant fee earner or their secretary on behalf of the fee earner. Access to such secure deeds rooms is only by authorised Pinsent Curtis Biddle personnel.

Mellon Trust were the custodians for the TRW Steering Systems Retirement Benefit Scheme and the TRW (UK) Pension Scheme. At the year end they still held £98 million of Scheme assets.

## Internal Controls

The Trustee has received a FRAG21 report dealing with the internal control of investment custodians from State Street Bank & Trust Company dated 31 December 2000. The Trustee has also received from Capital International a SAS 70 report on controls and tests on operational effectiveness dated August 2000.

## Asset allocation

The Trustee considers the asset allocation benchmark detailed below is appropriate for the Scheme. The purpose of the asset allocation benchmark is to establish a notional portfolio distribution for the medium, to long term. The actual investment of the Scheme's assets needs, however, to be more flexible to take account of shorter term investment decisions and changes in asset values. Accordingly, the Trustee has authorised the lead investment manager to manage the fund within tactical asset allocation limits. The benchmarks and allocation limits are detailed below:

<b>Investment guidelines from 1 April 2001</b>		
	<b>Benchmark%</b>	<b>Range %</b>
UK Equities	50[55*]	45 to 55[60*]
Overseas Equities		
• Developed markets	19	15 to 25
• Emerging markets	1	0 to 3
Fixed Interest	15	10 to 20
Index Linked	8	3 to 13
Property	5*	3 to 7
Cash	2	0 to 15

\*The Board decided that funding for the property portfolio, which will be built up gradually, will be held in UK equities until the cash is required

**Actual allocation at 31 March 2001**

	Market Value %	After futures %
UK equities	53	53
Overseas equities:		
• Developed markets	18	18
• Emerging markets	1	1
Fixed Interest	16	16
Index Linked	7	7
Property	1	1
Cash	4	4
	<hr/>	<hr/>
	100	100

## Analysis of the Scheme Investments at year end

Analysis of UK equities by sector		
	Market Value £million	Market Value of the Fund %
Financials	519	15
Services	516	14
Consumer goods	326	9
Resources	240	7
General industrials	110	3
Utilities	86	2
Information Technology	62	2
Managed Funds and Unit Trusts	29	1
Investment Trusts	4	0
	<b>1,892</b>	<b>53</b>

Geographical analysis of investment Assets			
	Market Value £million	%	March 2000 %
UK	2,755	80.4	77.5
USA	219	6.4	7.9
Japan	171	5.0	5.3
France	43	1.3	1.3
Germany	40	1.2	1.7
Netherlands	29	0.8	0.8
Switzerland	26	0.8	0.7
Italy	22	0.6	0.7
Hong Kong	14	0.4	0.5
Australia	12	0.4	0.4
Spain	12	0.4	0.4
Canada	9	0.3	0.3
Other	75	2.0	2.5
	<b>3,427</b>	<b>100.0</b>	<b>100.0</b>



<b>Largest holdings</b>			
	Market value £million	% of total investment Assets	% of total investment in March 2000
UK Treasury 7 % 2001	104.0	2.9	2.9
UK Treasury 6.5% 2003	94.6	2.7	2.1
GlaxoSmithkline	86.8	2.4	2.4
BP	79.1	2.2	2.6
Astrazeneca	74.9	2.1	1.5
Shell	73.2	2.1	2.0
Vodafone Group	71.1	2.0	2.2
HSBC Holdings	69.8	2.0	1.8
UK Treasury 8% 2021	67.6	1.9	0.0
UK Treasury 6% 2028	63.4	1.8	0.0
UK Treasury 2.5% 2020	53.5	1.5	0.0
Barclays	52.9	1.5	0.9
UK Treasury 2.5% 2016	50.7	1.4	0.0
Lloyds TSB Group	49.0	1.4	1.2
UK Treasury 8% 2015	44.8	1.3	0.0
Treasury 7.5% 2006	40.3	1.1	1.0
British Telecom	40.3	1.1	2.5
UK Treasury 2.5% 2011	36.3	1.0	0.0
UK Gilt 8.5% 2005	35.9	1.0	0.9
Royal Bank of Scotland	35.8	1.0	0.9
	1,224.0	34.4	24.9

## **Employer related investments**

At the year end the Scheme held 5,353 TRW Inc. shares with a market value of £128,017.(2000; £156,325) Member contributions due from the employer amounted to £118,000 (2000; £114,000). On 31 March 2001 this represented less than 0.01% of the Scheme's assets. This was below the level permitted in the *Occupational Pension Schemes (Investment) Regulations 1996*.

## **Stock Lending**

Stock lending is only permitted by the Trustee in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.

## **Investment principles**

The statement of investment principles deals with the following topics:

- Fund managers
- Investment objectives
- The kind and balance of investments
- Risk
- Expected return on investments
- Realisation of investments
- Minimum funding requirement
- Socially responsible investment
- Exercise of voting rights
- Custodian

The current statement is included on pages 43 and 44. A separate copy of the statement can be obtained by writing to TRW Benefit Administration (UK).

## **Review of Investments**

During the year the Trustee, with the help of its professional advisers has carefully considered the Scheme's investments. They are satisfied that the investments conform to all the statutory criteria.

## **Investment Performance**

Independent performance measurement is provided to the Scheme by The WM Company.

## **Benchmark**

The Trustee instructed its performance measurers to compare the fund's performance with a specific performance policy benchmark. The benchmark at 31 December 2000 is based on the indices detailed in the following table. It should be noted that the strategic benchmark changed during the year and the percentages shown are the benchmark at the end of the calendar year:

<b>Sector</b>	<b>Index</b>	<b>Weight</b>
■ UK Equities	FTSE All Share	55%
■ Overseas Equities		
• □ North America	FTSE World Index North America	7%
• □ Europe ex-UK	FTSE World Index Europe ex-UK	6%
• □ Japan	FTSE World Index Japan	5%
• □ Pacific ex-Japan	FTSE World Index Japan	1%
• □ Emerging markets	MSCI Emerging Markets Free	1%
■ Fixed interest	FT-A All Stocks Gilt Index	15%
■ Interest linked	FT-A Over 5 Year Gilt Index	8%
■ Cash	LIBID 7 day rate	2%

## Returns

The Scheme return measured against specific policy over one, five and ten years are detailed below.

<b>Period to 31 December 2000</b>	<b>Benchmark Return %</b>	<b>Fund return %</b>
Last year	-3.0	-0.9
Last 5 years	12.5	11.6
Last 10 years	14.2	13.5

## WM50

The WM Company compares the 50 largest pension funds that it measures. These represent assets of over £297 billion and almost all the largest UK pension schemes. The returns of the WM50 are as follows:

<b>Period to 31 December 2000</b>	<b>WM50 % Annual return</b>	<b>Fund % Annual return</b>
Last year	-1.1	-0.9
Last 5 years	12.2	11.6
Last 10 years	13.6	13.5

## **Conclusion**

The Directors acknowledge with thanks the help and support they have received from everyone associated with the administration of the Scheme.

If a member has any queries about the operation of the Scheme or about their benefits, they should raise them with their local Human Resources Department or with the Secretary to the Trustee at TRW Benefit Administration (UK).

By order of the Directors of TRW Pensions Trust Limited.

Roy Middleton  
Secretary

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## Fund Account & Net Assets Statement

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## Fund Account

	Note	2001 £'000	2000 £'000
<b>Contributions and Benefits</b>			
Contributions receivable	3	7,214	10,668
Transfers in	4	170,745	964
		177,959	11,632
Benefits payable	5	144,696	141,545
Payments to and on account of leavers	6	(11,392)	249,608
Administration expenses	7	2,792	2,233
		136,096	393,386
<b>Net additions(withdrawals) from dealings with members</b>		41,863	(381,754)
<b>Returns on investments</b>			
Investment income	8	119,539	97,968
Change in market value of investments	9	(326,995)	300,445
Investment management expenses	14	(2,034)	(3,169)
		(209,490)	395,244
<b>Net returns on investments</b>		(209,490)	395,244
<b>Net decrease/(increase) in the fund during the year</b>		(167,627)	13,490
<b>Net assets of the Scheme at 1 April 2000</b>		3,677,775	3,664,285
<b>Net assets of the Scheme at 31 March 2001</b>		3,510,148	3,677,775

## Net Assets Statement

<b>Investments</b>			
Ordinary shares	11	2,474,011	2,905,018
Fixed interest securities	10	566,563	720,625
Index-linked securities	10	237,870	155,983
Property	9	50,125	0
Managed portfolios and unit trusts	12	100,054	46,430
Cash deposits	9	140,889	74,539
AVCS	15	3,844	0
		3,573,356	3,902,595
<b>Current liabilities</b>	13	(63,208)	(224,820)
<b>Net assets of the scheme at 31 March 2001</b>		3,510,148	3,677,775

Director B G Mason

Approved by the Directors of the Trustee Company  
11 September 2001

Director M J Varley

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## Notes to the Accounts

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## Note 1 Basis of preparation

The financial statements have been prepared in accordance with the *Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996* and with the guidelines set out in the *Statement of Recommended Practice, Financial Reports of Pension Schemes*.

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 statement by the actuary on page 40 of the annual report and these financial statements should be read in conjunction with it.

## Note 2 Accounting Policies

- □ Income from investments is brought into account at the ex-dividend date.
- □ Company and members contributions are accounted for on an accruals basis at rates agreed between the Trustee and the Employer based on the recommendation of the actuary.
- □ Benefits and expenses are dealt with on an accruals basis.
- □ Transfer payments in respect of members transferred to and from the Scheme during the year are included in the accounts on the basis of sums advised by the actuary at the time the accounts for the year are finalised.
- □ Listed investments are stated at the last quoted price on 31 March. Unlisted investments are priced using quotes provided by external brokers
- □ Foreign currency investments are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency investment income is recorded at the rate ruling at the date of the transaction.
- □ Stock index futures contracts are valued at market prices at the year-end and, to the extent that the contracts have been entered into for the purpose of obtaining economic exposure, have been reflected in the accounts on the basis of associated economic exposure. The corresponding liability is included in other investment liabilities. The associated economic exposure of a futures contract is the value of an amount of securities which, if held as an alternative to the futures contract, would provide a similar return in the market to that obtained on the futures contract. All gains and losses on contracts are included in the net movement in market value of investments.
- □ Where forward sales or purchase of foreign currency have been made as a hedge against exposure on foreign currency investments, held or expected to be acquired, any unrealised profit or loss at the year end, measured by the difference between the spot rate and the contract rate, is included in the net movement in market value of investments under the same category as the foreign currency investment that is the subject of the hedge. Realised gains and losses on forward contracts maturing during the year are also included in the net movement in market value of investments within the same category.
- □ The property investments of the scheme are included in the accounts at open market value at the balance sheet date. This value is determined by independent external valuers in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. No depreciation is provided on property assets in accordance with SSAP19: Accounting for Investment Properties.
- □ Purchases and sales of properties are recognised in the accounts upon unconditional exchange of contracts. Property rental income is recognised on an accruals basis.



<b>Note 3 Contributions receivable</b>	2001	2000
	£'000	£'000
Company contributions <sup>1</sup>	0	0
Members contributions	5,024	7,673
Members additional voluntary contributions <sup>2</sup>	2,190	2,995
	<u>7,214</u>	<u>10,668</u>

<sup>1</sup> A two year cessation of Company contributions commenced on 1 August 1985, and has since been extended, initially for a further two years to 31 July 1989 and subsequently following the actuarial valuations as at 31 March 1994, 31 March 1997 and 31 March 2000, until at least the next actuarial valuations.

<sup>2</sup> Members additional voluntary contributions are for the most part invested in the principal Scheme. Small amounts invested with London Life Association Limited and The Equitable Life Assurance Society are not included in the accounts.

<b>Note 4 Transfers in</b>	2001	2000
	£'000	£'000
Transfers from other funds – individual	283	764
Transfers from other funds - Group	170,462	200
	<u>170,745</u>	<u>964</u>

<b>Note 5 Benefits payable</b>	2001	2000
	£'000	£'000
Pensions	125,754	119,895
Child allowances	284	294
Commuted lump sums	17,593	20,020
Death benefits	1,065	1,336
	<u>144,696</u>	<u>141,545</u>

<b>Note 6 Payments to and on account of leavers</b>	2001	2000
	£'000	£'000
Refunds to leavers	193	453
Transfers to other funds - individual	3,022	2,795
Transfers to other funds - Group	(14,726)	246,104
Transfers to State Scheme	119	256
	<u>(11,392)</u>	<u>249,608</u>

**Note 7 Administration expenses**

	2001	2000
	£'000	£'000
Administration	1,238	1,281
Computing costs	415	303
New System	377	357
Office Refurbishment	107	0
Actuaries fees	148	133
Legal fees	178	6
Audit fees etc	125	64
External administrator cost	73	0
OPRA Levy	26	26
Medical Fees	76	34
Other	29	29
	<hr/>	<hr/>
	2,792	2,233

**Note 8 Investment income**

	2001	2000
	£'000	£'000
Dividends from equities	66,221	76,380
Income from fixed interest securities	45,921	22,214
Income from index linked securities	4,634	3,257
Income from commercial paper	505	389
Interest on cash account	7,968	2,715
Property	434	0
Underwriting commission	0	6
Stocklending	702	666
Realised exchange gain	367	0
Non reclaimable tax	(7,322)	(7,830)
Other investment income	109	171
	<hr/>	<hr/>
	119,539	97,968

## Note 9 Change in market value of investments

	Value at 1 April 2000	Purchases at cost	Sales Proceeds	Change in Market Value	Value at 31 March 2001
	£'000	£'000	£'000	£'000	£'000
Equities	2,905,018	917,029	1,029,917	(318,119)	2,474,011
Fixed interest securities	720,625	321,356	480,244	4,826	566,563
Index-linked securities	155,983	248,117	161,742	(4,488)	237,870
Managed funds and Unit Trusts	46,430	109,789	49,466	(6,699)	100,054
Property	0	52,508	0	(2,383)	50,125
Cash deposits	74,539	66,482	0	(132)	140,889
Additional Voluntary Contributions	0	3,844	0	0	3,844
	<u>3,902,595</u>	<u>1,719,125</u>	<u>1,721,369</u>	<u>(326,995)</u>	<u>3,573,356</u>

## Note 10 Fixed Interest Securities

### Fixed interest

	Market Value	
	2001	2000
	£'000	£'000
<b>UK quoted</b>		
Public sector	539,765	598,547
Other	12,816	85,905
<b>Overseas</b>		
Public sector	13,963	36,157
Other	19	16
	<u>566,563</u>	<u>720,625</u>

### Index linked

	Market Value	
	2001	2000
	£'000	£'000
<b>UK Quoted</b>		
Public sector	230,213	97,192
Other	7,657	35,528
<b>Overseas</b>		
Public sector	0	23,263
	<u>237,870</u>	<u>155,983</u>

## Note 11 Equities

	Market Value	
	2001 £m	2000 £m
UK	1,892	2,136
Overseas	582	769
	<hr/>	<hr/>
	2,474	2,905

## Note 12 Managed funds and unit trusts

Included within the investments are the following amounts in respect of managed funds and unit trusts.

Managed funds	Market Value	
	2001 £'000	2000 £'000
Capital International	35,259	0
State Street Global Advisers	10	77
Genesis	352	43,853
PDFM Unit Managers Global Bond Exempt	3,810	0
PDFM Unit Managers Small Companies Accumulator	2,428	0
PDFM Unit Managers European Exempt	4,272	0
PDFM Property Trust	41	0
SSGA Cash Fund	1,169	0
SSGA Continental Europe	2,011	0
SSGA North America Exempt	6,012	0
SSGA Pacific Exempt Tracker	265	0
SSGA Sterling Fixed Interest	12,549	0
SSGA UK Tax Exempt Tracker	26,944	0
SSGA Japan Exempt Tracker	1,155	0
Fidelity	879	0
<b>Unit trusts</b>		
Property unit trusts	2,898	2,500
	<hr/>	<hr/>
	100,054	46,430

### Note 13 Current assets and liabilities

	2001 £'000	2000 £'000
<b>Debtors</b>		
Balances due from brokers	2,279	7,204
Dividends receivable	15,099	14,292
Member contributions due from employer	118	114
Bulk Transfers in due	1,200	1,900
Income tax recoverable	718	646
Other debtors	335	250
	<hr/>	<hr/>
	19,749	24,406
<b>Creditors</b>		
Balances due to brokers	7,950	11,516
Unpaid property acquisitions costs	6,703	0
Unpaid benefits	1,699	3,114
Bulk transfers out	65,157	233,100
Bank overdraft	231	560
Administration expenses	666	241
Investment expenses	241	695
Other creditors	310	0
	<hr/>	<hr/>
	82,957	249,226
Net current liabilities	<hr/>	<hr/>
	(63,208)	(224,820)

### Note 14 Investment Management Expenses

	2001 £'000	2000 £'000
Administration and management		
TRW Investment Management Company Ltd	1,553	1,713
State Street Global Advisors UK	0	45
Genesis Investment Management Limited	60	831
Custody	404	552
Relocation to Park Street	0	28
Other	17	0
	<hr/>	<hr/>
	2,034	3,169

**Note 15 Additional Voluntary Contributions**

	2001 £'000	2000 £'000
Halifax	1,357	0
Scottish Life	1,263	0
Standard Life	934	0
Fidelity	260	0
Century Life	17	0
Alba Life	12	0
Provident	1	0
	<hr/>	
	3,844	0
	<hr/>	

The Trustee held assets invested separately from the main fund in the form of individual insurance policies and building society accounts securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

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## Report of the Auditors and the Actuaries

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## **Report of the independent auditors to the Trustees of the TRW Pension Scheme**

We have audited the financial statements on pages 28 to 36 which have been prepared on the basis of the accounting policies set out on page 30.

### **Respective responsibilities of trustees and auditors**

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- □ 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 that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- □ contain the information specified in the Schedule to *The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996*, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis. The Trustee is also responsible under pensions legislation for keeping records in respect of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Scheme rules (or contracts under which they are payable) and with the recommendations of the Actuary and with the schedule of contributions certified by the Actuary.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in 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. We also provide a statement about contributions, in which we report to you our opinion as to whether contributions have been paid in accordance with the schedule of contributions certified by the actuary. We report to you if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Bases of audit opinion and statement about contributions**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the schedule of contributions certified by the actuary on 11 December 2000, and with the appropriate Scheme rules and with the recommendations of the actuary for the merged Schemes.

### **Qualified statement about contributions under the scheme**

As explained on page 6 certain contributions were not paid to the scheme within the required nineteen days.

Except for the late payment as detailed above, in our opinion contributions payable to the Scheme during the year ended 31 March 2001 have been paid in accordance with the scheme rules and with the recommendations of the actuary and with the schedule of contributions certified by the actuary on 11 December 2000 from that date.



### **Unqualified opinion on the financial statements**

In our opinion the financial statements show a true and fair view of the financial transactions of the Scheme during the scheme year ended 31 March 2001, 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 scheme year, and contain the information specified in 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.

Ernst & Young LLP  
Registered Auditor  
Reading

11 September 2001

# **Actuarial Statement made for the purposes of Regulation 30 of the Occupational Pensions Schemes (Minimum Funding Requirement & Actuarial Valuation) Regulations 1996**

Name of Scheme: The Lucas Pension Scheme ("the Scheme")  
Effective date of latest valuation 31 March 2000

## **1. Security of prospective rights**

In my opinion, the resources of the scheme are likely in the normal course of events to meet in full the liabilities of the scheme as they fall due. On giving this opinion, I have assumed that the following amounts will be paid to the Scheme.

Members contributions: at the rates set out in the Trust Deed and Rules  
Employers' normal contributions: Nil

## **2. Summary of methods and assumptions used**

My opinion on the security of prospective rights is based on a two stage calculation as follows. The technical name for this approach is the Projected Unit method:

First, I have considered the value of benefits which will be earned by employee members over the period until retirement. This assessment allows for future increases in pensionable salary. I have expressed this value as a contribution rate by dividing by the pensionable salaries payable to employees over the same period.

I have made an adjustment to allow for expenses and members' contributions to derive the employer's normal contribution.

Second, I have considered the value of benefits earned by members from service prior to the valuation date. For employee members this assessment allows for future increases in pensionable salary. I have compared this with the value of scheme assets. I have adjusted the contribution rate in respect of future service to allow for the excess of assets over liabilities.

The main actuarial assumptions used in my valuation are as follows:

Rate of investment return prior to retirement:	6.0% per annum
Rate of investment return after retirement:	5.5% per annum
Rate earnings increase:	4.5% per annum
Rate of pension increase (excluding GMP)	2.75%

Assets were taken into account at a value closely related to market value.

I have made allowance for members dying, withdrawing and retiring from the scheme prior to normal retirement age.

Further details of the method and assumptions used are set out in my actuarial valuation addressed to the Trustees dated 7 November 2000.

**R S Bowie**  
**Fellow of the Faculty of Actuaries**

7 November 2000

**Actuarial Certificate Given For The Purposes Of Section 58 Of The Pensions Act 1995  
(Certification Of Schedule Of Contributions)**

**Name of scheme:** Lucas Pension Scheme

**Adequacy of rates of contributions**

1. I hereby certify that, in my opinion, the rates of contributions payable in accordance with the schedule of contributions are adequate for the purpose of securing that throughout the period it covers the Scheme will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995 and are such that they meet the uniform funding requirement specified in regulation 17 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.
2. In forming this opinion I have complied with the requirements imposed by sections 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27) prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

**Ronald S Bowie**  
**Fellow of the Faculty of Actuaries**

11 December 2000

**NOTE:**

*The certification of the adequacy of rates of contribution for the purpose of securing the meeting of the minimum funding requirement 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.*

*This certificate is given in respect of the Schedule of Contributions agreed between the Trustee and the Company dated 8 December 2000 and signed on behalf of the Trustee and the Company on 7 December 2000 and 8 December 2000 respectively.*

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## Statement of Investment Principles

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## Statement of Investment Principles

This statement sets out the principles which the Trustee of the Lucas Pension Scheme will follow in determining its investment policy for the purposes of the Scheme. It has been prepared in accordance with the requirements of Section 35 of the *Pensions Act 1995*.

This revised statement was approved at a meeting of the Trustee Board held on 23 May 2000. The Principal Employer has been consulted. The investment principles set out in this statement will be reviewed periodically and revised as necessary. Prior to the preparation of this statement the Trustee has obtained and considered written advice from Hymans Robertson and TRW Investment Management Company Limited both of which are qualified to provide such advice in connection with the investment of the Scheme.

### Fund Managers

The Trustee has delegated day to day responsibility for the selection and management of the Scheme's assets to the following professional investment managers:

- TRW Investment Management Company Limited: this is the lead investment manager and is responsible for all Scheme assets except the emerging markets and property portfolios.
- Capital International - Emerging markets portfolio
- CB Hillier Parker Investors – Property

These organisations are regulated by IMRO and are authorised under the Financial Services Act 1986 to undertake investment business. The appointments will be reviewed periodically.

### Investment objectives

The Trustee's investment objectives are:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions, the cost of current and future scheme benefits as set out in the *Trust Deed and Rules*.
- To limit the risk of the assets failing to meet the liabilities over the long term. In particular in relation to the Minimum Funding Requirement.
- To minimise the long term cost of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

### The kind and balance of investments

The Trustee, acting on the basis of asset liability studies and subsequent advice provided to it by both the Scheme Actuary, Hymans Robertson and the lead Investment Manager, have set an asset allocation benchmark as appropriate to the Scheme. The purpose of the asset allocation benchmark is to establish a notional portfolio distribution which would be an appropriate allocation of the Scheme's assets in the medium, to long term. However, the actual investment of the Scheme's assets needs to be more flexible to take account of shorter term investment decisions and changes in asset values. Accordingly the Trustee has authorised the lead investment manager to manage the fund within tactical asset allocation limits.

The benchmark and tactical allocation limits are agreed by the Trustee after taking such investment advice as they consider appropriate and after consulting the employer. The benchmark and tactical allocation limits are published each year in the *Trustee Report and Accounts*.

The Trustee considers that due to the indexed nature of a majority of the assets and the spread among different asset classes, a sufficient degree of diversification has been obtained. The Trustee also considers the investments to be suitable to the Scheme's liabilities. Overall the Trustee considers the investment structure and management style adopted will enable the control of risk in a manner appropriate to the circumstances of the Fund.

### Risk

The Trustee's policy regarding risk is as follows:

- Diversification among the selected asset classes is designed to reduce the risk that after taking account of the ongoing long term liability there will be insufficient assets to cover its liability on both the Minimum Funding Requirement and on an ongoing basis.
- In order to control risk the Trustee has imposed the following restrictions:

- The maximum actively held percentage in one investment will not exceed the limits set down by the Trustee for each investment manager in writing.
- The investment in TRW Inc as a percentage of the overseas developed market fund, will approximate to the company's weighting in the relevant index.
- Stock Lending is only permitted in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.
- Constraints are placed on the use of derivatives, which may not be used to gear up the portfolio or for speculative purposes.
- Certain types of investment are not permitted. These include commodities, works of art and precious metals.

### **Expected return on investments**

In the long term the investments are expected to deliver a return which either matches or exceeds the real rate of return assumed by the actuary in assessing the funding of the Scheme. The Trustee will monitor the returns of each fund manager and asset class against an appropriate benchmark. The individual benchmarks will be constructed using data provided by external index providers and will be independently verified by a recognised pension fund performance measurement company on behalf of the Trustee.

### **Realisation of investments**

Over 90% of the assets are directly or indirectly invested in securities traded on major recognised investment exchanges. These investments can therefore be realised quickly, if necessary. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances.

### **Minimum funding requirement (MFR)**

In arriving at its investment principles account has been taken by the Trustee of the liabilities of the Scheme in respect of pensioners and active members together with the disclosed level of surplus. This has been done relative to the funding bases used both on an ongoing basis and on an MFR basis. The selection of a spread of investments which closely matches the Scheme's liabilities under the MFR would indicate a more substantial investment in fixed interest and indexed linked bonds. The Trustee, however, believes that in the long term investment in UK and overseas equities gives a better prospect of greater investment returns. They have concluded, therefore, with the agreement of the Schemes Actuary, that a spread of investments with a substantial emphasis on equities is appropriate for the scheme and that the MFR does not represent a constraint on the asset allocation decisions.

### **Socially responsible investment**

The Trustee has examined the extent to which social, environmental and ethical issues should influence the purchase, holding and realisation of investments in the actively managed portions of the portfolio. In order to ensure that their duty of acting in the best interests of Scheme members is fulfilled, the Trustee considers that the principal concern of their investment managers should be to ensure that, when taking investment decisions, they are in the long term financial interest of members. Social, environmental or ethical issues may be considered where this principal concern is not compromised.

The purpose of the passively managed portion of the portfolio is to track a specific index. Accordingly, on this portion of the portfolio, social, environmental and ethical issues form no part of the investment manager's mandate.

### **Exercise of voting rights**

The Trustee has delegated the exercise of voting rights to the Scheme's investment managers on the basis that they will exercise voting rights for securities held in the UK Active Fund. The voting rights will be exercised with the obligation of preserving and enhancing long-term shareholder value. Voting rights on other securities will not be exercised unless the investment manager considers the value of the investments will be materially affected. The lead investment manager will provide reports on votes cast to the Trustee on a quarterly basis.

### **Custodian**

The assets of the Scheme are held by State Street Bank & Trust Company under the control of the Trustee. The custodian has been appointed by the Trustee. The appointment will be reviewed periodically.

23 May 2000



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