

BBC Pension Scheme

# PENSIONS

# 2013

REPORT AND ACCOUNTS



# BBC Pension Scheme

## Annual Report for the year ended 31 March 2013

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# Summary of the Year

## Membership

The total number of Scheme beneficiaries at 31 March 2013 was 57,062, 0.2% less than last year.

The Scheme closed to new entrants on 1 December 2010.

A breakdown of membership is on page 11.

## Fund

The value of the Scheme's investments (including AVC investments) rose by 10.8% from £9.3 billion last year to £10.3 billion as at 31 March 2013.

In the five years since 2008 the Scheme's investments have risen by 26.6% from £8.1 billion.

Details of the distribution of investments are on pages 16 and 17.

## Performance

The Scheme's assets produced a return of 13.1% in the year ended 31 March 2013. Over the last five years the Scheme's investments have generated an annualised return of 6.3%.

More details are on pages 13.

## Valuation

The Scheme undertook a full valuation as at 1 April 2010. The Scheme had a deficit. Details are on page 9. The Scheme is undertaking a full valuation as at 1 April 2013.

## Movement of the Fund

The Consolidated Fund Account on page 21 shows that income from contributions was £197.0m and outgoings were £364.2m, giving net withdrawals from dealings with members of £167.2m. Included in contributions is a deficit recovery payment of £60m received from the BBC in March 2013. Income from investments, net of expenses, was £170.4m; providing a total net inflow of £3.2m.

The market value of the Scheme's assets rose during the year by £1,008.9m.

## Trustee and Advisors to the Scheme as at 31 March 2013

<b>Trustee</b>	BBC Pension Trust Ltd, Broadcasting House, London W1A 1AA
<b>Secretary to the Trustee</b>	Sandra Phillips Pension and Benefits Centre, Broadcasting House, Cardiff CF5 2YQ
<b>Actuary</b>	Alison Blay, Towers Watson Ltd
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP
<b>Solicitor</b>	Sacker & Partners LLP
<b>Investment Consultants</b>	Towers Watson Ltd David Gamble Andrew Threadgold Richard L. Greene (USA property)
<b>Investment Managers</b>	Artemis Investment Management Ltd Baillie Gifford & Co Bridgewater Associates, LP Cambridge Associates Ltd Goldman Sachs & Co Henderson Equity Partners Ltd Hg Pooled Management Hony Capital InfraRed Capital Partners Ltd Invesco Asset Management Ltd Lazard Asset Management Ltd Legal & General Assurance (Pensions Management) Ltd M&G Investment Management Ltd Nephila Capital Ltd NewSmith Asset Management LLP PGSFIII GP Ltd (investment adviser: Pantheon Ventures Ltd) Pimco Europe Ltd Prisma Capital Partners Rogge Global Partners Plc Sanders Capital, LLC State Street Global Advisors Ltd Sun Capital Partners, Inc The Carlyle Group Uberior Fund Manager Ltd Warburg Pincus LLC

## Trustee and Advisors to the Scheme as at 31 March 2013 (continued)

<b>Cash Manager</b>	BlackRock Advisors (UK) Ltd
<b>Engagement Manager</b>	Hermes Equity Ownership Services Ltd
<b>Property Managers</b>	Grosvenor Americas Ltd (USA) Orchard Street Investment Management LLP CBRE Global Investors Ltd PanEuropean Property Unit Trust
<b>Property Valuer</b>	GVA Grimley Ltd (Chartered Surveyors)
<b>Custodian</b>	HSBC Bank plc
<b>Property Solicitors</b>	Brodies LLP (Scotland) Greene, Radovsky, Maloney & Share (USA) Nabarro LLP
<b>Banker</b>	The Royal Bank of Scotland plc
<b>Covenant adviser</b>	Ernst & Young LLP

## Trustees' report

This report for the year ended 31 March 2013 is presented in compliance with the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. The financial statements have been prepared and audited in accordance with the regulations made under sections 41(1) and 41(6) of the Pensions Act 1995.

## How the Scheme is run

The BBC Pension Scheme (the Scheme) is a defined benefit scheme. It provides benefits for employees of the British Broadcasting Corporation (BBC) and other participating employers.

The Scheme is established and governed by a Trust Deed and Rules. Active Old and New Benefits members of the Scheme are contracted out of the State Second Pension. The Scheme is registered with HM Revenue & Customs under Chapter 2, Part 4 of the Finance Act 2004.

The Scheme is registered with the Pensions Regulator: Registration number 10149485.

## Participating employers

On 31 March 2013 the participating employers were:

- BBC
- 2 Entertain Management Ltd
- 2 Entertain Video Ltd
- 3SIXTYMEDIA Ltd
- BBC Children in Need
- BBC Studios and Post Production Ltd
- BBC Global News Ltd (formally BBC World News Ltd)
- BBC Worldwide Ltd.

## The Corporate Trustee

BBC Pension Trust Ltd exists only for the purpose of acting as corporate trustee of the Scheme. The Board of Directors corresponds exactly with how the Board of Trustees would otherwise be composed and is referred to as 'the Trustees' throughout this report.

On 31 March 2013 the Trustees comprised:

<b>Name</b>	<b>Category of Trustee</b>	<b>Attendance at Board meeting</b>	<b>Membership of sub-committee</b>	<b>Attendance</b>
Bill Matthews	BBC Trust (Chair)	6/6	Committee of Directors (Chair)	4/4
Kevin Carter	BBC	6/6	Committee of Directors Investment Committee (Chair)	4/4 7/7
Grant Cassidy	MNT	4/6	Committee of Directors Investment Committee	2/4 4/7
Andy Baker	MNT	5/6	Committee of Directors Benefits Committee	3/4 4/4
Andy Griffie	BBC	6/6	Committee of Directors Finance Risk and Audit Committee Benefits Committee	4/4 3/3 3/4
Geoff Jones	MNT	6/6	Committee of Directors Finance, Risk and Audit Committee	4/4 3/3
Rhodri Lewis	MNT	5/6	Committee of Directors Benefits Committee (Chair)	4/4 4/4
Zarin Patel	BBC	5/6	Investment Committee	6/7
Ken MacQuarrie	BBC	5/6	Committee of Directors Finance, Risk and Audit Committee (Chair)	3/4 2/3

## Changes to the Trustee Board

Ken MacQuarrie was appointed as a BBC Trustee and Chair of the Finance, Risk and Audit Committee on 1 April 2012. There were no other changes.

## Appointment and nomination of Trustees

The power to appoint and remove the BBC Trust Trustee is vested in the BBC Trust. The BBC Trust nominates one of the Trustees to be the Chair of the Trustees.

The power to appoint and remove the BBC Trustees is vested in the BBC. Three of the BBC Trustees are active members. Member Trustees are nominated from and by the active members. They hold office for six years and retire in rotation. If the number of nominations exceeds the number of vacancies, a ballot of the active members is held.

The Pensioner Trustee is nominated from and by the pensioners. The term of office has recently been increased from four to six years. If there is more than one nomination, a ballot of the pensioners is held.

The Trustees have a duty to act in the best interests of all beneficiaries. As a group and as individuals they represent all members equally, rather than sectional interests.

## Advisors

During the year:

- Orchard Street Investment Management LLP replaced CB Richard Ellis as manager of a UK property mandate;
- Bridgewater Associates, LP was appointed to manage a balanced asset mandate;
- Legal & General Assurance (Pensions Management) Ltd was appointed to manage a UK equity futures mandate;
- The global equity mandate with Trilogy Global Advisors LLC was terminated;
- Pimco Europe Ltd was appointed to manage a UK corporate bond mandate;
- InfraRed Capital Partners Ltd was appointed to manage an infrastructure fund;
- Uberior Fund Manager Ltd was appointed to manage an infrastructure fund;
- M&G Investment Management Ltd was appointed to manage an inflation opportunities fund; and
- Warburg Pincus LLC was appointed to manage a private equity fund.

## Governance

The Trustees have adopted a governance policy intended to reassure members that the Scheme is well run and to provide a means of monitoring the effectiveness of the arrangements put in place to manage the Scheme. The principal responsibility of the Trustee Board is to ensure that the Scheme is able to pay pensions to beneficiaries as they fall due. It discusses sub-committee reports; sets investment strategy; approves the Scheme accounts, the annual budget and work plan and the appointment of Scheme advisers. It met six times during the year.

During the year, it also:

- received regular updates on the BBC's financial position;
- reappointed Towers Watson as the Scheme's Strategic Investment Consultant;
- approved new factors for Added Years which reflected the fact that the cost of providing pensions had increased;
- reviewed the Scheme's remuneration policy and agreed that it remained appropriate;
- reviewed the Scheme's investment strategy and funding ratio triggers;
- reappointed Towers Watson to provide actuarial services and Alison Blay as Actuary;
- agreed a rule change in respect of the Scheme Earnings Cap to ensure consistent treatment of members under the 2010/2011 pension reforms regardless of salary;

- agreed to appoint a Chief Executive Officer;
- executed the 47th deed of variation;
- reviewed the Scheme's risk register; and
- approved a revised Statement of Investment Principles.

The Board recognised that some members may have a conflict of interest when discussing funding matters. Therefore these matters were discussed by a Committee of Directors which Zarin Patel, Chief Financial Officer elected not to be part of.

**The Committee of Directors** met four times.

It considered the Scheme's funding position, taking advice from Ernst & Young LLP on the employer's covenant and reviewed the assumptions that should be used in the 2013 valuation, taking advice from the Scheme Actuary

**The Investment Committee's** objective is to ensure that the assets are sufficient to meet the liabilities as they fall due and are managed in accordance with the investment strategy set by the Trustees. It met seven times. During the year the Investment Committee performed a number of key tasks, it:

- reviewed the Scheme's investment performance;
- extended the LDI infrastructure which enables the Scheme to undertake hedging strategies to reduce the interest and inflation risk inherent in the Schemes' liabilities;
- debated investment strategy and assessed opportunities in the financial markets in light of the investment strategy;
- assessed the minimum liquidity needed as a result of the currency hedge and the expansion of the swaps programme with its associated need for collateral;
- made greater use of risk budgeting and upgraded the quality of investment risk measurement;
- reviewed the overseas property holding to determine whether the allocation remained appropriate;
- continued to seek to add alternative matching assets;
- undertook a thorough review of the Scheme's ESG strategy and Hermes Equity Ownership Services Ltd were reappointed. Priorities were determined for the Scheme's involvement going forward with greater communication and involvement between Hermes and the Scheme's investment managers;
- reviewed the funding ratio triggers that are used to set the Scheme's asset allocation;
- negotiated a reduction in the fees for a number of managers. New managers were hired at a similar or lower cost than existing/outgoing managers recognising the Scheme's desire to lower costs and current market constraints;
- approved both new investment mandates and termination of those no longer appropriate;
- monitored the investment committee budget; and
- agreed a three year plan.

**The Benefits Committee** met four times. The Committee's objective is to ensure that all beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme. It implements all aspects of Scheme administration; monitors compliance and discretions exercised on behalf of the Trustees. During the year, it:

- noted a data audit report from ITM which showed that the Scheme complied with the standards outlined in Pensions Regulator (TPR) updated guidance to schemes on member record-keeping. ITM's key finding was that "the data for the Scheme is of good quality and demonstrates good working practices of the administration team and is kept up to date";
- agreed that the Pension & Benefits Centre (P&BC) would employ the services of a company who specialised in tracing individuals to provide valid addresses for deferred members to ensure compliance with the Pensions Regulator's updated guidance to schemes on member record-keeping;

- approved revised annual benefit statements including changes to include deferred benefits in the Scheme e.g. as a result of joining Career Average Benefits 2011 (CAB 2011) and having more than one period of Scheme membership. The benefit statement was also changed to include Annual Allowance information;
- agreed to admit certain employees who opted out of the Scheme to Life Assurance Membership under rule 9.2 as requested by the BBC;
- reviewed the deposit based AVC provision;
- agreed to use Xafinity to maintain Citibank's beneficiary database for overseas bank payment details which reduced the cost per payment from £2.74 to £1.00;
- agreed the format of the customer survey;
- received a report from CEM Benchmarking Inc which showed that the Scheme provides a high level of service at around median cost;
- agreed no change in the administration services provided by the Scheme were needed in light of this benchmarking report;
- agreed that as part of the factor review after the next valuation all factors should be unisex;
- made the decision not to recover an overpayment totalling c£28k for 33 pensioners who had received incorrect pension increases – these did not trigger unauthorised payments;
- undertook a review of the panel of Independent Financial Advisers;
- reviewed the delegated authorities to staff in the P&BC;
- agreed that the mileage rate paid to Volunteer Visitors should be increased to 40p per mile;
- monitored the Benefits Committee budget; and
- agreed a three year plan.

**The Finance, Risk and Audit Committee** met three times. The Committee's objective is to ensure that the Scheme has an appropriate control and risk framework in place. It monitors the effectiveness of the Scheme's financial management and internal controls.

During the year, it:

- reviewed and approved the Scheme's annual budgets and quarterly accounts;
- re-appointed PricewaterhouseCoopers LLP as Scheme independent auditor and reviewed their audit plan;
- reviewed the Scheme's annual statutory accounts;
- reviewed the internal audit plans for 2012 and 2013, and noted a review of the procedures to transfer members to the CAB 2011 section and the on-going associated control environment;
- reviewed the Scheme's income and cost profile for 2014 – 2016;
- reviewed the Scheme's risk register and approved the establishment of a risk working group; and
- agreed a three year plan.

## Disputes

The Scheme has a two stage internal disputes resolution procedure (IDRP). The first stage is determined by the Pension Operations Manager or the Pension Accountant. If a matter is not resolved to a member's satisfaction it can be referred to a committee of Trustees who will consider the matter.

The Pension and Benefits Centre dealt with four disputes during the year. Two of these were rejected under the first stage of the IDRP and no further action taken. Two cases were taken to the second stage of the IDRP. In one case the Trustees did not feel that the IDRP was the appropriate means of considering this case and the member subsequently referred the case to the Pensions Ombudsman. In the second case the first stage was overturned in the light of new evidence.

## Actuarial Valuation

The actuarial valuation of the Scheme as at 1 April 2010 revealed a shortfall (liabilities (calculated on the technical provision basis) minus value of assets) of £1,131 million.

To eliminate this funding shortfall, the Trustees, have agreed with the BBC that additional contributions will be paid to the Scheme by the participating employers in accordance with the table shown in note 14 in the financial statements on page 31.

The funding shortfall is expected to be eliminated within 11 years of the valuation date, which is by April 2021.

Further information on the actuarial valuation can be found on the Scheme's website: [bbc.co.uk/my pension](http://bbc.co.uk/my pension)

## Increases in pensions and deferred pensions

Pensions in payment increases are made from 1 April each year.

For Old Benefits members, pensions in payment increase by the rise in the Retail Prices Index (RPI) during the year ending 31 December last, up to a maximum of 10%.

For New Benefits members, pensions in payment increase by the rise in the RPI during the year ending 31 December last, up to a maximum of 5%.

Old and New Benefits deferred pensions receive the same increase as pensions in payment. Pensions in deferment and in payment for less than a year for Old and New Benefits members are increased pro rata.

The increase paid on 1 April 2012 was 4.8% and on 1 April 2013 was 3.1% for Old and New Benefits members.

For Career Average Benefits 2006 (CAB 2006) members, pensions in payment increase by the rise in the RPI during the year ending 31 December last, up to a maximum of 2.5%. The increase paid on 1 April 2012 and 2013 was 2.5%.

The discretionary revaluation of CAB 2006 benefits built up for active and deferred members was 4.8% on 1 April 2012 and 3.1% on 1 April 2013. The first discretionary revaluation of CAB 2011 benefits built up for active and deferred members on 1 April 2012 was 2.7%

For CAB 2011 members, pensions in payment increase by the rise in the Consumer Prices Index (CPI) during the year ending 31 December last, up to a maximum of 4%. The increase paid on 1 April 2013 was 2.71%.

## **Additional Voluntary Contributions (AVCs)**

A total of 1,034 members paid AVCs during the year (2012: 1,895). The contributions are invested with Santander UK plc or Fidelity Pensions Management in accordance with members' wishes. At 31 March 2013 1,465 members were buying added years (2012: 1,671).

## **Contributions**

During the year the BBC's contributions rate (inclusive of AVC Plus contributions) was 14.5% of Pensionable Salaries. The BBC also reimbursed the Scheme the cost of the PPF Levy (£3.4m). Old and New Benefits members paid 7.5%, Career Average Benefits 2006 members paid 4% and Career Average Benefits 2011 members paid 6%. Most members' contributions were paid by salary sacrifice (Smart Pensions).

## **Transfer values**

Payments made in respect of employees or deferred pensioners to other pension arrangements have been calculated in accordance with the provisions of Section 97 of the Pension Schemes Act 1993, using tables supplied by the Actuary. Payments made during the year fully reflected the value of the Members' accrued benefit rights. Allowance is made for all discretionary benefits calculated on actuarial advice.

## **Administration**

BBC Pension Trust Ltd is the Scheme Administrator. The management and staff involved in running the Scheme (including the Secretary to the Trustees) are employed by the BBC. The Scheme bears all costs of investment, direct staff and system costs, stationery and postage, together with accommodation and other administrative overheads. The remuneration of one Trustee is paid by the BBC.

## **Data protection**

There is a formal agreement in place between the Trustees and the BBC for the transfer of data. This is necessary to ensure that the Scheme complies with the data protection principles detailed in Part 1 of Schedule 1 of the Data Protection Act 1998.

## Membership

	2013	2012	
<b>Total membership</b>			
Contributing members	14,203	15,647	
Deferred pensioners	28,957	28,313	
Pensioners	23,149	22,912	
	66,309	66,872	
<b>Contributing members</b>			
At 1 April 2012	15,647		
New members	137		
Flexible Retirement	23		
Leavers	(1,321)		
Retired with pension (normal health)	(264)		
Retired with pension (ill health)	(9)		
Died in service	(10)		
At 31 March 2013	14,203		
<b>Deferred pensioners</b>			
At 1 April 2012	28,313		
Leavers from active status (including re-instatements)	1,226		
Subsequently transferred	(43)		
Pensions becoming payable	(383)		
Deaths	(29)		
Surrendered, commuted or refunded	(127)		
At 31 March 2013	28,957		
<b>Pensioners</b>	<b>Former contributors</b>	<b>Spouses and dependants</b>	<b>Total</b>
At 1 April 2012	18,884	4,028	22,912
Contributing members who retired (including re-instatements)	296	0	296
Deferred pensions becoming payable	383	0	383
Spouses and dependants	0	344	344
Cessations	(508)	(278)	(786)
At 31 March 2013	19,055	4,094	23,149

The total number of Scheme beneficiaries as at 31 March 2013 was 57,062 (2012: 57,186). Membership numbers in the table above are higher as members can hold more than one record. For example, existing members who have joined the Career Average Benefits 2011 section from another section of the Scheme may have a deferred pensioner record for their benefits built up in the Old Benefits, New Benefits or Career Average Benefits 2006 sections and a contributing record for their Career Average Benefits 2011 benefits..

# Investment Report (forming part of the Trustees' annual report)

## Overview

Financial markets performed strongly in 2012/13, despite difficult economic conditions in the developed world as well as on-going concerns about the Eurozone and the US fiscal cliff. Although many of the issues that have worried investors during the year have not gone away, the US economy has shown signs of material improvement, markets have become more sanguine about the possibility of a disorderly collapse of the Eurozone and many emerging economies have continued to grow strongly. In general, financial markets have been supported by very stimulative monetary policy from leading central banks.

In the UK, the inauspicious combination of negligible economic growth with high budget and trade deficits proved to be no obstacle to the UK equity market. The FTSE All Share Index returned 16.8% during the year, helped in part by the weakness in the Pound, which fell from \$1.60 to \$1.52, and the fact that so many UK listed companies earn the majority of their revenue overseas. US equities also performed very strongly with the S&P 500 index ending the year at a record high. Meanwhile, emerging market equities, up just 6.0% in Sterling terms, lagged the global equity rally.

UK government bond (Gilt) yields spent the year close to record lows, supported by the Bank of England's purchase of £375bn of Gilts through its Quantitative Easing (QE) programme. The expectation that short term interest rates, now hovering just above zero, will stay low for a long time, is another important cause of the low level of Gilt yields.

Meanwhile, expectations for inflation, as measured by the Retail Prices Index (RPI), increased after the Office on National Statistics' (ONS) unexpected conclusion that the RPI calculation methodology should remain unchanged. This ruling was important for the Scheme because RPI is an important factor in the calculation of benefits and also because it determines the cash flows that the Scheme receives from its significant holding of Index Linked Gilts.

Following the ONS announcement, real yields on all Index Linked Gilts have fallen into negative territory. At the end of March, five year maturity Index-Linked Gilts, for example, offered investors the superficially unattractive real yield of -2.6% (i.e. a return of 2.6% below RPI for 5 years). For long periods in the 1980s and 1990s, Index Linked Gilts offered a positive real yield of 4% or more, but periods of negative real yields are also not unprecedented, especially when inflation has been elevated, such as in the years after the second world war and during the 1970s.

Falling bond yields correspond to rising bond prices and the UK conventional Gilt market and index-linked Gilt market returned 5.3% and 10.2% respectively over the course of the year. This has supported the value of the Scheme's assets, but falling yields are also at the root of the Scheme's biggest investment challenge, in that they tend to increase the Scheme's deficit. This is because bond yields are an important element of the discount rate that is used to calculate the present value (i.e. in today's money) of the benefits or liabilities that will be paid to pensioners in the future. So when yields go down, the present value of liabilities and thus the reported deficit is likely to go up.

The low levels of bond yields are still a cause for concern to the extent that they may be anticipating very weak economic activity and low returns from all asset classes for many years to come. However, many of the fund managers making investments on behalf of the Scheme have pointed to the attractive cash yields available on a wide range of the Scheme's investments, giving some grounds for optimism despite the uncertain economic outlook.

## Investment Performance

The table below gives the performance of the Scheme over the last 1, 3 and 5 years, and compares those figures with the Scheme's benchmark as well as WM's UK Pension Fund universe (net of estimated fees), which measures the performance of a large sample of UK pension schemes.

Helped by the strong performance of markets, the value of the Scheme's net assets reached a record level of £10.3bn, up from £9.3bn a year ago. After adjusting for cash flows in and out of the Scheme, this corresponds to an investment return of 13.1%, following increases of 5.8% in 2011/12 and 8.6% in 2010/11. Over the past five years, a period which covers the financial crisis, the Scheme's investment return is 6.3% on an annualised basis, while the annualised return over ten years has been 9.6%.

	Year to 31 March 2013	3 years to 31 March 2013	5 years to 31 March 2013
<b>BBC Pension Scheme</b>	<b>13.1%</b>	<b>9.2%</b>	<b>6.3%</b>
<b>Primary Benchmark</b>	<b>10.5%</b>		
<b>Market Benchmark</b>	<b>14.5%</b>	<b>10.0%</b>	<b>8.1%</b>
<b>WM UK Pension Fund (net)</b>	<b>12.6%*</b>	<b>8.6%</b>	<b>6.3%</b>

\*Preliminary estimate

As noted in last year's report, the Scheme adopted the performance of its liabilities as its primary investment benchmark from 1 April 2012. The Trustees believe that this change aligns the management of the Scheme's assets directly with the objective of being able to pay pensions to beneficiaries as they fall due, recognising that the Scheme will start to mature now that it is closed to new members.

Most asset classes contributed to the strong performance of the Scheme's assets during the year, with equities generating the highest returns. Some timely additions to the Scheme's programme for hedging inflation and interest rate risk contributed to performance, while the strength of other currencies such as the US Dollar boosted the valuation of the Scheme's overseas assets in Sterling terms. The weakest major asset class for the Scheme in 2012/13 was UK property which generated only marginally positive returns.

The Scheme's market benchmark is a composite of indices representing the underlying asset classes in which the Scheme invests. This benchmark may change during the course of the year as the Trustees adapt the Scheme's investment strategy to changing circumstances. The underperformance against this benchmark over the last five years was driven mainly by the modest performance of our alternative assets compared to some quite ambitious targets set for them and also to the Scheme's relatively low allocation to bonds in previous years. In the year to 31 March 2013, the Scheme's liability driven investment portfolio lagged its benchmark, while the Scheme's active equity managers, taken together, struggled to keep up with the strong performance of the market indices.

## Investment policy

The Trustees set investment policy. They consult the BBC and take advice from the Scheme Actuary and their investment consultants. They engage independent members of the Investment Committee with relevant investment experience and are supported by an in-house investment team. The investment policy is reviewed at least annually and following each actuarial valuation or asset liability study.

The Trustees delegate responsibility for implementing investment policy to the Investment Committee. It appoints, monitors the performance of and removes investment managers. It oversees asset allocation and directs the cash flow of the Scheme amongst investment mandates, adjusting portfolios as necessary. It monitors, reviews and recommends changes to the Trustees' policies in respect of investment, corporate governance, socially responsible investment and engagement.

The Trustees have created a set of investment beliefs which, together with the SIP, are used as foundation blocks for developing investment strategy.

The Trustees' overall investment policy is to invest in a wide range of long term assets such as equities, bonds, property and a range of alternative assets (private equity, hedge funds, infrastructure, etc) whilst ensuring that there are sufficient holdings of readily marketable assets that can meet the short term liabilities of the fund. Derivative instruments, potentially on an unfunded basis, are used to manage the Scheme's risk and for efficient portfolio management purposes.

The Trustees and the BBC agreed to a long-term target of achieving full funding over approximately 15 years from 2011 based on a discount rate equal to the yield on liability-matching gilts plus 0.5% p.a. This journey plan is important to the Trustees because until the Scheme is fully funded on this more prudent method of funding it will continue to be reliant on the BBC. The Trustees have also established a framework for setting the Scheme's strategic asset allocation based on the Scheme's funding ratio, with the intention of not taking more risk than is necessary to return to full funding over the horizon of the journey plan.

As part of this process, the Trustees have reviewed the Scheme's strategic asset allocation and benchmarking arrangements. The table below shows the nominal asset allocation as at 31 March 2013, along with the updated market benchmark and permitted ranges:

Asset Class	Current asset allocation %	Permitted Ranges %	
		Minimum	Maximum
Equities (ex futures)	39.0	32.5	47.5
Private Markets	17.0	11.0	26.0
Absolute Return	7.0	1.0	16.0
Return Seeking Bonds	8.0	1.5	16.5
Liability Matching Bonds	27.0	19.0	34.0
Cash held centrally	2.0	0.0	15.0

## Current management arrangements

The Trustees delegate day to day investment decisions to suitably qualified independent investment managers, who are required to comply with the Investment Regulations and the Scheme's Statement of Investment Principles. Their activities are defined and constrained by detailed agreements. Investment managers have discretion to buy and sell investments within the terms of their agreements.

To aid diversification the Trustees employ a number of managers with varying investment styles, both passive and active. A performance monitoring agency measures their performance, and that of the Scheme.

Fees are charged either as a proportion of the assets under management or are related to performance targets. They are negotiated individually when a manager is appointed and are reviewed periodically. The Trustees take advice to ensure that fees are commensurate with the services provided.

Managers are listed in the Scheme's annual report and accounts, which also contains information about investment performance, asset allocation and major investment decisions taken during the year.

## Investment strategy and activity

The Trustees took further steps in 2012/13 to reduce the level of risks embedded in the Scheme's investments, while continuing to look for opportunities to generate the strong investment returns that are required to meet the Scheme's journey plan.

In 2011 the Trustees put in place a framework to reduce the level of interest rate and inflation risk that the Scheme is exposed to compared to the Scheme's liabilities. Legal and General Insurance (Pensions Management) Ltd was appointed as the Scheme's liability driven investment manager and took over the management of the Scheme's portfolio of UK government bonds. In 2012/13, the Trustees materially increased the extent to which the Scheme is protected against movements in bond yields and inflation. Legal and General Insurance (Pensions Management) Ltd has purchased additional government bonds and derivatives on the Scheme's behalf to achieve this outcome.

The Trustees recognise that the Scheme is still exposed to moves in inflation and interest rates. They have considered this situation carefully and are also aware that hedging substantially more of the Scheme's risk at the current level of bond and swap yields could reduce the return of the Scheme's assets and result in unrealised losses if yields subsequently rise. As a complement to their hedging programme using Index Linked Gilts and derivatives, the Trustees have also made several investments in areas such as infrastructure and property, which offer the prospects of stable long term cash flows. These are not expected to act as such a good short term hedge for the Scheme's liabilities as Index linked Gilts, but should deliver cash flows that are well aligned to the Scheme's obligations over the longer term.

The Scheme has been reducing its exposure to equities for over ten years although care has been taken to avoid selling equity assets at very depressed levels. Equity markets have recovered strongly over the last three years and in the last 12 months further reductions in equity exposure have been made. At the end of March 2013, following a broader review of the Scheme's strategic asset allocation, the permitted range for the Scheme's allocation to equities was reduced by 2.5%, with the central point of the range falling from 42.5% to 40.0%. The Scheme also hedges a material amount of its foreign exchange exposure.

A number of changes were made to the line-up of investment managers to whom the management of the Scheme's assets is delegated. Orchard Street has taken on the management of one of the Scheme's UK property portfolios. New infrastructure mandates were awarded to Lloyds Bank UK Infrastructure Partners and Infrared Capital, and an investment has been made in the Bridgewater 'All Weather Fund'. The Scheme also ended its relationship with a number of managers during the year.

## Responsible investment

The Trustees recognise that with ownership comes responsibility and they are committed to exercising their influence and control to promote the long term sustainability of the Scheme's investments.

The Trustees believe that well governed companies that manage their businesses in a responsible way will produce higher returns over the long term. The Scheme's responsible investment strategy has an important role to play in safeguarding and enhancing the long term value of the Scheme's assets.

Through employing a voting and engagement overlay service the Scheme looks to engage with companies in which it invests to encourage them to maintain high standards of governance and to operate in a socially and environmentally responsible way.

The Trustees have appointed Hermes Equity Ownership Services (EOS) to vote at company meetings on behalf of Trustees. EOS also engages with companies on governance, ethical and environmental considerations. In addition to engagement at the company level, EOS works on the Scheme's behalf to engage with public, industry and regulatory bodies in the various markets in which the Scheme invests to promote better practices.

The Trustees have signed up to the UK Stewardship code and the UNEP Finance Initiative principles for Responsible Investment (UNPRI) and is also a member of the Institutional Investors Group on Climate Change (IIGCC). The Scheme's full responsible investment policy can be viewed on the Scheme's website, together with the Scheme's voting record and annual voting and engagement report at [bbc.co.uk/myPension](http://bbc.co.uk/myPension)

## Custody

Custody of securities is with HSBC Bank plc. Securities are normally registered in the name of the nominee of the custodian or its sub-custodians, but this is subject to local market practice, regulations and law. Through HSBC, UK securities (CREST) are specifically registered in a segregated style allowing clear identification of the Scheme's specific assets. Such designation is a practice recommended in the Myner's report for the Shareholder Voting Working Group, looking at various aspects of Corporate Governance.

The Trustees monitor the administration and processing of investment transactions by the custodian. The controls in place to secure safe custody are subject to both internal and external audit testing, the findings of the latter being published in HSBC's ISAE 3402 statement for the year ended 31 December 2012.

The deeds for all UK properties are held by the Scheme's property solicitors, Nabarro LLP in England and Wales and Brodies LLP in Scotland.

## Distribution of investments – by mandate and manager

The following table gives the distribution of investment assets, including cash, by mandate and manager as at 31 March 2013.

Investments	£m	£m	%	%
<b>Global equities (including UK equities)</b>				
Baillie Gifford & Co	452.4		4.4	
BlackRock Advisors Ltd	665.4		6.4	
Lazard Asset Management Ltd	346.6		3.3	
Sanders Capital, LLC	262.6		2.5	
State Street Global Advisors Ltd	488.0	2,215.0	4.7	21.3
<b>UK equities</b>				
LGIM Futures	41.0		0.4	
Artemis Investment Management Ltd	379.5		3.7	
Invesco Asset Management Ltd	401.1		3.9	
NewSmith Asset Management LLP	405.2		3.9	
State Street Global Advisors Ltd	585.3	1,812.1	5.6	17.4
<b>Bonds</b>				
Legal & General Assurance (Pensions Management) Ltd	2,353.8		22.7	
Pimco Europe Ltd (Global Corporate Bonds)	484.6		4.7	
Pimco Europe Ltd (Sterling Long Dated Corporate Bonds)	39.8		0.4	
State Street Global Advisors Ltd	398.4	3,276.6	3.8	31.5
<b>Alternative assets</b>				
Bridgewater Associates, LP	154.0		1.5	
Cambridge Associates Ltd	266.8		2.6	
GS & Co Infrastructure Partners	86.4		0.8	
GS & Co Mezzanine Advisors	43.8		0.4	
Henderson Equity Partners Ltd	27.3		0.3	
Hg Pooled Management (HG Capital 5 LP)	56.8		0.5	
Hg Pooled Management (HG Capital 6 LP)	68.4		0.7	
Hg Pooled Management (HG Renewable Power Partners LP)	15.4		0.1	
Hg Pooled Management (HG Renewable Power Partners 2 LP)	18.0		0.2	
Hg Pooled (HG SPLP LP)	9.8		0.1	
Hony Capital Fund 2008, L.P.	15.6		0.2	
Hony Capital Fund V L.P.	2.3		0.0	
InfaRed Capital Partners Ltd	78.0		0.8	
M&G Investment Management Ltd (Inflation Linked)	20.4		0.2	
M&G Investment Management Ltd (European Loans)	209.1		2.0	
Nephila Capital Ltd	84.0		0.8	
PGSFIII GP Ltd	39.4		0.4	
Prisma Capital Partners	163.4		1.6	
Rogge Global Partners Plc	87.0		0.8	
State Street Global Advisors Ltd	(11.4)		(0.1)	
Sun Capital Partners, Inc	41.6		0.4	
The Carlyle Group	66.9		0.6	
Uberior Fund Manager Ltd	103.3		1.0	
Uberior Fund Manager Ltd	0.5		0.0	
Warburg Pincus LLC (X)	123.3		1.2	
Warburg Pincus LLC (XI)	19.2		0.2	
<b>Total securities and alternative assets</b>		<b>1,789.3</b>		<b>17.2</b>
<b>Property Investments</b>				
UK - Orchard Street Investment Management LLP	263.6		2.5	
UK – CB Richard Ellis Investors	336.9		3.2	
USA – Grosvenor Americas Ltd	418.9		4.0	
Europe – CB Richard Ellis	65.4		0.6	
Europe – Pan European Property Unit Trust	20.9		0.2	
<b>Total Property Investments</b>		<b>1,105.7</b>		<b>10.6</b>
Miscellaneous cash balances		212.5	2.0	
<b>Total investments</b>		<b>10,411.2</b>	<b>100.0</b>	

## Distribution of investments by asset class

Summaries of the investments showing market values at 31 March 2013 and analysed by category, are shown below:

	£m	%
Equities		
UK	1,726.7	16.6
Europe (other than UK)	532.6	5.1
USA	960.4	9.2
Japan	133.5	1.3
Pacific Basin (ex Japan)	277.3	2.7
Other markets	316.3	3.0
Fixed interest bonds	920.7	8.8
Index-linked government bonds	2,249.3	21.6
Property	1,059.7	10.2
Alternatives	1,800.7	17.2
Cash	381.5	3.7
Derivatives	52.5	0.6
	<b>10,411.2</b>	<b>100.0</b>

The direct and indirect investments in quoted securities are considered to be readily marketable, but the investments in property, alternatives and other unquoted investments are generally illiquid investments. It may not be possible to liquidate some of these assets fully and some may require sufficient time to find buyers willing to pay full market value.

## Distribution of assets by geographical sector

	£m	%
UK	6,358.3	61.1
USA	1,962.1	18.8
Europe (other than UK)	1,029.6	9.9
Japan	153.2	1.5
Pacific Basin (ex Japan)	539.5	5.2
Other markets	368.5	3.5
	<b>10,411.2</b>	<b>100.0</b>

## Twenty largest holdings

The twenty largest individual equity investments of the Scheme as at 31 March 2013 are as follows:

	£m
1 GlaxoSmithKline plc	50.7
2 Rolls Royce plc	48.2
3 BP plc	46.7
4 Amazon.com Inc	46.4
5 Astrazeneca plc	46.3
6 Royal Dutch Shell	43.0
7 British American Tobacco plc	37.8
8 Roche Holdings	36.3
9 Rio Tinto plc	34.2
10 BT Group plc	34.1
11 Imperial Tobacco Group plc	31.0
12 Vodafone Group plc	29.8
13 Pinault Printemps	26.8
14 Inditex	26.2
15 Novartis AG	25.5
16 Centrica plc	25.3
17 BAE Systems plc	25.3
18 Baidu, Inc	25.2
19 Reckitt Benckiser Group plc	24.5
20 Google Inc	23.6

The total value of the investments shown above is £686.9m, which represents 6.6% of the Scheme's total net investment assets.

## Unquoted securities

The Scheme has several portfolios of unquoted securities. By their very nature, the companies in which the investments are held tend to be small and the Scheme's proportionate holdings in these companies are greater than would be the case for quoted companies.

## Property

At 31 March 2013 the Scheme owned 80 properties in the UK, with a total market value of £553.1m, 92.0% by value being freehold and the remainder held on leases exceeding 100 years. Tenants' leases were let on leases subject to rent reviews not later than 2029.

## Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, 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 the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee has supervised the preparation of the financial statements 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 for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

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

The Trustee is also responsible for the maintenance and integrity of the BBC Pension website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

## Further information

Further information about the Scheme is available from the Secretary at the address shown on page 2 or on [bbc.co.uk/mypension](http://bbc.co.uk/mypension)

**For and on behalf of BBC Pension Trust Limited**



**Sandra Phillips**  
**Secretary**  
**6 June 2013**

## Consolidated Statement of Net Assets as at 31 March 2013

	Notes	2013		2012	
		£m	£m	£m	£m
Investment assets	<b>3</b>	10,608.8		9,537.6	
Investment liabilities	<b>3</b>	(263.0)		(207.1)	
Net investment assets			10,345.8		9,330.5
Minority interests	<b>10</b>		(52.9)		(50.5)
Current assets	<b>11</b>		15.6		13.6
Current liabilities	<b>11</b>		(16.5)		(10.1)
Total Net Assets			<b>10,292.0</b>		<b>9,283.5</b>

The notes on pages 22 to 35 form part of the financial statements.

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. 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 actuarial certificates on pages 39 to 40 and these financial statements should be read in conjunction with them.

**The Financial Statements on pages 20 to 35 were approved by the Board of the Trustees on 6 June 2013 and signed on its behalf by:**



**Director**



**Director**

## Consolidated Fund Account for the year ended 31 March 2013

	Notes	2013		2012	
		£m	£m	£m	£m
<b>Contributions and benefits</b>					
Contributions receivable	<b>14</b>		197.0		218.6
Benefits payable	<b>16</b>	347.8		326.6	
Payments to and on account of leavers	<b>17</b>	8.4		8.0	
Administrative expenses	<b>18</b>	8.0		5.7	
			(364.2)		(340.3)
Net withdrawals from dealings with members			(167.2)		(121.7)
<b>Returns on investments</b>					
Investment income	<b>19</b>	212.3		216.7	
Change in market value of investments	<b>12</b>	1,008.9		321.6	
Investment expenses	<b>20</b>	( 41.9)		(47.4)	
Net return on investments			1,179.3		490.9
Minority Interest	<b>10</b>		(3.6)		(4.2)
Net increase in fund during the year			1,008.5		365.0
<b>Opening net assets of fund</b>			<b>9,283.5</b>		<b>8,918.5</b>
<b>Closing net assets of fund</b>			<b>10,292.0</b>		<b>9,283.5</b>

# Notes to the Financial Statements for the year ended 31 March 2013

## I. Basis of preparation

### (a) Compliance with SORP

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 in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).

### (b) Scope of Financial Statements

The Financial Statements summarise the transactions and net assets of the Scheme. They do not take account of the liabilities to pay pensions and other benefits in the future. The actuarial position of the fund is dealt with by the Actuary in her Certificates on pages 39 to 40.

## 2. Accounting policies

### (a) Consolidation

Subsidiaries are all entities over which the Scheme has the power to govern the financial and operating policies generally accompanying an interest in a limited property partnership or tenancy in common of over fifty percent. Subsidiaries are fully consolidated from the date on which control is transferred to the Scheme.

The results of the subsidiary undertakings and related joint ventures incorporated in North America are derived from the latest financial statements of the entities as at 31 December each year unless significant transactions have taken place since that date when adjustments are made to reflect such transactions. The results of all other subsidiary undertakings are derived from their latest unaudited financial statements as at 31 March.

The Scheme's investment in its subsidiary undertaking is re-valued annually on a net assets basis, such that there is no difference between the Scheme's total net assets and those of the Group.

Further information about the subsidiary undertakings and joint ventures is given in note 10 and 21 to the financial statements.

### (b) Foreign currency translation – group entities

The results and financial position of all entities incorporated in North America are translated into sterling as follows:-

- Assets and liabilities are translated at the closing exchange rate on 31 March;
- Income and expenses are translated at the average exchange rate; and
- All resulting exchange differences are accounted for as part of the change in market value of investments.

### (c) Contributions

- (i) Normal contributions, both from the members and employers, are accounted for as they fall due under the Schedule of Contributions.
- (ii) Additional and special contributions from the employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received. AVCs from the members are accounted for in the month that they are deducted from the payroll.
- (iii) Deficit recovery payments made by the employer are accounted for on the earlier of the due date as stipulated in the Schedule of Contributions or the date of receipt.

### (d) Pensions and benefits

Members can choose whether to take their benefits as a pension or as a reduced pension and lump sum. Pensions and lump sums are accounted for on an accruals basis from the later of the date of retirement or the date the option is exercised.

### **(e) Investment and cash deposits**

- i. Listed investments are included at the bid price of the quoted prices at 31 March.
- ii. Investments held in quoted pooled investment vehicles are valued at the closing bid price at 31 March. The geographical analysis of pooled investment vehicles is shown by reference to the location of the underlying assets. In the opinion of the Trustees this better reflects the underlying risks attached to the securities.
- iii. Unquoted securities and pooled investment vehicles are valued by the Trustees, based on confirmed values recommended by the investment managers. With reference to confirmed valuations from investment managers, where confirmed valuation data is not available at 31 March, 31 December data is rolled forward for any subsequent investment movements together with other factors considered to be appropriate in determining these values.
- iv. UK freehold and leasehold properties are valued by GVA Grimley Ltd, Chartered Surveyors, at 31 December, and are included at open market value. No depreciation is provided on freehold or long leasehold property.
- v. Investments and cash deposits in overseas currencies are translated into sterling at the relevant rates of exchange at 31 March.
- vi. Exchange traded futures contracts are stated at market value. For those contracts which are assets, market value is based on quoted bid prices, for those which are liabilities, market value is based on quoted offer prices.
- vii. Swap valuations are calculated using pricing models where inputs are based on market value. Net receipts or payments are reported within change in market value.
- viii. Options are valued at their mark to market value.
- ix. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- x. Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- xi. Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.
- xii. Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees.
- xiii. AVC investments are included at valuations provided by the AVC providers as at 31 March or 31 December. Where valuations are as at 31 December, these are updated for subsequent receipts and payments as indicated by the Scheme's records.

### **(f) Income from investments**

The different sources of investment income are recognised as follows:

- (i) Dividends on an ex-div. basis.
- (ii) Interest (including that on fixed interest securities) on an accruals basis.
- (iii) Property rents on an accruals basis for the four quarters 25 March 2012 to 24 March 2013.
- (iv) Investment income arising from the underlying investments of the quoted pooled investment vehicles is reinvested within the vehicles and reflected in the unit price. It is therefore reported within "change in market value".

### **(g) Transfers**

Transfer values represent the capital sums either receivable in respect of members from other pension arrangements or payable to the pension arrangements for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

### 3. Net investment assets

		2013	2012
	Notes	£m	£m
<b>Investment assets</b>			
Equities	<b>4</b>	2,192.2	2,903.3
Fixed interest securities	<b>4</b>	522.3	507.7
Index linked securities	<b>4</b>	2,249.3	1,505.9
Property	<b>4</b>	888.7	873.4
Pooled investment vehicles	<b>4</b>	4,124.8	3,250.3
Derivatives	<b>6</b>	120.0	36.9
		10,097.4	9,077.5
Cash deposits	<b>7</b>	381.5	326.9
Other investment assets	<b>8</b>	39.0	48.2
AVC investments	<b>15</b>	90.9	85.0
<b>Total investment assets</b>		<b>10,608.8</b>	<b>9,537.6</b>
<b>Investment liabilities</b>			
Derivatives	<b>6</b>	(67.6)	(5.8)
Borrowings	<b>9</b>	(119.8)	(123.4)
Other investment liabilities	<b>8</b>	(75.6)	(77.9)
<b>Total investment liabilities</b>		<b>(263.0)</b>	<b>(207.1)</b>
<b>Net investment assets</b>		<b>10,345.8</b>	<b>9,330.5</b>

## 4. Investment assets

	2013			2012		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
<b>Equities</b>						
Quoted	1,054.7	1,137.5	2,192.2	1,207.0	1,696.3	2,903.3
<b>Fixed interest securities</b>						
Quoted – public sector	46.3	87.9	134.2	117.6	25.3	142.9
Quoted – other	45.7	342.4	388.1	31.5	333.3	364.8
<b>Total fixed interest securities</b>	92.0	430.3	522.3	149.1	358.6	507.7
<b>Index linked securities</b>						
Quoted – public sector	2,248.2	1.1	2,249.3	1,504.9	1.0	1,505.9
<b>Properties</b>						
Directly held	553.1	335.6	888.7	545.5	327.9	873.4
<b>Derivatives</b>	114.1	5.9	120.0	8.3	28.6	36.9
<b>Pooled investment vehicles</b>						
Unitised insurance policies – quoted	1,471.6	0.0	1,471.6	1,306.5	0.0	1,306.5
Managed funds:						
Quoted – other	6.2	10.0	16.2	11.2	6.5	17.7
Unquoted – other	810.0	1,656.0	2,466.0	511.9	1,210.5	1,722.4
Unquoted – property unit trust	1.4	0.0	1.4	0.0	7.8	7.8
Unquoted – other property	0.0	169.7	169.7	0.0	195.9	195.9
<b>Total pooled investment vehicles</b>	2,289.2	1,835.7	4,124.9	1,829.6	1,420.7	3,250.3
<b>Total securities, properties and pooled investment vehicles</b>	<b>6,351.3</b>	<b>3,746.1</b>	<b>10,097.4</b>	<b>5,244.4</b>	<b>3,833.1</b>	<b>9,077.5</b>

### (a) Pooled vehicles

At 31 March 2013 the Scheme had £2,014.8m (2012: £1,876.5m) invested in pooled investment vehicles registered in the United Kingdom and £2,110.1m (2012: £1,373.8m) invested in pooled investment vehicles not registered in the United Kingdom..

## 5. Property

### UK property investments

	2013	2012
	£m	£m
Freehold and long leasehold properties:		
Offices	36.4	50.8
Industrial	168.4	170.9
Shops	143.8	135.7
Retail warehouses	184.1	186.5
Hotels/other	20.4	1.6
	<b>553.1</b>	<b>545.5</b>
Interests in pooled investments	1.4	7.8
	<b>554.5</b>	<b>553.3</b>
<b>Overseas property investments</b>		
North America directly held	335.6	327.9
North American pooled vehicles	83.3	77.2
European pooled vehicles	86.3	118.7
	<b>505.2</b>	<b>523.8</b>

## 6. Derivative contracts

Derivatives included in investment assets	2013	2012
	£m	£m
Forward foreign exchange contracts	9.2	31.9
Interest rate swaps	12.9	1.8
Inflation rate swaps	69.2	3.1
Credit default swaps	1.3	-
Total return swaps	26.0	-
Futures contracts - exchange traded	1.4	0.1
	<b>120.0</b>	<b>36.9</b>
<b>Derivatives included in investment liabilities</b>		
Forward foreign exchange contracts	(17.3)	(0.9)
Interest rate swaps	(4.4)	(3.8)
Inflation rate swaps	(44.5)	(0.3)
Credit default swaps	(1.2)	(0.8)
Futures contracts - exchange traded	(0.2)	-
	<b>(67.6)</b>	<b>(5.8)</b>

The economic exposure value of the credit default swaps at 31 March 2013 was £142.6m (2012: £79.7m). Economic exposure represents the notional value of stock purchased under the contract and therefore the value subject to market movements. All of the credit default swaps expire within nine years. The notional principal of the inflation rate swaps was £1,289.7m (2012: £167.4m), the interest rate swaps was £434.5m (2012: £152.6m) and the total return swaps was £413.3m. The notional principle of the swap is the amount used to determine the value of the swapped cash flows. All of the interest rate swaps expire within 39 years and all of the inflation rate swaps expire within 29 years and all of the total return swaps expire within 1 year. The notional principle of the options was £26.6m. All of the options expire within four months.

### Futures

Type of future	Expiry	Economic exposure value	Market Value
		£m	£m
US Treasury Note Future	Less than one year	1.8	-
EUX Euro-Bund Future	Less than one year	10.6	(0.2)
LIF Long Gilt Future	Less than one year	0.7	-
LIFFE 90 day Sterling Future	Less than three years	30.5	-
LIFFE FTSE 100 Index Future	Less than one year	161.5	1.4

The Scheme enters into exchange traded futures contracts to cost effectively gain or reduce exposure to certain markets.

### Forward foreign exchange contracts

Forward foreign exchange contracts are used by some of the Scheme's fund managers to hedge against adverse currency movements and the Scheme operates a currency overlay program to hedge against a fall in the currencies of the countries where it has significant equity and bond investments.

At 31 March 2013, the Scheme's fund managers had 19 open forward exchange contracts with durations all expiring on or before 15 July 2013. The Scheme had bought sterling against foreign currencies with a sterling equivalent value of £587.1m, sold sterling against foreign currencies with a sterling equivalent of £4.0m, and contracts with other currency pairs had a sterling equivalent value of £22.8m.

The principal net exposure in these contracts was the sale of US dollars against sterling (sterling equivalent: £423.7m). In addition, the Scheme sold Euros against sterling with a sterling equivalent of £85.5m

Additionally, the Scheme operates a currency overlay program within which at 31 March 2013 it had sold the Euro: £173.9m, Japanese Yen: £57.5m and the US Dollar: £1,181.1m all against sterling. At 31 March 2013 the unrealised losses on positions within the overlay program was £11.4m.

All forward contracts listed above are over the counter (OTC) contracts.

## 7. Cash

	2013	2012
	£m	£m
Sterling	313.9	244.6
Foreign currency	67.6	82.3
	<b>381.5</b>	<b>326.9</b>

Sterling cash deposits and some US dollar and Euro balances were managed by BlackRock Advisors (UK) Ltd, the Scheme's cash manager. Other foreign currencies were managed by the relevant investment and property managers.

## 8. Other investment balances

	2013	2012
	£m	£m
<b>Other investment assets</b>		
Receivable on sales of securities	6.3	9.2
Accrued investment income	18.7	22.5
Tax recoverable	1.6	2.4
Other debtors	12.4	14.1
	<b>39.0</b>	<b>48.2</b>
<b>Other investment liabilities</b>		
Derivatives	(67.6)	(5.8)
Payable on purchases of securities	(12.1)	(14.5)
Borrowings (note 9)	(119.8)	(123.4)
Other creditors	(63.5)	(63.4)
	<b>(263.0)</b>	<b>(207.1)</b>

## 9. Investment borrowings

	2013 £m	2012 £m
<b>Repayment analysis</b>		
Within one year	0.3	0.4
Between one and two years	3.0	0.7
Between two and five years	116.5	122.3
	<b>119.8</b>	<b>123.4</b>
<b>Floating rate loans</b>		
Mortgage payable	112.0	118.0
Interest rate swap valuation	8.6	7.7
Unamortised deferred loan cost	(0.8)	(2.3)
	<b>119.8</b>	<b>123.4</b>
<b>Security analysis</b>		
Secured	<b>119.8</b>	<b>123.4</b>

## 10. Minority Interests

	2013 £m	2012 £m
<b>Minority Interests</b>	<b>(52.9)</b>	<b>(50.5)</b>

Minority interests comprise the interests of a co-investor in investment properties in North America. The minority interest includes a gain of £3.6m (2012: gain of £4.2m) comprising both income and change in market value.

## 11. Current assets and liabilities

	2013 £m	2012 £m
<b>Current assets</b>		
Other debtors and prepayments	<b>15.6</b>	<b>13.6</b>
<b>Current liabilities</b>		
Tax due	(4.7)	(6.2)
Other creditors	(11.8)	(3.9)
	<b>(16.5)</b>	<b>(10.1)</b>

<b>12. Changes in investments</b>	Market value at 1 April 2012	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Change in market value	Market value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	507.7	752.5	(803.7)	65.7	522.2
Index linked securities	1,505.9	1,193.5	(700.8)	250.7	2,249.3
Equities	2,903.3	1,447.5	(2,421.2)	262.6	2,192.2
Equities and bonds: passive	1,552.8	1,457.6	(1,138.4)	281.1	2,153.1
Derivatives	31.1	285.0	(263.7)	0.1	52.5
Alternatives	1,493.8	375.8	(242.5)	173.6	1,800.7
Property	1,077.2	40.9	(20.2)	(38.2)	1,059.7
AVCs	85.0	3.3	(4.4)	7.0	90.9
<b>Total</b>	<b>9,156.8</b>	<b>5,556.1</b>	<b>(5,594.9)</b>	<b>1,002.6</b>	<b>10,120.6</b>
Cash	326.9			6.3	381.5
Other investment balances	(203.6)				(156.3)
	<b>9,280.1</b>			<b>1,008.9</b>	<b>10,345.8</b>

Derivative payments and receipts are recognised in the table as follows:

Options - premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination;

Futures - on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss;

Swaps - the payments or receipts from any close out costs or proceeds arising on early termination;

Forward foreign exchange - the forward foreign exchange trades settled during the year.

### 13. Transaction costs

Transaction costs incurred in the year amounted to £3.6m (2012: £3.9m). In addition to these transaction costs, indirect costs were incurred through the bid-offer spreads on investments.

## 14. Contributions receivable

In accordance with the Actuary's recommendation, the employers' contribution were 14.5% of pensionable salaries for the year, inclusive of contributions under the matching provisions of the AVC Plus arrangement.

		2013	2012
		£m	£m
Members	- normal	0.7	1.7
	- added years	0.1	0.1
	- additional voluntary	0.5	0.2
Employers	- normal	86.1	99.8
	- salary sacrifice employee normal	37.4	42.5
	- salary sacrifice added years	2.1	2.9
	- salary sacrifice additional voluntary	1.9	3.0
	- deficit recovery payment	60.0	60.0
	- augmentations	3.9	5.8
	- additional voluntary	0.9	1.0
	- PPF levy	3.4	1.6
		<b>197.0</b>	<b>218.6</b>

The Employer augmentation contributions were additional payments made by the employers to increase the pensions of certain employees made redundant.

In 2011 a recovery plan was prepared by the Trustees to satisfy the requirements of s226 of the Pensions Act 2004, after taking account of the advice of the Scheme Actuary.

To eliminate the funding shortfall of £1,131m revealed by the actuarial valuation of the Scheme as at 1 April 2010 the Trustees have agreed with the BBC that additional contributions would be paid to the Scheme by participating employers on or before the due dates shown below.

Due date	Amount	Due date	Amount
1 April 2011	£ 110m	1 April 2017	£ 75m
1 April 2012	£ 60m	1 April 2018	£ 75m
1 April 2013	£ 60m	1 April 2019	£ 75m
1 April 2014	£ 100m	1 April 2020	£ 75m
1 April 2015	£ 100m	1 April 2021	£ 75m
1 April 2016	£ 100m		

The additional contribution of £60m, falling due on 1 April 2012, was received on 30 March 2012 and credited to the fund account in the year ended 31 March 2012. The next additional contribution of £60m, falling due on 1 April 2013 was received on 28 March 2013 and has been credited to the fund account for the current year.

## 15. Additional voluntary contributions

Additional voluntary contributions are paid over to Santander UK plc and Fidelity Pensions Management, in accordance with the members' elections. Members no longer contribute towards Equitable Life Assurance Society. Members participating in this arrangement each receive an annual statement made up to 31 March (1 April for Equitable Life Assurance Society) confirming the amounts held in their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

	2013	2012
	£m	£m
Santander UK plc	20.1	20.7
Equitable Life Assurance Society	4.4	4.4
Fidelity Pensions Management	50.8	43.8
Aviva	15.6	16.1
	<b>90.9</b>	<b>85.0</b>

The movements in the year are as follows:

	£m
Value at 1 April 2012	85.0
Purchases at cost	3.3
Sale proceeds	(4.4)
Interest and bonuses	7.0
<b>Value at 31 March 2013</b>	<b>90.9</b>

## 16. Benefits payable

	2013	2012
	£m	£m
Pensions	330.3	313.4
Lump sum retirement benefits	10.5	8.3
Lump sum death benefits	2.1	1.8
Lump sum AVC benefits	4.9	3.1
	<b>347.8</b>	<b>326.6</b>

## 17. Payments to and on account of leavers

	2013	2012
	£m	£m
Refunds of contributions	1.3	1.0
Individual transfers out to other schemes	7.1	7.0
	<b>8.4</b>	<b>8.0</b>

## 18. Administrative expenses

	2013	2012
	£m	£m
Administration - staff costs	2.2	2.2
Administration - other costs	1.7	1.3
Actuarial fees	0.4	0.3
Audit fees	0.2	0.1
Pension Protection Fund levy	3.5	1.8
	<b>8.0</b>	<b>5.7</b>

## 19. Investment income

	2013	2012
	£m	£m
Fixed interest	23.0	33.0
Index linked	12.2	11.6
Equities	95.9	103.0
Property	81.6	68.8
Interest on cash deposits	0.8	0.9
Other income	0.2	1.1
Sub-total	213.7	218.4
Irrecoverable taxation	(1.4)	(1.7)
	<b>212.3</b>	<b>216.7</b>

## 20. Investment expenses

The following amounts were payable in respect of investment services:

	2013	2012
	£m	£m
Investment management – stocks and shares	13.7	15.6
Investment management – property	1.7	1.7
Custody	0.3	0.3
Other investment expenses	26.2	29.8
	<b>41.9</b>	<b>47.4</b>

## 21. Subsidiary companies, joint ventures and other interests

The names of the subsidiary undertakings (directly and indirectly owned) of the Scheme are shown below together with the percentage of equity capital held by the Scheme, the year-end date of the companies and their activities:

<b>Name of company and country of registration</b>	<b>Percentage held directly</b>	<b>Percentage held indirectly</b>	<b>Year-end date</b>	<b>Activity</b>
BBCAF Inc (USA)	100%		31 December	Investment Holding
Grosvenor Urban Retail LP(USA)		75%	31 December	Investment Property
1900 Duke Street LP (USA)		75%	31 December	Investment Property
Rice Lake Square (USA)		75%	31 December	Investment Property
830 North Michigan TIC (USA)		75%	31 December	Investment Property

In addition, at 31 December 2012, BBCAF Inc was a general partner with a 50% interest in one general partnership, a 50% limited partner in two limited partnerships, and a Member with a 50% interest in two limited liability companies.

## 22. Capital and contractual commitments

As at 31 March 2013 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £501.6m (2012: £354.2m).

## 23. Contingent liabilities

Other than the liability to pay future benefits, there are no material contingent liabilities of the Scheme at 31 March 2013 (2012: £Nil).

## 24. Related party transactions

Related parties are referred to in the Trustees' Report as follows:

Page 3 - participating employers; Page 4 - BBC management on the Trustee Board and Scheme membership of the Trustees; and Page 10 - administration of the Scheme, and costs thereof.

Of the Trustees noted on page 4 and 5, the BBC Trust Trustee and another Trustee were not members. The remaining Trustees were members of the Scheme during the past year. All transactions with these parties were in accordance with the Scheme rules. The Pensioner Trustee was a pensioner of the Scheme in receipt of a pension.

Fees of £10,000 (2012:£4,167) were payable to Bill Matthews as a Trustee and as Chair of the Trustees. Geoff Jones receives an annual fee for his services as Pensioner Trustee of £6,000 (2012: £6,000). Kevin Carter is remunerated by the BBC for his services to the Scheme. The amount of his remuneration during the year was £115,000 (2012:£67,083), this is not separately recharged to the Scheme.

The co-investor in each of the investment properties in North America is Grosvenor Americas Limited, a wholly owned subsidiary of Grosvenor Group Limited.

The Partnerships, Limited Liability Companies and Tenancy In Common in which the Scheme's subsidiary BBCAF Inc is an investor, have entered into various management agreements (the "Agreements") with certain affiliates of Grosvenor (the "Manager") whereby the Manager will earn asset management and development fees as stated in the Agreements. Total asset management fees earned by the Manager were approximately £3.4 million and £3.3 million during the years ended 31 December, 2012 and 2011, respectively. BBCAF Inc's share of asset management fees incurred amounted to approximately £2.2 million and £2.1million in 2012 and 2011, respectively.

Development fees earned by the Manager were £8,943 and £20,812 during the years ended 31 December 2012 and 2011, respectively. BBCAF Inc's share of development fees incurred amounted to approximately £6,705 and £15,609 in 2012 and 2011, respectively.

The Scheme also holds an interest in a pooled investment vehicle where Grosvenor Group Limited is the investment manager. The value of this interest at 31 March 2013 was £0.3 million (2012: £6.4 million). The Scheme's share of investment management fees payable to Grosvenor Group Ltd was £11,198 (2012: £28,243).

The BBC has given the Trustee and all of its Directors an indemnity against all unrecovered costs which they may be liable for as a result of a successful challenge and all costs of whatever nature which arise out of the Trustee's participation in the conduct of any challenge.

Except as disclosed above, there are no transactions, balances or relationships that require disclosure under Financial Reporting Standard 8.

## 25. Self investment

There were no employer related investments during the year (2012: none)

# Independent Auditors' report

## To the Trustee of the BBC Pension Scheme

### Independent auditors' report to the Trustee of the BBC Pension Scheme

We have audited the accounts of the BBC Pension Scheme for the year ended 31 March 2013 which comprise the Consolidated Statement of Net Assets, the Consolidated Fund account, 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).

### Respective responsibilities of the Trustee and Auditors

As explained more fully in the Statement of Trustee's Responsibilities, the Trustee is responsible for the preparation of the accounts and being satisfied that they show a true and fair view. Our responsibility is to audit and express an opinion on the accounts 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 Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the accounts

In our opinion the accounts:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 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.



**PricewaterhouseCoopers LLP**

**Chartered Accountants and Statutory Auditors**

**Bristol**

**7 June 2013**

## **Independent Auditors' statement about contributions**

### **Independent auditors' statement about contributions to the Trustee of the BBC Pension Scheme**

We have examined the summary of contributions to the BBC Pension Scheme for the Scheme year ended 31 March 2013 which is set out on the following page.

#### **Respective responsibilities of the Trustee and auditors**

As explained more fully in the Statement of Trustee's responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Scope of work on the statement about contributions**

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

#### **Statement about contributions**

In our opinion, the contributions required by the schedule of contributions for the Scheme year ended 31 March 2013 as reported in the summary of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the Scheme actuary on 23 March 2011.



**PricewaterhouseCoopers LLP**

**Chartered Accountants and Statutory Auditors**

**Bristol**

**6 June 2013**

## Summary of Contributions payable in the year ended 31 March 2013

During the year the contributions payable to the Scheme were as follows:

	Employee £m	Employer £m
<b>Required by the Schedule of Contribution</b>		
Normal contributions	0.7	86.1
Salary sacrifice employee	0.0	37.4
Deficit recovery payment	0.0	60.0
Matching AVCs	0.0	0.9
PPF levy	0.0	3.4
Total required by the schedule of contribution	0.7	187.8
<b>Other contributions payable</b>		
Additional Voluntary	0.5	0.0
Salary sacrifice additional voluntary	0.0	1.9
Waiver payments	0.0	3.2
Added years	0.1	0.0
Salary sacrifice added years	0.0	2.1
Augmentation of benefits	0.0	0.7
Total	1.3	195.7
<b>Total as per Fund Account</b>		<b>197.0</b>

Signed on behalf of the Board of Trustees on 6 June 2013:

**Director**

**Director**

# Actuary's certification of the Schedule of Contributions

## BBC Pension Scheme

### 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 can be expected to continue to be met for the period for which the schedule is to be in force.

### 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 23 March 2011.

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

### Adherence to paragraph 9(6) of Schedule 2 to the Scheme Funding Regulations 2005

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any recovery plan.

**A J Blay**  
**Fellow of the Institute of Actuaries**

**Date 23 March 2011**

**Towers Watson Limited**  
**Watson House,**  
**London Road,**  
**Reigate,**  
**Surrey RH2 9PQ**

# **Actuarial certification for the purposes of regulation 7(4)(a) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005**

**Name of scheme: BBC Pension Scheme**

## **Calculation of Technical Provisions**

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 1 April 2010 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Scheme and set out in the Statement of Funding Principles dated 21 March 2011.

**A J Blay**  
**Fellow of the Institute of Actuaries**

**Date 23 March 2011**

**Towers Watson Limited**  
**Watson House,**  
**London Road,**  
**Reigate,**  
**Surrey RH2 9PQ**





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June 2013

find out more at [bbc.co.uk/mypension](http://bbc.co.uk/mypension)