

SHELL OVERSEAS CONTRIBUTORY PENSION FUND

Annual Report of the Trustee

and

Financial Statements for the Year Ended

31 December 2019

Shell Overseas Contributory Pension Fund

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Shell Overseas Contributory Pension Fund Trustee and Advisors

Trustee:	Shell Trust (Bermuda) Limited
Registered Office:	3 rd floor, Continental Building 25 Church Street Hamilton, HM12 Bermuda
Directors during the year ended 31 December 2019 and to the date of this report:	
Mr I Robertson	President and Director
Mr P S Gamero	Vice President and Director
Mr P L Everson	Vice President and Director
Mr M D Clark	Director
Mr J A H Hallett	Director (resigned on 12 December 2019)
Ms S Beesley	Director (appointed on 5 September 2019)
Secretary to the Trustee Company:	Mr P E Borland (resigned on 12 December 2019) 3 rd floor, Continental Building, 25 Church Street, Hamilton, HM12 Bermuda Mrs M Powell (appointed on 12 December 2019) 3 rd floor, Continental Building, 25 Church Street, Hamilton, HM12 Bermuda
Pension Fund Administrator:	Shell International Limited, Trustee Services Unit, United Kingdom
Actuary:	Aon Hewitt Limited, Parkside House, Epsom, Surrey, KT18 5BS, United Kingdom
Independent Auditor:	Ernst & Young LLP, Apex Plaza, Forbury Road, Reading RG1 1YE, United Kingdom
Legal Advisors:	Shell International Limited, Shell Centre London, SE1 7NA, United Kingdom Hogan Lovells International LLP, Atlantic House, Holborn Viaduct, London EC1A 2FG, United Kingdom Conyers, Dill and Pearman Limited, Bermuda, Clarendon House, 2 Church Street, Hamilton HM CX, Bermuda
Investment Manager:	Shell Asset Management Company B.V., Carel Van Bylandtlaan 30, The Hague, 2596 HR, Netherlands
Investment Consultant:	Aon Hewitt Limited, The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN, United Kingdom
Investment Custodian:	JPMorgan Chase Bank, N.A., 125 London Wall, London, EC2Y 5AJ, United Kingdom
Bankers:	Citibank NA London, 25 Canada Square, Canary Wharf, London E14 5LB, UK

Introduction

Constitution of the Shell Overseas Contributory Pension Fund

The Shell Overseas Contributory Pension Fund ("the Fund") is governed by a Trust Deed and Regulations dated 30 June 1953, as amended from time to time. The Fund is administered by Shell Trust (Bermuda) Limited which, in its capacity as Trustee, applies the Fund for the purpose of paying pensions and other benefits in accordance with the Trust Deed and Regulations and has responsibility for the overall management of the Fund.

Closure of the Fund

The Fund was open to eligible employees up to and including 28 February 2013 when the Shell Companies formally closed the Fund to new hires. New hires recruited on and from 1 March 2013 are no longer eligible for membership of the Fund.

A new defined contribution pension plan, the UK Shell Pension Plan (UKSPP) is offered to all new hires in the UK on and from 1 March 2013. The Plan is open to all new employees with the UK as their base country, whether they are working in the UK or as expatriates.

Registration of the Fund

During 2014 the Fund became a Bermudian registered pension fund under the voluntary registration provisions of the Pension Trust Funds Act 1966. The Trustee approved a deed of amendment to the Trust Deed and Regulations of the Fund which was executed on 5 June 2014 with effect from the same date. The amendment provides that the Trustee will provide on demand to every person who has rights under the Fund and who has been or is employed by a participating employer, a copy of the Trust Deed, the latest financial statements and/or the latest actuarial valuation. This amendment was made at the request of the Bermudian pensions registrar as part of the requirements for becoming a Bermudian registered pension fund.

The Trustee

The power of appointing and removing the Trustee vests in the Founding Companies, The Shell Petroleum Company Limited and Shell Petroleum N.V. The majority of the Directors are resident in Bermuda. The Trustee Board meets quarterly.

The Trustee has entered into a Service Agreement with Shell International Limited ('SIL') to provide the Trustee with administrative and support services. The Trustee has entered into an Investment Management Agreement with Shell Asset Management Company B.V. in The Netherlands (the "Investment Manager") to provide the Trustee with investment management services.

The reimbursement for the administrative and support services provided by SIL is on a cost basis allocated between schemes and based on the number of Members. The reimbursement for the investment services provided by Shell Asset Management Company B.V. ('SAMCo') is based on a cost plus basis.

Statement of Trustee's Responsibilities

Trustee's responsibilities in respect of the financial statements

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

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified by the Pension Trust Funds Act 1966 (Bermuda), including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework.

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

The Trustee is also responsible for making available certain other information about the Fund in the form of an annual report. The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Member Communications

Copies of the Trust Deed and Regulations of the Fund and Explanatory Booklet, a simple guide to the provisions of the Shell Overseas Contributory Pension Fund (SOCPF), are made available on request to members of the Fund.

The Annual Report and Financial Statements is available on request and summaries of the Report are published in the annual pensions report called 'the Source' which is sent to all employed members, pensioners and deferred members.

The Trustee and Company provides a website for Shell Pensions in the UK www.pensions.shell.co.uk. This includes information about the SOCPF and members' benefits. Copies of the Explanatory Booklet, 'the Source' and the Annual Report & Financial Statements are available on the website. Copies of the Trust Deed and the documents above are available on request from the Pensions Administration Team or the Fund Secretary/Trustee (pensioner and deferred members).

Members should contact the Pensions Administration Team for queries about their pension, email UK-PensionsAdmin@shell.com, telephone 020 7934 1190.

For queries which members would like to raise with the Trustee which are not covered by the website, the Pensions Advisory Unit or the Pensions Administration Team, contact The Secretary of Shell Trust (Bermuda) Limited at 3rd floor, Continental Building, 25 Church Street, Hamilton, HM12 Bermuda.

Employed members of the Fund are entitled to receive upon request a copy of a personal annual statement of pension benefits, which sets out estimates of the various benefits payable from the Fund in different circumstances.

Contributions

Members' contributions to the Fund are paid on a basis which may be varied from time to time at the request of the Founding Companies, provided that the amount payable shall not exceed 6% of a Member's Pensionable Salary. During the year 1 January 2019 to 31 December 2019, Members paid contributions at the rate of 2% of Pensionable Salary up to £30,000 per annum and 6% of Pensionable Salary in excess of £30,000.

Contributions are payable by the Member Companies for the remainder of the cost of the benefits on the basis of independent actuarial valuations of the Fund. The contribution rate remained at 30% of pensionable salaries throughout 2019.

An alternative funding method was agreed with the Trustee Board in December 2014 after detailed discussions between all parties, including independent legal and actuarial advisers, and came into effect on 1 January 2015. It will allow the Member Companies to continue to contribute to the SOCPF, at certain funding levels, and to set aside secured funds in a Contribution Reserve Account (CRA), rather than build up a large future surplus within the SOCPF. The CRA is in a segregated Shell company, set up specifically to manage the account and will not be part of the SOCPF net assets statement. Any funds in the CRA will be invested prudently and transferred to the SOCPF if and when they are needed and returned to the Member Companies if they are not. The process and the CRA have no effect on members' contributions, which will continue to be paid directly into the SOCPF as they are now. As at 31 December 2019 no contributions had been paid into the CRA.

Summary of Benefits

The following is a brief summary of the current provisions of the Fund regarding benefits and contributions.

Pensions

The Fund has two benefit sections, one for Members who joined before 1 January 2009 (the Pre-2009 Section) and one for Members who joined on or after 1 January 2009 (the Post-2009 Section). The Post-2009 applies to existing SOCPF Members at 28 February 2013 who joined the Fund after 1 January 2009. The Fund formally closed to new hires on and from 1 March 2013 but the Fund continues to be open to existing interfund employee members and continued accrual for existing members. Pensions accrue at the rate of one fifty fourth of Final Pensionable Salary for each year of Pensionable Service for Members of the Pre-2009 Section and at the rate of one sixtieth of Final Pensionable Salary for each year of Pensionable Service for Members of the Post-2009 Section. Final Pensionable Salary for Pre-2009 Section Members is defined as Pensionable Salary at the date of leaving Company service. Final Pensionable Salary for Post-2009 Section Members is defined as the highest average annual Pensionable Salary during any 36 consecutive months in the last five years of Pensionable Service.

Commutation

25% of the equivalent capital value of the pension which becomes payable may generally be taken as a tax free cash sum.

Normal Retirement Date

Normal Retirement is 60 for Members of the Pre-2009 Section and 65 for Members of the Post-2009 Section. The explanatory booklet gives details of exceptions for some categories of service before 1 January 1986.

Widows' and Widowers' Pensions

The spouse's pension is generally 60% of the Member's pension before commutation. Should a Member die in service the notional pension on which the spouse's pension is based is calculated using service projected to Normal Retirement Date. The pension is not affected by the spouse's remarriage.

Children's Pensions

If a Member dies leaving children, they will be entitled to pensions, which normally cease at age 18. The Founding Companies have the discretion to continue a child's pension after age 18 where the child is in full time education or training. The pension must stop, in any event, when the child reaches 23.

Adult Dependants' Pensions

If a Member dies, leaving no spouse, then a pension may be paid at the discretion of the Founding Company to anyone over age 18 who was financially dependent on or mutually interdependent with the Member at his or her death.

Lump Sum Death in Service Benefits

If a Member dies in service a lump sum of three years' pensionable salary may be payable at the discretion of the Founding Company to the spouse, other members of the family or someone who was dependent on the Member during his or her lifetime.

Five-Year Balance of Pension Payment

If a Pensioner dies within five years of retirement, the Trustee will investigate the personal circumstances of the deceased Member including checking the last expression of wish form and Will. The Trustee may, based on this investigation, at its discretion, make a lump sum payment to the personal representatives of the Member's estate based on the amount of the future pension payments to which the Member would have been entitled had he or she survived to the end of the five-year period.

Bereavement Grants

Discretionary tax free lump sums may be granted, on the death of a Member of the Pre-2009 section, to his/her spouse/child/dependant.

Pension Increases

Pensions for Members of the Pre-2009 Section, whether in payment or prospectively payable, are increased each year by 7% or the increase in the UK Retail Prices Index if lower. Pensions for Members of the Post-2009 Section, whether in payment or prospectively payable, are increased each year by 5% or the increase in the UK Retail Prices Index if lower. The Founding Companies may request the Trustee to approve greater increases.

Incapacity and Ill Health Pensions

Members leaving Company Service due to incapacity or ill health may become eligible for an immediate pension. The amount of the pension, which is granted at the discretion of the Employing Company, will depend on the degree of incapacity or ill health.

Cash Equivalents

Cash equivalents paid during the Fund year with respect to transfers have been calculated in accordance with the method and assumptions specified by the Actuary. They include the value of two discretionary benefits, the bereavement grant and the five-year balance of pension payment, which are valued using the same method and assumptions as other benefits.

Report of the Trustee for 2019

The Trustee presents the following report covering the year 2019, together with the financial statements of the Fund and supporting Notes as at 31 December 2019 and the Actuarial Statement of the Fund as at 31 December 2017.

Changes to the Trustee Board

The membership of the Board during 2019 is shown on page 1.

Trust Deed and Regulations

There were no amendments in 2019.

Conflicts of Interest and Duty

There is a Protocol on Conflicts of Interests and Duty, as well as a Conflicts of Interest Register.

Member Companies of the Fund

2 companies were admitted to membership during 2019:

- Shell Lubricants Supply Company BV, deed dated 18 July 2019,
- Shell Treasury Company Switzerland AG, deed dated 10 June 2019.

Increases to Pensions and Deferred Pensions

In accordance with Clause 27(5)(a) of the Trust Deed of the Fund, pensions and deferred pensions are increased each year by 7% (for Pre-2009 Members) and 5% (for Post-2009 Members) or, if lower, by the increase in the UK Retail Prices Index (RPI).

In 2019 there had been a 2.7% increase in the RPI for the year ending 31 December 2018 and this rate was therefore applied to both sections, effective 1 April 2019. The Founding Companies confirmed that they did not wish to request the Trustee to approve an increase over and above the 2.7%.

Membership of the Fund

The overall changes in the membership of the Fund during the year were:

	As at 31 December	As at 31 December
	<u>2019</u>	<u>2018</u>
Employed Members	860	910
Salary-linked ¹	656	727
Deferred Members	1,675	1,684
Pensioners	5,438	5,419
	<hr/>	<hr/>
	8,629	8,740
	<hr/>	<hr/>

¹ These are employed Members of the SCPF* that have salary-linked non-accruing benefits in the SOCPF.

	Employed Members	Salary- linked	Deferred Members	Pensioners	Total
Members at 31 December 2018	910	727	1,684	5,419	8,740
Transfers from SCPF *	56	(56)			-
Transfers from SCPF (new)	30				30
Transfers from SCPF (leavers)		(80)	80		-
Transfers to SCPF	(103)	103			-
Retirements:					
Normal	(3)	(35)	(78)	116	-
Early	(3)	-	-	3	-
New spouses, dependants and Pensions Sharing Orders	-	-	2	71	73
Deaths/ceased	(1)	-	-	(171)	(172)
Leavers: deferred benefits	(26)	-	26	-	-
Transfers out	-	(3)	(39)	-	(42)
Members at 31 December 2019	860	656	1,675	5,438	8,629

* Shell Contributory Pension Fund

There are 1,195 dependants included within pensioners at the year end (2018: 1,191).

Investment Report for 2019

Investment Policy and Principles

The Trustee's objectives of the Fund are:

- to invest the assets of the Fund so as to meet expected future liabilities at the minimum long term cost to the employer and employees whilst maintaining a diversified portfolio of investments to reduce risk,
- to minimise investment risk, using best practice, subject to the volatility risk necessary to deliver the required return,
- to produce returns consistent with those available in major investment markets, and
- to maintain sufficient liquidity to make the payments associated with the growing maturity of the membership profile of the pension scheme.

The Trustee has approved a Statement of Investment Principles and the most recent Statement was updated by the Trustee in 2019. The Statement sets out the principles governing the decisions about the investment of assets of the Fund. The Board of Shell Trust (Bermuda) Limited regularly reviews the performance.

The Trustee considers the risks and returns of the investment policy on a long-term basis and believes that short-term volatility of returns should be considered in the context of the long-term investment horizon of the Fund and the objective of minimising cost. The Board expects that over the longer term investment returns of the Fund will meet or exceed the growth of Trust liabilities, and that a focus on investments in equities, rather than other suitable assets, will generate greater longer term results.

During 2016, the Trustee executed a buy-in with Solen Life Insurance Limited, a Shell Insurance Company to help reduce investment risk by insuring part of the Funds' pension obligations. Under a buy-in, the policy is held by the Trustee and is a Fund asset which provides regular annuity payments. The Fund retains the obligation to pay the members' benefits.

The Board will periodically decide an appropriate strategic asset allocation and benchmark to meet Trust liabilities based, amongst other things, on its investment philosophy and asset/liability analysis. The Board assigned the investment of the Fund assets to Shell Asset Management Company BV (SAMCo), a regulated investment manager in the Netherlands. The Investment Management Agreement (IMA) with SAMCo was renewed on 20 June 2019. In this updated IMA the strategic asset allocation and benchmark were changed in line with the long-term Fund objectives.

The direct property portfolio is managed by CBRE Global Investors Limited.

The Trustee's investment strategy considers the Fund's investments in the following groupings:

- **Matching assets:** containing a mixture of inflation swaps and required collateral to reduce inflation risk versus liabilities as well as inflation linked bonds and UK Long-Lease property.
- **Liquidity assets:** consists of near-cash assets.
- **Return-seeking assets:** the portfolio contains a mixture of return seeking assets including equity, Emerging Sovereign and High Yield Corporate Credit (fixed income) and alternatives including hedge funds, property and infrastructure and aims to generate outperformance over the return on the liabilities.

Strategic Asset Allocation

The strategic asset allocation is shown below:

			%
Matching assets			19.5
Liquidity assets			5.5
Return seeking assets consisting of:			75.0
	Equity	45.0	
	Emerging Markets Sovereign and High Yield Corporate credit	9.0	
	Alternatives	21.0	
Total			100.0

Investment performance

The Trustee assesses the performance of the Fund's investments in return seeking assets consistent with the overall strategy. These return-seeking assets are assessed by reference to appropriate benchmarks and performance targets set and agreed with the asset manager.

The Trustee receives a monthly summary report from the investment manager (SAMCo) showing actual performance of the Fund on an asset class level against benchmarks. On a quarterly basis a more detailed report is received from the investment manager containing an overall analysis of market performance and relevant impact on the Fund performance as well as a detailed overview of the Fund performance, risk matrixes and an overview of investment management agreement compliance.

Annualised performance of the Fund's investments over short and longer periods is summarised as follows:

	Actual (%)	Benchmark (%)
2019 (1 year)	11.3	11.9
2017/2019 (3 years)	6.6	7.0
2015/2019 (5 years)	7.1	7.1
2010/2019 (10 years)	7.4	7.4

In 2019, financial markets, and equities in particular, generated one of the strongest returns of the past decade. Interest rates, once again, were the key driver of performance. While 2018 saw interest rates increase in an environment of already slowing growth, leading to poor market returns, in 2019 monetary tightening was reversed, with short-term interest-rate cuts and lower rates across the term structure. This reversal, combined with lower, albeit still relatively strong, global growth and some stabilisation in US/China trade negotiations, drove asset prices higher. Fixed income markets benefitted from lower interest rates and tighter credit spreads (as risk concerns subsided), and equities rallied despite rather anaemic developments in earnings.

This positive market environment translated into a positive absolute return for the SOCPF portfolio. The matching assets and liquidity assets generated a modest positive return in this low rate environment.

The return-seeking assets portfolio performed strongly with high absolute returns for equity. In return-seeking fixed income, due to the combination of falling interest rates and an increase in risk appetite, the emerging markets sovereign and high yield portfolio turned in a double-digit absolute return.

Private equity, property, hedge funds and infrastructure all contributed positively to the portfolio's overall absolute performance, with a lower volatility than public markets.

The Fund's Largest Investments

The Fund's ten largest investments are detailed separately below:

	<u>Market Value of Holdings</u> <u>at 31 December 2019</u>	
	<u>£'000</u>	<u>% of total</u> <u>Fund</u>
Mesdag Fund of Hedge Funds	234,648	5.0
UK Treasury Index Linked 1.125% 22/11/37	55,591	1.2
UK Treasury Index Linked 0.625% 22/03/40	54,150	1.2
UK Treasury Index Linked 0.125% 22/03/44	52,819	1.1
UK Treasury Index Linked 0.625% 22/11/42	51,896	1.1
UK Treasury Index Linked 1.25% 22/11/27	48,865	1.0
UK Treasury Index Linked 1.25% 22/11/32	48,160	1.0
UK Treasury Index Linked 0.75% 22/03/34	47,371	1.0
UK Treasury Index Linked 2% 26/01/35	45,394	1.0
UK Treasury 1.625% 22/10/28	39,803	0.8
	<hr/> 678,697	14.4
Other holdings (including cash)	4,021,254	85.6
Total Fund Investments	<hr/> 4,699,951	<hr/> 100.0

Employer-related investments

Details of employer-related investments are given in Note 21 of the Financial Statements.

Custodial Arrangements

The Trustee has appointed JPMorgan Chase Bank, N.A. to act as sole global custodian for the Fund's investments. All investments are held in the name of the Trustee on behalf of the Shell Overseas Contributory Pension Fund.

Direct property title deeds are held by the Fund's manager's legal advisors.

Actuarial Valuation

The most recent actuarial valuation of the Fund was carried out by the Fund's Actuary, Aon Hewitt Limited, as at 31 December 2017. The attached Actuarial Statement contains a summary of the methods and assumptions used for this latest valuation. The Actuary's full report on the valuation was published on 20 September 2018.

The results of the valuation using the stated assumptions are that the Fund has a past service surplus of £169 million, which compares with a past service surplus of £84 million at the previous valuation. This represents an increase in the funding level from 102% to 104%.

As the key output from the valuation discussions, it was agreed that the Member Companies would:

- continue to pay 30% of Members' Pensionable Salaries;
- pay £2.229 million by 30 September 2018 in respect of a Member Company exit in the three year period ending on 31 December 2017; and
- contribute in respect of Member Company exits.

The Trustee and the Sponsor have agreed that these contributions will continue until the results of the next formal valuation (due at 31 December 2020) are agreed.

In accordance with Clause 5 of the Fund's Trust Deed, the Actuary certified that in the normal course of events these contributions would make and keep the Fund actuarially solvent.

He also stated that the Fund's assets at the valuation date covered 63% of the estimated cost of buying out the accrued benefits with an insurance company.

Further Information

Requests for additional information about the Fund generally, or queries relating to members' own benefits, should be made to the appropriate department, whose details appear under Member Communications on page 3 of this report.

Approval

The Trustee's Report was approved by the Trustee on 25 June 2020 and signed on its behalf by:



Director



Director

For: SHELL TRUST (BERMUDA) LIMITED

Name of scheme: Shell Overseas Contributory Pension Fund
Effective date of valuation: 31 December 2017

1. Security of accrued rights

In our opinion, the Fund's assets existing on 31 December 2017 covered 63% of the estimated cost of buying out its liabilities as at that date, including liabilities arising in respect of the service of pensioners and deferred pensioners prior to the effective date and on the basis that the service of active members had terminated on that date.

2. Security of prospective rights

In our opinion, the resources of the Fund are likely in the normal course of events to meet in full the liabilities of the Fund as they fall due. This statement assumes the Fund continues and does not mean that should the Fund wind up there would be sufficient assets to provide the full accrued benefits.

In giving this opinion, we have assumed that the following amounts will be paid to the Fund:

By the members:

- Contributions at the rate of 2% of Pensionable Salary up to £30,000 p.a. and 6% of Pensionable Salary in excess of £30,000 p.a.

By the Member Companies:

- Contributions at the rate of 30% of members' Pensionable Salaries, plus
- Contributions in respect of Member Company exits

All subject to review at future actuarial valuations.

The statement relates to the funding position at the valuation date, and assumes that experience after that date matches our assumptions. As time moves on, the Fund's finances will fluctuate. It will therefore be necessary to carry out further valuations to monitor the position. If you are reading this statement some time after the effective date of the valuation, you should bear in mind that the Fund's funding position could have changed significantly, which could affect the contributions payable after the next valuation. It should also be noted that the actuarial investigation does not include an examination of the Companies' ability to meet future contribution requirements.

3. Methods and assumptions used

Details of the methods and assumptions used are set out in our actuarial valuation report addressed to the Trustee dated 20 September 2018.

Signed

Greg Tucker FIA
20 September 2018

Chintan Gandhi FIA
20 September 2018

Assumptions

The main assumptions used in the actuary's calculations of the contribution rate were as follows:

RPI Inflation	The difference between the UK Government Fixed Interest and UK Government Index-Linked yield curves
Pension and deferred pension increases	Based on inflation with allowance for maximum and minimum increases
General pay increases	3.1% p.a.
Discount rate	UK Government Fixed Interest yield curve plus 1.75% p.a.
Expected asset return for calculating minimum contributions	UK Government Fixed Interest yield curve plus 2.75% p.a.
Expenses	0.5% of Pensionable Salaries, plus 1.1% of the scheme liabilities
Post-retirement mortality	Non-pensioners: SAPS S2 (light) tables scaled to 91% for males and 86% for females Pensioners and dependants (including contingent dependants): SAPS S2 (light) tables scaled to 89% for males and 87% for females Future improvements in line with the CMI 2017 Core Projections ($S_k=8.0$) from 2007 with a long-term rate of mortality improvement of 1.75% p.a.

Impact of COVID-19

As referred to in Note 27 of the financial statements, subsequent to the Fund's year end there has been significant volatility in financial markets as a result of the COVID-19 pandemic. Whilst the Fund's investment strategy contains an allocation to assets that move broadly in line with the liabilities, the pandemic has had a negative impact on the Fund's technical provisions funding ratio.

Given the fact that the situation is fluid and unpredictable, a precise estimate of the financial effect is not possible at the date of issue of the financial statements. Since 31 December 2019, it is estimated that the impact of the COVID-19 pandemic on financial markets has resulted in the Fund's funding position (with liabilities calculated using consistent assumptions to those used for the December 2017 valuation) reducing by approximately 12% as at 30 April 2020.

The Trustee continues to monitor the operational impact of the pandemic and has no significant concerns regarding the Fund's ongoing ability to fulfil its operational requirements, including payment of benefits. The Fund's administrator, Shell International Limited (Trustee Services Unit), has a business continuity plan that is tested at regular intervals and was successfully executed in response to the COVID-19 pandemic. A message from The Trustee can be found on the Fund's website, the address of which can be found on page 3 of this Annual Report, giving members more information relating to the operational impact of COVID-19 on the Fund. The website will be updated should anything relating to the operation of the Fund change.

Given the above, the Trustee believe that the going concern basis of accounting for the Fund remains appropriate.

Independent Auditor's report to the Trustee of the Shell Overseas Contributory Pension Fund

Opinion

We have audited the financial statements of Shell Overseas Contributory Pension Fund for the year ended 31 December 2019 which comprise the Consolidated Fund Account, the Statement of Consolidated Net Assets and the related notes 1 to 27, including a summary of significant accounting policies. 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), including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 December 2019, 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 including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to Note 27 of the financial statements, which discloses the economic consequences the Fund is facing as a result of COVID-19 which is impacting the financial markets. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report of the Trustee other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 3, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the Fund's Trustee in accordance with our engagement letter dated 31 July 2018. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ernst & Young LLP
Statutory Auditor
Reading UK

30 June 2020

Notes:

1. The maintenance and integrity of the "Shell Pensions in the UK" website is the responsibility of the Trustee; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shell Overseas Contributory Pension Fund

Consolidated Fund Account

For the year ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Contributions and benefits			
Employer contributions		53,185	45,086
Member contributions		5,060	5,650
Total contributions	4	<u>58,245</u>	<u>50,736</u>
Benefits paid or payable	5	123,815	120,317
Payments to and on account of leavers	6	51,939	55,632
Administrative expenses	7	1,691	2,016
		<u>177,445</u>	<u>177,965</u>
Net withdrawals from dealings with Members		(119,200)	(127,229)
Net returns on investments			
Investment income	8	65,717	110,347
Change in market value of investments	9	423,759	(173,755)
Investment management expenses	10	(6,710)	(6,507)
Net returns on investments		<u>482,766</u>	<u>(69,915)</u>
Net increase/(decrease) in the Fund during the year		363,566	(197,144)
Net assets of the Fund			
At 1 January		4,344,332	4,541,476
At 31 December		<u>4,707,898</u>	<u>4,344,332</u>

The notes on pages 20 to 36 form part of the financial statements.

Shell Overseas Contributory Pension Fund

Statement of Consolidated Net Assets available for benefits as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Investment assets			
Equities	9	1,712,467	1,512,202
Equities externally managed	9	323,489	290,302
Bonds	9	1,319,587	1,306,721
Property	12	390,472	399,397
Pooled investment vehicles	13	805,300	729,625
Derivatives	14	56,522	8,964
Insurance policy	15	105,254	103,771
Cash	16	18,099	11,792
Other investment balances	16	62,552	115,500
		<u>4,793,742</u>	<u>4,478,274</u>
Investment liabilities			
Derivatives	14	(11,430)	(53,009)
Other investment balances	16	(82,361)	(100,715)
		<u>(93,791)</u>	<u>(153,724)</u>
Total net investments	9	4,699,951	4,324,550
Current assets	23	12,674	24,695
Current liabilities	24	(4,727)	(4,913)
Net current assets		<u>7,947</u>	<u>19,782</u>
Net assets available for benefits at 31 December		<u>4,707,898</u>	<u>4,344,332</u>

These consolidated financial statements summarise the transactions of the Fund 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 Fund year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the Actuarial Statement, included in the annual report on pages 13 to 14 and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on 25 June 2020.

Signed on behalf of the Trustee



Director



Director

The notes on pages 20 to 36 form part of the financial statements.

Shell Overseas Contributory Pension Fund

Notes to the consolidated financial statements

Year ended 31 December 2019

1. General information

The Shell Overseas Contributory Pension Fund ('the Fund') is an occupational pension scheme established under trust. The Fund was established in 1953 to provide retirement benefits for UK base country employees who were working outside the UK and were not permitted by HMRC rules (in force at the time) to remain as active members of the UK pension scheme the Shell Contributory Pension Fund. The address of the Trustee Company's principal office is 3rd floor, Continental Building, 25 Church Street, Hamilton, HM12, Bermuda.

The Fund is a defined benefit pension fund which is no longer open to new hires but existing members continue to accrue benefits.

The Fund is a Bermudian registered pension fund under the voluntary registration provisions of the Pension Trust Funds Act 1966. No taxation is payable on income and capital gains earned by the Fund. The Fund is not registered in the UK with HMRC. This means that benefits built up in the SOCPF do not count towards HMRC limits on the Annual or Life Time Allowance. Benefits are paid gross i.e. without any tax being deducted at source.

2. Statement of compliance

The consolidated financial statements of the Shell Overseas Contributory Pension Fund have been prepared in accordance with the Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ('FRS 102') and the guidance set out in the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (Revised July 2018) ('the SORP'). In 2018, a revised SORP was issued, applicable to accounting periods commencing on or after 1 January 2019. The Trustee has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on the financial statements.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical accounting judgments and estimated uncertainty are as described in the accounting policies of Valuation and classification of investments and Derivatives as noted below.

Basis of consolidation

The consolidated financial statements include the financial statements of Shell Trust (UK Property) Limited, a company whose shares are held in trust for the benefit of the Fund. The assets, liabilities and change in market value of the Fund's investments of Shell Trust (UK Property)

Limited have been included on a line-by-line basis; the net amount of all other revenue and expenditure items is included within investment income.

(a) Valuation and classification of investments

Investments are valued at fair value.

Equities are exchange listed and valued on the basis of the last available closing price of the exchange. Bonds are valued at bid price. The value of fixed income pooled investment vehicles is based on the single price of the fund. The funds are valued on the basis of closing bid prices which reflect the volume-weighted average of the underlying investments. The value of hedge fund pooled investment vehicles is provided by the individual hedge fund administrators and is based on fair value. Private equity and infrastructure pooled investment vehicles are valued by the fund managers at fair value in accordance with generally accepted accounting guidelines. Freehold and leasehold property is stated at market value at the year end and has been valued in accordance with the Royal Institute of Chartered Surveyors' Appraisal and Valuation Standards. No depreciation is provided on freehold buildings or leasehold properties as these are recognised at fair value. Other unquoted securities, other than derivatives, are valued using generally accepted guidelines using broker quotes.

Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.

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

Where stock lending has been carried out the securities 'loaned' have been included in the net assets statement to reflect the Fund's continuing economic interest of a proprietary nature in those securities. The total amount of stock lent at the year end has been disclosed in a note to the financial statements together with a description of the related collateral.

The Fund receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions and derivative contracts in order to minimise the counterparty exposure of these transactions.

Collateral received in the form of cash, where the Fund has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of net assets with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of net assets, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Fund retains the contractual rights to receive the cash flows generated is not derecognised from the statement of net assets, unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

The annuity policy is valued by the Fund Actuary at the amount of the related obligation, determined using the most recent Fund funding valuation assumptions updated for market conditions at the reporting date.

Cash delivered under reverse repurchase agreements is recognised as an investment receivable. Securities received in exchange are not included in the net assets statement.

(b) Investment income and expenditure

Income from equities and any pooled investment vehicles which distribute income is accounted for on the date stocks are quoted ex-dividend/interest.

Income from fixed interest, cash and short term deposits is accounted for on an accruals basis.

Fees paid and received on derivative contracts are recorded at contract settlement date.

Property income is accounted for on an accruals basis.

Income arising from annuity policy is accounted for on an accruals basis.

(c) Change in market value

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the Fund. For derivatives the amounts represent movements in the unrealised gains and losses on open contracts and realised gains and losses on closed contracts.

(d) Derivatives

Derivatives are valued at fair value. This fair value can be seen as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

Equity swaps' fair value is derived using the closing prices of the index that they represent. Credit default swaps' fair value is derived by a third-party data vendor who values the credit default swaps with a pricing model which assumes trading with a risk-free counter party. Model assumptions are based on market prices which are received daily from the major dealers in the market. Interest rate and inflation swaps' fair value is based on a discounted cash flow calculation for which the most important input is the spot interest rate curve and the inflation break even curve, respectively. Interest is accrued daily on a basis consistent with the terms of the contract.

The amounts included in change in market value of investments represent movements in the unrealised gains and losses on open contracts, and realised gains and losses on closed contracts.

Futures have a fair value of zero, because their profit or loss is settled on a daily basis in the futures margin accounts that are part of the cash balance. The amounts settled are based on the closing price of the assets represented by the futures on the relevant stock market. The amounts included in the change in market value are the realised gains and losses on open and closed futures contracts.

The fair value of currency derivatives (forwards and swaps) is based on the difference between the agreed forward rate and the calculated forward rate on the valuation date. The calculated forward rate is based on the exchange rate on the valuation day and the interest until the settlement of the contract.

(e) Foreign currency

The Fund's functional currency and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end.

Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

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

(f) Contributions

Normal contributions, both from the Members and from the employers, are accounted for as they fall due under the Fund rules and the recommendations of the actuary.

Employers' exit fees are determined by the Actuary and accounted for on an accruals basis.

(g) Benefits and payments to and on account of leavers

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

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Fund as appropriate.

(h) Transfers to other schemes

Transfer values represent the capital sums payable to the pension schemes of new employers for Members who have left the Fund. They are accounted for on an accruals basis from the date when the receiving trustee has agreed to accept the liability, which is normally when cash is paid.

Movement of Linked Fund Members between the Shell Overseas Contributory Pension Fund and the Shell Contributory Pension Fund are executed without payment being made between the Funds. Under the Inter-Fund Linking rules of each Fund, the Members' pension entitlement is accrued in each Fund based on their length of pensionable service undertaken whilst in each Fund and the total pension receivable is based on their final pensionable salary.

(i) Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Investment management and pensions administration services provided by Shell Asset Management Company B.V. and Shell International Limited, Trustee Services Unit respectively are charged to the Fund Account in the period to which they relate.

4. Contributions

Contribution requirements during the year were as follows:

- (i) By Members - 2% of pensionable salary up to £30,000, 6% in excess of £30,000
- (ii) By Member Companies - 30% of pensionable salaries
- (iii) Exit fees - Company contributions for Member Companies leaving the Fund

	2019 £ 000	2018 £ 000
Employer contributions		
Normal	31,134	33,975
Exit fees	22,051	11,111
	<u>53,185</u>	<u>45,086</u>
Member contributions		
Normal	5,060	5,650
	<u>58,245</u>	<u>50,736</u>

2019 exit fees relate to payments for Shell New Zealand, Shell Taranaki Limited and Shell E&P Ireland Limited.

5. Benefits paid or payable

	2019 £ 000	2018 £ 000
Pensions	113,389	109,641
Commutation of pensions and lump sum retirement benefits	10,004	10,509
Lump sum death benefits	422	167
	<u>123,815</u>	<u>120,317</u>

Pensions in payment include pensions funded by annuity contracts.

6. Payments to and on account of leavers

	2019 £ 000	2018 £ 000
Refunds of contributions in respect of non-vested leavers	-	7
Individual transfers out to other schemes	51,939	55,625
	<u>51,939</u>	<u>55,632</u>

7. Administrative expenses

	2019 £ 000	2018 £ 000
Administration and processing costs	1,313	1,341
Actuarial fees	220	316
Investment advice to Trustee*	-	213
Trustee fees	94	76
Audit fees	64	70
	<u>1,691</u>	<u>2,016</u>

* From 2019, costs for Investment advice to Trustee and Hermes EOS fees are reported under Note 10 – Investment Management expenses.

Administration and processing costs include £878,000 (2018: £854,000) for services provided by Shell International Limited and £419,000 (2018: £447,000) for services provided by Shell Oman Trading Limited. Three members of the Trustee Board are remunerated by the Fund and fees totalling £94,000 have been paid during 2019 (2018: £76,000).

8. Investment income

	2019 £ 000	2018 £ 000
Dividends from equities	46,709	46,753
Income from bonds	30,753	36,325
Net property income arising from subsidiary	13,320	14,341
Income from pooled investment vehicles	2,910	5,240
Net (payments)/receipts from swaps	(34,627)	1,226
Annuities income	5,450	5,430
Stock lending commission	1,163	1,325
Interest on cash deposits	259	7
Canadian Non Resident Tax	(220)	(300)
	<u>65,717</u>	<u>110,347</u>

9. Reconciliation of net investments

	Value at 1.1.2019	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31.12.2019
	£ 000	£ 000	£ 000	£ 000	£ 000
Equities	1,512,202	374,609	(413,517)	239,173	1,712,467
Equities externally managed	290,302	118,896	(126,100)	40,391	323,489
Bonds	1,306,721	1,315,479	(1,330,247)	27,634	1,319,587
Property	399,397	5,250	(8,770)	(5,405)	390,472
Pooled investment vehicles	729,625	106,098	(75,570)	45,147	805,300
Insurance policy	103,771	-	-	1,483	105,254
Derivatives	(44,045)	34,172	-	54,965	45,092
	<u>4,297,973</u>	<u>1,954,504</u>	<u>(1,954,204)</u>	<u>403,388</u>	<u>4,701,661</u>
Cash	11,792	-	(14,064)	20,371	18,099
Other investment balances	14,785	-	(34,594)	-	(19,809)
	<u>4,324,550</u>	<u>1,954,504</u>	<u>(2,002,862)</u>	<u>423,759</u>	<u>4,699,951</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Cash flows for derivative contracts represent amounts settled during the year. For cash and other investment balances, the amounts recorded under sales are net balances that are not attributable to a change in market value.

10. Investment management expenses

	2019 £ 000	2018 £ 000
Administration, management and custody	3,999	3,843
Investment advice to Trustee*	175	-
External managers	1,992	2,200
Global custodian fees	393	441
Other investment related costs*	151	23
	<u>6,710</u>	<u>6,507</u>

* Prior to 2019, costs for Investment advice to Trustee and Hermes EOS fees were reported under Note 7 – Administrative expenses.

Shell Asset Management Company B.V. is the appointed Investment Manager of the Fund and charged the Fund £3,999,000 (2018: £3,843,000).

11. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in Note 9. Direct transaction costs incurred are analysed as follows:

	2019			2018		
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
	Equities	Futures	Total	Equities	Futures	Total
Fees	328	6	334	426	3	429
Taxes	264	-	264	281	-	281
Other	129	-	129	211	-	211
	<u>721</u>	<u>6</u>	<u>727</u>	<u>918</u>	<u>3</u>	<u>921</u>

In addition to the direct transaction costs disclosed on page 25, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles.

12. Property

	2019 £ 000	2018 £ 000
UK direct property		
UK freehold property	198,396	211,476
UK long leasehold property (over 50 years unexpired)	41,804	41,653
	<u>240,200</u>	<u>253,129</u>
UK indirect property	150,272	146,268
	<u>390,472</u>	<u>399,397</u>

Property is valued at 31 December by independent valuers, Cushman & Wakefield LLP (UK) and Savills (UK) Limited, Chartered Surveyors. The valuation is prepared on the basis of open market value as determined in accordance with the Royal Institute of Chartered Surveyors' Appraisal and Valuation Standards.

13. Pooled investment vehicles

The Fund's investments in pooled investment vehicles at the year-end comprised:

	2019 £ 000	2018 £ 000
Hedge funds	234,647	234,114
Private equity	418,633	368,153
Infrastructure	152,020	127,358
	<u>805,300</u>	<u>729,625</u>

Realised and unrealised gains on investments held by subsidiaries are included within the consolidated change in market value of investments for the Fund. All other income and expenditure items from subsidiary activities are consolidated and included within investment income in Note 8.

14. Derivatives

Objectives and policies for holding derivatives

Derivatives are used for portfolio risk and asset management purposes. The types of derivatives that the asset manager can use are agreed and governed by the investment management agreement. The purpose the various instruments are used for is summarized below.

Interest futures are mainly used to modify the duration of the fixed income securities portfolio to align it with the benchmark. Futures can be a more efficient way to modify the duration than transacting fixed income securities. Equity futures are used to efficiently increase or decrease exposure to certain markets.

Interest rate swaps and inflation swaps are used if these are considered to be an efficient way to:

- modify the portfolio interest exposure in different currencies;
- reduce the portfolio risk to the impact of interest rate fluctuations including liability hedging; or
- reduce the portfolio inflation rate risk exposure, including real liability hedging.

Credit default swaps are used to hedge in an efficient way the credit risk of individual bonds in the portfolio as well as to replicate the credit exposure of bonds.

Equity swaps are used if these are considered an efficient means to create exposure to certain markets.

Foreign exchange derivatives are only used for hedging against foreign exchange rate movements on investments denominated in currencies other than sterling.

Currency hedging targets are agreed with the asset manager and these can vary between asset class and currency.

	Assets 2019 £ 000	Liabilities 2019 £ 000	Assets 2018 £ 000	Liabilities 2018 £ 000
Swaps – Over The Counter				
Equity swaps	6,347	(8,606)	6,165	(4,003)
Credit default swaps	1,735	(451)	135	(151)
Currency interest rate swaps	-	(789)	-	(4,986)
Inflation swaps	5,038	-	55	(4,221)
	<u>13,120</u>	<u>(9,846)</u>	<u>6,355</u>	<u>(13,361)</u>
Foreign Exchange – Over The Counter				
FX derivatives	43,402	(1,584)	2,609	(39,648)
	<u>56,522</u>	<u>(11,430)</u>	<u>8,964</u>	<u>(53,009)</u>
Net derivatives	<u>45,092</u>			<u>(44,045)</u>

The net derivatives position in the table above represents unrealised gains or losses and is netted per counterparty – given all counterparties with Over The Counter (OTC) derivatives have an International Swaps and Derivatives Association (ISDA) and Credit Support Annex (CSA) contract. Except for the equity swaps contracts all derivative positions are collateralised. At 31 December 2019 the collateral pledged amounted £9.2 million (2018:£51.7 million).

Type of contract	Expiration	Notional value £ 000	2019 Assets £ 000	2019 Liabilities £ 000
Futures-Exchange Traded				
Bond futures long	March 2020	13,364	-	-
Bond futures short	March 2020	12,438	-	-
Interest rate futures long	March 2020	26,752	-	-
Interest rate futures short	March 2020	13,095	-	-

The notional value is the nominal value of securities purchased or sold that is used to calculate payments made. The market value of the futures is nil as contracts are settled on a daily basis.

Type of contract	Notional principal £ 000	2019 Assets £ 000	2019 Liabilities £ 000
Swaps OTC			
Equity swaps < 5 years	246,509	6,347	(8,606)
Credit default swaps < 5 years	21,963	1,735	(451)
Currency interest rate swaps < 5 years	1,552	-	(789)
Inflation swaps < 20 years	341,000	5,038	-
Total swaps		<u>13,120</u>	<u>(9,846)</u>

The notional principal of the swap is the amount used to determine the value of the swapped interest receipts and payments.

Currency Bought	Currency Sold	Notional principal £ 000	2019 Assets £ 000	2019 Liabilities £ 000
GBP	AUD	29,981	-	(660)
GBP	EUR	577,893	10,367	-
GBP	JPY	106,485	2,463	-
GBP	SEK	24,515	-	(118)
GBP	USD	899,965	29,338	-
GBP	Various	96,777	543	(698)
USD	GBP	6,567	2	(33)
JPY	GBP	-	-	-
Various	GBP	15,491	689	(75)
			<u>43,402</u>	<u>(1,584)</u>

The above table aggregates the exposures to currencies acquired or sold through over the counter (OTC) forward foreign exchange and swap contracts. Contracts are typically short in nature with maturities less than one year. The asset/liability represents the unrealised gain/loss that would crystallise if the contract was closed out at the reporting date, based on the market exchange rate at 31 December.

Notional principal amounts are aggregated to reflect the exposure to both legs of the contract.

15. Insurance policy

The Trustee holds an insurance policy with Solen Life Insurance Limited, a Shell Insurance Company, which provides annuity income to match the pension payments made for a group of pensioners. The policy is valued by the Fund Actuary at the amount of the related obligation, determined using the most recent Fund funding valuation assumptions updated for market conditions at the reporting date.

16. Cash and other net investment balances

	2019 £ 000	2018 £ 000
Sterling & foreign currency deposits	18,099	11,792
Accrued interest and dividends	11,258	13,715
Amounts due from brokers	3,699	4,729
Reverse repurchase agreement	38,385	45,356
Cash collateral receivable	9,210	51,700
	<u>80,651</u>	<u>127,292</u>
Amounts due to brokers	(5,223)	(4,693)
Repurchase agreement	-	(47,055)
Cash collateral payable	(76,693)	(48,516)
Prepaid annuity income	(445)	(451)
	<u>(82,361)</u>	<u>(100,715)</u>
	<u>(1,710)</u>	<u>26,577</u>

The values of the underlying securities held by the Fund under reverse repurchase agreements and held by counterparties under repurchase agreements is the same as the receivable and payable balances in the table above.

17. Securities lending

Securities that had been loaned as part of securities lending programmes are included in the Consolidated Net Assets Statement. At year end the collateral pledged by the recipients of the securities on loan was 103% for fixed interest securities and 106% for equities and is held in the form of the relevant underlying instruments. Under the terms of the programmes, the Fund may instruct that securities be returned within the normal settlement period appropriate for the sale of such a security.

	2019		2019		2018		2018	
	Market Value of Loans £ 000	Cash Collateral £ 000	Market Value of Loans £ 000	Non-Cash Collateral £ 000	Market Value of Loans £ 000	Cash Collateral £ 000	Market Value of Loans £ 000	Non-Cash Collateral £ 000
Fixed interest securities	11,599	11,753	63,177	65,415	19,526	19,951	27,202	28,419
Equities	25,783	26,636	89,094	94,958	24,378	25,405	101,842	107,644
Cash held on account by Custodian	4							
	37,386	38,389	152,271	160,373	43,904	45,356	129,044	136,063

18. Fair value of investments

The fair value of investments has been determined using the following hierarchy:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The Fund's investment assets and liabilities have been included at fair value within these categories as follow:

	Level 1 £000	Level 2 £000	Level 3 £000	2019 Total £000
Investment assets				
Equities	2,035,956	-	-	2,035,956
Bonds	258,872	1,060,715	-	1,319,587
Property	-	-	390,472	390,472
Pooled investment vehicles	-	-	805,300	805,300
Derivatives	-	56,522	-	56,522
Insurance policy	-	-	105,254	105,254
Cash	18,099	-	-	18,099
Other investment balances	62,552	-	-	62,552
	2,375,479	1,117,237	1,301,026	4,793,742
Investment liabilities				
Derivatives	-	(11,430)	-	(11,430)
Other investment balances	(82,361)	-	-	(82,361)
Total investments	2,293,118	1,105,807	1,301,026	4,699,951

Analysis for the prior year end is as follows:

	Level 1	Level 2	Level 3	2018 Total
	£ 000	£ 000	£ 000	£ 000
Investment assets				
Equities	1,802,504	-	-	1,802,504
Bonds	137,606	1,169,082	33	1,306,721
Property	-	-	399,397	399,397
Pooled investment vehicles	-	-	729,625	729,625
Derivatives	-	8,964	-	8,964
Insurance policy	-	-	103,771	103,771
Cash	11,792	-	-	11,792
Other investment balances	115,500	-	-	115,500
	<u>2,067,402</u>	<u>1,178,046</u>	<u>1,232,826</u>	<u>4,478,274</u>
Investment liabilities				
Derivatives	-	(53,009)	-	(53,009)
Other investment balances	(100,715)	-	-	(100,715)
Total investments	<u>1,966,687</u>	<u>1,125,037</u>	<u>1,232,826</u>	<u>4,324,550</u>

19. Investment risks

Types of risk relating to investments

As the Trustee recognizes that the Fund is exposed to investment, funding and operational risks, its approach is to integrate management of those risks throughout the Fund. The investment manager and the investment advisor give quantitative and qualitative consideration to operational, funding and investment risk when advising on investment policy, strategic asset allocation, investment strategy and manager selection.

In accordance with FRS 102 the Fund is exposed to the following investment risks:

1. *Credit Risk*: the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
2. *Market risk*: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises:
 - i) *Interest rate risk*: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
 - ii) *Currency risk*: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
 - iii) *Other price risk*: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The overall investment risk taken by the Trustee is diversified across a range of different investment opportunities, which in aggregate are expected to provide excess return relative to Fund liabilities by between 2% and 2.5% per annum over the long term.

The Trustee aims to diversify the asset allocation exposures geographically, by asset class and across active management strategies. In terms of the management of currency risk, the Trustee's policy within its strategic asset allocation ("SAA") is to hedge back to Sterling an appropriate proportion of currency exposure.

The following table summarizes the extent to which the various classes of investments are affected by financial risks. In the case of pooled investment vehicles the risk can be direct or indirect.

	Credit risk	Currency risk	Interest rate risk	Other price risk	2019 £ 000	2018 £ 000
Equities	○	◐	○	●	2,035,956	1,802,504
Bonds	●	◐	●	○	1,319,587	1,306,721
Property	○	◐	○	●	390,472	399,397
Pooled investment vehicles	●	◐	●	●	805,300	729,625
Derivatives	◐	●	●	◐	45,092	(44,045)
Insurance policy	●	○	●	●	105,254	103,771
Cash deposits and other investment balances	●	◐	○	○	(1,710)	26,577
Total investment assets					4,699,951	4,324,550

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

Further information on the Trustee's approach to risk management, credit and market risk is set out below.

Investment strategy

The Trustee's objectives for the Fund are:

- To invest the assets of the Fund so as to meet the expected future liabilities of the Fund at the minimum long-term cost to employer and employees whilst maintaining a diversified portfolio of investments to reduce risk,
- To minimize investment risk, using best practice, subject to the volatility risk necessary to deliver the required return,
- To produce returns consistent with those available in major investment markets, and
- To maintain sufficient liquidity to make the payments associated with the growing maturity of the membership profile of the pension scheme.

The Trustee sets an investment strategy considered appropriate for the Fund taking account of how much risk the Trustee, in consultation with the Sponsor, wishes to take and consistent with the objective of meeting the expected future liabilities. In order to define its investment approach, the Trustee, in conjunction with its advisors undertakes an Asset Liability Modelling (“ALM”) study which tests potential funding outcomes under different scenarios to help in agreeing a SAA. The ALM expresses the Trustee’s investment approach and defines the required returns and acceptable risk tolerance for the Fund’s assets. While the terms of the SAA are decided by the Trustee on the recommendation of the Investment Committee, its implementation and more granular decisions in respect of asset allocation are managed by the Investment Manager and are documented in the IMA. The IMA was renewed on 20 June 2019. The current SAA is:

- **19.5% allocation to matching assets:** containing a mixture of inflation swaps and required collateral to reduce inflation risk versus liabilities as well as inflation linked bonds and UK Long-Lease property.
- **5.5% allocation to liquidity assets:** consists of near-cash assets.
- **75% allocation Return-seeking assets:** the portfolio contains a mixture of return seeking assets including equity, Emerging Sovereign and High Yield Corporate Credit (fixed income) and alternatives including hedge funds, property and infrastructure and aims to generate outperformance over the return on the liabilities.

The strength of the Sponsor covenant along with a number of other factors may affect the Trustee’s appetite for risk, including the Fund’s funding position, its cash-flow profile and its liability profile. The Trustee monitors these factors regularly and may alter its investment objectives, risk tolerance and/or return target as appropriate in the event of any significant changes.

Credit risk

The Fund is subject to credit risk because the Fund directly invests in bonds, over-the-counter (“OTC”) derivatives, has cash balances and undertakes security lending activities. The Fund is also exposed to credit risk arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

	2019	2018
	£ 000	£ 000
Investment assets exposed to credit risk		
Bonds	1,319,587	1,306,721
Pooled investment vehicles	805,300	729,625
Derivatives	45,092	(44,045)
Insurance policy	105,254	103,771
Cash deposits and other investment balances	(1,710)	26,577
Total	2,273,523	2,122,649

Investment guidelines have been established to manage the credit risk related to fixed interest securities. These investment guidelines consist of limits regarding exposure and credit rating. The limits are monitored periodically to ensure compliance with the guidelines. Instruments with a rating below B- by Standard & Poor’s or rated below B3 by Moody’s are not permitted.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over-the-counter (OTC). OTC derivatives are not guaranteed by any regulated exchange and therefore the

Fund is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by securities collateral arrangements. All OTC derivative counterparties are required to be at least of investment grade, see note 17.

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's, or rated at Baa3 or higher by Moody's.

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

The Trustee manages the credit risk arising from security lending activities by restricting the amount of overall stock securities that may be lent, only lending to borrowers who are rated at least at investment grade, limiting the amount that can be lent to any single borrower and putting in place collateral arrangements.

Credit risk arising from pooled investment vehicles is mitigated by diversification of investments amongst a number of pooled arrangements as well as by carrying out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitoring any changes to the operating environment of the pooled manager.

The Fund invests in a wide range of pooled investment vehicles which includes units or interests in limited partnerships, shares in corporations, shares in corporate partnerships, interests in open-ended unit trusts and interests in real estate investment trusts (REITs).

Currency risk

The Fund is subject to currency risk as some of the Fund's investments are held in overseas markets. The Trustee has defined a currency hedging strategy that defines the target hedge percentage per for each currency per asset class. The strategy is implemented through currency forwards and swaps. The net currency exposure was:

	2019			2018		
	Exposure	Hedge positions	Net exposure	Exposure	Hedge positions	Net exposure
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Euro	770,146	578,095	192,051	605,553	429,148	176,405
US dollars	1,339,336	891,723	447,613	1,422,138	962,580	459,558
Japanese yen	178,525	106,491	72,034	155,866	97,547	58,319
Other currencies	711,106	134,977	576,129	539,473	130,640	408,833
Total	2,999,113	1,711,286	1,287,827	2,723,030	1,619,915	1,103,115

Interest rate risk

The Fund is subject to interest rate risk because some of the Fund's investments are held in fixed interest securities, interest rate swaps and bond futures. The Trustee has set a benchmark for total fixed income investments of 34% of the investment portfolio where part of the assets are expected to have broadly similar characteristics to the liabilities.

Other price risk

Other price risk arises principally from the allocation to equities, equity futures and swaps, investment property, hedge funds, private equity, opportunity-driven investments, and infrastructure in the return seeking assets portfolio. The Fund has set a target asset allocation of 66% to such investments.

The Fund manages the exposure to overall price movements by diversifying the asset allocation exposures geographically, by asset class, and across active management strategies.

20. Concentration of investments

Investments (other than in United Kingdom Government securities) exceeding 5% of the value of net assets are detailed below:

	2019		2018	
	£ 000	%	£ 000	%
Mesdag Fund of Funds Ltd	234,648	5%	234,114	5.4

21. Employer-related investments

The Fund's investment guidelines restrict investments in shares of the Royal Dutch Shell plc to 3% of the total value of the Fund. The Fund held 189,100 (2018: 194,557) 'A' shares and 118,534 (2018: 115,735) 'B' shares of Royal Dutch Shell plc at 31 December 2019. This represents 0.2% (2018: 0.2%) of the Fund's net assets at 31 December 2019.

22. Investment in wholly owned subsidiary

Shell Trust (UK Property) Limited was incorporated on 27 October 2003, under the laws of Bermuda. Shell Trust (UK Property) Limited is wholly owned by Shell Trust (Bermuda) Limited, through its holding of all the issued and outstanding common stock. Shell Trust (UK Property) Limited was incorporated for the purpose of holding and managing the Fund's property portfolio. The assets of the subsidiary are reflected in the property line in note 9.

23. Current assets

	2019	2018
	£ 000	£ 000
Contributions due from Member Companies	1,840	2,259
Prepaid pension	5	12
Cash balances	10,829	22,424
	<u>12,674</u>	<u>24,695</u>

24. Current liabilities

	2019	2018
	£ 000	£ 000
Contributions due to Member Companies	4	4
Unpaid benefits	481	200
Accrued expenses	1,960	1,990
VAT payable	750	836
Tax payable	1,535	1,838
Other creditors	(3)	45
	<u>4,727</u>	<u>4,913</u>

The other creditors negative value is due to a credit note issued by Shell International Limited following a true up of admin costs in December.

25. Related party transactions

At 31 December 2019 Related Party Transactions (other than those described in Notes 7, 10, 15 and 22) were as follows:

Three members (2018: three) of the Trustee Board are remunerated by the Fund, see Note 7 Administrative expenses.

Mr P S Gamero and Mr M D Clark are Directors of Shell Pension Reserve Company (SOCPF) Limited, the company which holds and maintains the Contribution Reserve Account.

26. Contingencies and commitments

In the opinion of the Trustee, the Fund had no contingent liabilities at 31 December 2019 (2018: nil).

At the year end the Fund had (i) contractual commitments totalling £276 million (2018: £322 million) in respect of private equity and infrastructure pooled investment vehicles that are due to be settled over a period of 6 years and (ii) no contractual commitments to purchase properties (2018: nil).

27. Subsequent events

Subsequent to the Fund's year end, there has been significant volatility in financial markets as a result of the Coronavirus (COVID-19) pandemic. The Trustee considers the outbreak to be a non-adjusting post net asset statement event and as the situation is fluid and unpredictable, an estimate of the precise financial effect is not possible at the date of issue of the financial statements.

As at 30 April 2020, the year to date performance of the Fund's listed equities and fixed interest securities was circa -16% and circa -3% respectively.

The Fund's unlisted investments primarily include alternative classes (£805m as at 31 December 2019) and directly held property (£390m as at 31 December 2019). The UK property market has seen a downturn since 31 December 2019 which would be expected to be reflected in the fair value of the Fund's portfolio, however, there is insufficient information available to quantify the financial impact on the portfolio. The Fund's alternative investments are valued using unobservable inputs and therefore an indication of the impact on this class of assets cannot be determined at this stage. As a such a reliable estimate of the fair value of the Fund's unlisted investments is not discernible at the date of issuance of the financial statements.

Since 31 December 2019, it is estimated that the impact of the COVID-19 pandemic on financial markets has resulted in the Fund's funding position (with liabilities calculated using consistent assumptions to those used for the December 2017 valuation) reducing by approximately 12% as at 30 April 2020.

The Trustee does not believe that the current pandemic will prevent achievement of its long term funding plan. The current funding level is kept under regular review by the Trustee with the support of its advisers.