

The **Trustee's Report** to members
for the year ended **30 June 2010**



Contents

Scheme news	3
The financial development of the Scheme	4
Membership	5
Managing your investments	6
Money Purchase section	6
Final Salary section	7
Summary Funding Statement	8
Trustee and Advisers	11
Your contacts	12



Welcome

to your June 2010 summary of the Pearl Group Staff Pension Scheme Report and Accounts.

Pearl Group Holdings (No. 2) Limited continues to be the principal sponsoring employer for the Scheme which is referred to throughout as 'the Company'.

Following the volatile markets experienced over the last few years, we are pleased to report that the Scheme's health has improved since the date of the last summary report, both as a result of improved market conditions, and also the contribution to the Scheme by the Company in 2009. The last Actuarial Valuation of the Scheme was completed as at 30 June 2009, and the results of this were published in a separate Valuation Report booklet, which was sent to members towards the end of 2010.

If you have any comments about this report, or any queries about your pension, please call the administration team on 01733 393020, or email pearl@firstactuarial.co.uk. Alternatively, you can visit the Scheme website at www.pearlstaffpensionscheme.co.uk.

Scheme news

The latest actuarial valuation of the Scheme was completed as at 30 June 2009, and this was the second such valuation to be carried out under the regulations set by the Pensions Act 2004. The next actuarial valuation will be conducted as at 30 June 2012.

Changes to the Trustee Directors

The Law Debenture Pension Trust Corporation plc resigned on 8 January 2010.

Amendment to Scheme Rules

During the year, one amendment was made to the Scheme Rules to remove the death in service lump sum from the Scheme – this is now provided by the Company under a separate trust. Members' benefits are unaffected by this change.

IMPORTANT - keeping our records up to date

It is important to inform the Scheme Administrators if there is a change in your personal circumstances or address. Contact details are shown on the back page.

Change in Investment strategy

As a result of the findings of the actuarial valuation, and further to the replacement funding agreement which was agreed with the Company in June 2009 (reported in the previous Trustee Report to members), the Trustee conducted a review of the investment strategy. A new Statement of Investment Principles (SIP) was adopted in July 2010, and details of this were included in the last actuarial valuation report.

Pensioner records exercise

The Trustee is in the process of writing to all pensioners to obtain up to date marital status and spouses' details. These details are particularly important to enable the Trustee to ensure that benefits are paid to the correct person at the time of your death. Who receives a spouse's/dependant's pension will depend on your circumstances at the time. For more detailed information, please refer to the Frequently Asked Questions section of the Scheme website (www.pearlstaffpensionscheme.co.uk).

The financial development of the Scheme

Fund Account for the year ended 30 June 2010

Value of Fund at 1 July 2009: £1,525,869,000

	2010 Final Salary benefits £'000	2010 Money Purchase benefits £'000	2010 Total £'000	2009 Total £'000
Income for the year				
Contributions	64,085	237	64,322	3,631
Investment income	36,208	-	36,208	66,673
Other income	2	-	2	829
TOTAL	100,295	237	100,532	71,133
Expenditure for the year				
Benefits payable	(71,634)	(316)	(71,950)	(71,993)
Payments to, and on behalf of, leavers	(12,440)	(1,770)	(14,210)	(31,852)
Administrative expenses	(51)	-	(51)	(898)
Investment management expenses	(1,361)	-	(1,361)	(1,839)
TOTAL	(85,486)	(2,086)	(87,572)	(106,582)
Returns on investments				
Income less expenditure	14,809	(1,849)	12,960	(35,449)
Change in market value of investments	128,995	5,675	134,670	(281,236)
Net increase/(decrease) in the Fund during the period	143,804	3,826	147,630	(316,685)

Value of Fund at 30 June 2010: £1,673,499,000

Membership

The table below shows the movement of Scheme members during the period 1 July 2009 to 30 June 2010.

	Final Salary	Money Purchase	Total
Total Membership 1 July 2009	21,694	1,950	23,644
Active members 1 July 2009	47	258	305
Active members 30 June 2010	43	126	169
Pensioner members 1 July 2009	9,363	68	9,431
Pensioner members 30 June 2010	9,587	76	9,663
Preserved pensions 1 July 2009	12,284	1,624	13,908
Preserved pensions 30 June 2010	11,649	1,696	13,345
Total Membership 30 June 2010	21,279	1,898	23,177

The employer contribution rate during the period for each section of the membership was:

- 50.7% of pensionable salary for Final Salary section members
- 11.7% of pensionable salary for Money Purchase section members
- 20.3% of pensionable salary for the Hybrid members

Pension increases

Pension payments in excess of Guaranteed Minimum Pension (GMP) were increased in accordance with the Scheme rules by 3.7% on 1 April 2010. No increase was awarded on 1 April 2009, due to 0% RPI at that time.

Managing your investments

Money Purchase section

Members of the Money Purchase section can choose to invest in five Henderson Funds, three Legal & General Funds as well as the Standard Life Managed Fund. If an investment choice is not made, the members' credits are invested in the default fund, which from November 2008 is the Legal & General World Equity Index Fund (previously the default was the Henderson Enhanced Balanced Fund). Members may also choose to invest AVCs in the Henderson Global Technology and the Henderson Industries of the Future funds.

Fund	12 Month Performance to 30 June 2010	
	Fund	Benchmark
Henderson Enhanced Balanced Fund	19.5%	18.9%
Henderson Global (50:50) Enhanced Equity Fund	21.6%	20.7%
Henderson Global Bond Fund	15.8%	13.4%
Henderson Index-Linked Bond Fund	8.7%	8.4%
Henderson Cash Fund	1.3%	0.6%
Standard Life Managed Fund	18.8%	19.2%
Legal & General (70:30) Global Equity (Index) Fund	21.8%	21.6%
Legal & General World Equity Index Fund	22.8%	22.7%
Legal & General Over 15 yr Gilts Index Fund	7.9%	8.0%
Henderson Global Technology Fund	29.2%	27.2%
Henderson Industries of the Future Fund	21.5%	21.9%

Notes: 1. Please note that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations. 2. Detailed fund performance fact sheets are available on the website at www.pearlstaffpensionscheme.co.uk

Final Salary section

The Trustee determines the investment policy to be adopted by the investment managers. When the investment strategy was reviewed, the Trustee's main aim was to create an appropriate balance between the achievement of a healthy return on the Scheme's investments and protection of the assets against high levels of risk.

The Trustee therefore agreed the investment managers' responsibilities, as follows:

- Ignis Investment Services Limited would continue to manage the corporate bond (credit) portfolio, hedge fund portfolio and cash fund.
- DTZ Investment Management Limited would manage the property portfolio.
- Legal & General Assurance (Pension Management) Limited would manage the gilts and equity portfolios on a passive basis.

On 15 February 2010 the property portfolio was transferred from Ignis to DTZ. During March and April a phased transfer of the gilt portfolio took place to Legal and General from Ignis. Further restructuring of the portfolio took place over the second half of 2010, to move towards the target allocation.

The target allocation is as follows:

Portfolio	Mandate	Target Asset Allocation (%)	Difference as at 31 December 2010 (%)
Legal & General	Equities	15.0	+0.4
Legal & General	Index Linked Gilts	45.0	+1.0
Ignis	UK Corporate Bonds	10.0	-0.6
Ignis	Hedge Funds	15.0	-1.8
DTZ	Property	15.0	-7.8
Cash and other		0.0	+8.7

The equity, corporate bond and index linked gilt elements are close to target. The main deviation is in respect of the property, which will be built up over time using the excess cash held.

Summary Funding Statement – Final Salary sections only

The valuation of the Scheme showed that on 30 June 2009 the funding position (excluding Money Purchase and AVC assets and liabilities) was as follows:

Assets	£1,489 million
Amount needed to provide benefits	£2,244 million
Shortfall	£755 million
Funding level	67%

Further to this valuation, we have assessed the Scheme's funding level and as at 30 June 2010 the actuary's updated figures showed that the Scheme's funding level stood at **71%**.

Change in funding position since the previous statement

The main reason the funding level of the Scheme has improved since the valuation was the deficit funding contribution of £50m paid by the Company in October 2009 and the additional funding of £10.8m from the escrow account in September 2009. The return on the Scheme's actual assets being better than the corresponding return on gilts also improved the funding level.

It is important to remember that these figures are given as a snapshot of the Scheme's position at a particular date. You should keep in mind that pensions should be considered a long-term investment.

Payment to the Company

There has not been any payment to the Company out of Scheme funds since the last statement was issued.

How the Scheme operates

How your pension is paid

The assets of the Scheme are held in a common fund which is used to pay pensions and other benefits to Scheme members as they fall due. The Company pays contributions into this fund as required. The money to pay for the Final Salary benefits is held in a common fund. It is not held in separate funds for each individual (as is the case for Money Purchase section members).

How is the amount the Scheme needs worked out?

The Trustee has a funding plan (the Statement of Funding Principles) agreed with the Company, which aims to make sure there is enough money in the Scheme to pay for pensions now and in the future. The amount of money that the Company pays into the Scheme may go up or down following regular funding checks by our actuary.

The importance of the Company's support

The success of the Scheme relies on the support of the Company continuing, because:

- the Company will be paying the future expenses of running the Scheme on an annual basis
- the funding level can fluctuate, and when there is a funding shortfall, the Company will usually need to put in more money
- if the target funding level should turn out not to be enough, the Company will need to put in more money.

What would happen if the Scheme started to wind up?

If the Scheme had started winding up, the assets available as at 30 June 2010 would have been sufficient to secure approximately 66% of benefits for members of the Final Salary sections.

The Pensions Regulator requires us to provide this information to members, and inclusion of this information does not imply that the Company is thinking of winding-up the Scheme.

Whilst the Scheme remains ongoing, even though funding is temporarily below target, benefits will continue to be paid in full. If the Scheme winds up, you might not get the full amount of pension you have built up. If the Scheme were to start to wind up, the Company is required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. It may be, however,

that the Company would not be able to pay this full amount. If the Company became insolvent, the Pension Protection Fund is likely to take over the Scheme and pay compensation to members.

Why does the funding plan not call for full solvency now?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit, and administration costs also have to be taken into account when securing benefits in this way. In contrast, our funding plan assumes that the Company will continue in business and support the Scheme.

Important – If you are thinking of transferring your benefits, or opting out of the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.

Additional documents available on request

The Statement of Funding Principles, which sets out the Scheme's Funding Plan.

The Recovery Plan, which explains how the funding shortfall is being made up.

The Statement of Investment Principles, which explains how the Trustee invests the money paid into the Scheme.

The Schedule of Contributions, which shows how much money is being paid into the Scheme.

The Annual Report and Accounts of the Pearl Group Staff Pension Scheme, which shows the Scheme's income and expenditure in the year to 30 June 2010.

The full Report on the Actuarial Valuation following the actuary's check of the Scheme's financial situation as at 30 June 2009.

An Annual Benefit Statement – if you are an active member of the Scheme (and have not received a benefit statement in the previous 12 months), you can ask for a statement that provides an illustration of your likely pension.



Trustee and Advisers to the Scheme

Trustee

P.A.T. (Pensions) Limited

Trustee Directors

Chairman

K Jones, BSc, FIA, MBA

Deferred member

Employer Nominated Directors

G S Felston, BSc, FCII, MBA,

*Head of Diligenta Transformation,
Pearl Group Holdings (No.2) Limited*

A Roffey-Jones, BSc, MA, IPD

*Group HR Director, Pearl Group
Holdings (No.2) Limited*

Member Nominated Directors

M J Mauchline, FCII

Pensioner member

C A Munro, BSc, FIA

Pensioner Member

T Reedman-Taylor

*Head of Operational Governance,
Pearl Group Holdings (No.2) Limited*

Secretary

C L Wilson, BSc, APMI

First Actuarial LLP

Sponsoring Employer

Pearl Group Holdings (No.2) Limited
(formerly Pearl Group Limited)

1 Wythall Green Way, Wythall,
Birmingham, B47 6WG

Actuary

Towers Watson Ltd

(formerly Watson Wyatt Ltd)

Watson House, London Road

Reigate, Surrey RH2 2PQ

*N Wearing, FIA is the Scheme Actuary
appointed for the purposes of the
Pensions Act 1995.*

Joint Legal Advisers

Reed Smith LLP

Kirkpatrick & Lockhart Preston

Gates Ellis LLP

Investment Managers

Final Salary sections

Ignis Investment Management
Limited (formerly Axial Investment
Management Limited) (until July 2010)

*Ignis Investment Services Limited
(from July 2010)*

*DTZ Investment Management Limited
(appointed 15 February 2010)*

*Legal & General Assurance (Pensions
Management) Limited (appointed
10 February 2010)*

Money Purchase sections

Henderson Fund Management
PLC (trading as Henderson
Global Investors)

Standard Life Investments Limited

Legal and General Assurance
(Pensions Management) Limited

Investment Advisers

Aon Hewitt (formerly Hewitt
Associates Ltd)

Auditors

PricewaterhouseCoopers LLP

Custodians

State Street Bank and Trust Company

Bankers

HSBC Bank PLC

First Actuarial LLP
38 Tyndall Court
Commerce Road
Lynch Wood
Peterborough
PE2 6LR

Your contacts

If members have any queries concerning their benefits, they should contact the Scheme Administrators at:

First Actuarial LLP, Pearl Group Staff Pension Scheme
38 Tyndall Court, Commerce Road, Lynch Wood
Peterborough, PE2 6LR

Telephone: 01733 393020

Fax: 01733 393049

Email: pearl@firstactuarial.co.uk

Website: www.pearlstaffpensionscheme.co.uk



Designed and produced by Wordshop

Our environmental and data protection policies can be seen online.

www.wordshop.co.uk

011995