



The **Trustee's Report** to members
for the year ended **30 June 2012**

Welcome

Welcome to the latest summary of the Pearl Group Staff Pension Scheme Report and Accounts.

As always, the Scheme has had a busy year, particularly as a formal valuation is now due as at 30 June 2012. This valuation is still being carried out, and the results will be published later in the year, once the process is finalised. In this report, you will find a recap of the Scheme's funding position as at the last formal valuation, plus updates on the position since then.

In addition to this important information, the Scheme and the sponsoring employer, Pearl Group Holdings (No.2) Limited, have reached a new funding agreement for improving the Scheme's funding position. This support is crucial in ensuring the Scheme remains ongoing; see opposite for more on this.

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.



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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.

Scheme news

New pension funding agreement

The Trustee has successfully negotiated with the Company a new funding agreement. The 2009 agreement was negotiated during a time of financial difficulty for the Company and with the Trustee's intention that, were the Company's circumstances to improve, the Trustee would want to secure an improved funding agreement for the benefit of the Scheme members.

Negotiations in relation to such an improved funding package commenced after it was clear to the Trustee that the Company's financial position had improved and the new funding agreement reflects both the resulting improved commitment by the Company to the Scheme and the anticipated results of the actuarial valuation as at 30 June 2012.

Key elements of the previous funding agreement (entered into in 2009) have been retained together with a number of significant improvements which include:

- a higher level of base contributions (£445 million compared to £202 million over the period to 30 September 2021)
- an improved sharing mechanism to provide additional contributions in certain circumstances
- improved assurances about the financial strength of the Company
- a new investment strategy designed to lessen the volatility of the investments.

More details about the new funding agreement are available in the 'Latest News' section of the Scheme website at www.pearlstaffpensionscheme.co.uk.

Changes to the Henderson money purchase funds during 2012

There were some changes to the Henderson funds in September and October 2012 and affected members received written confirmation of these changes. Full details are available in the 'Latest News' section of the Scheme website at www.pearlstaffpensionscheme.co.uk.



The financial development of the Scheme

Fund Account for the year ended 30 June 2012

Value of Fund at 1 July 2011: £1,779,687,000

	2012 Final Salary benefits £'000	2012 Money Purchase benefits £'000	2012 Total £'000	2011 Total £'000
Income for the year				
Contributions	26,150	218	26,368	29,391
Investment income	18,958	-	18,958	24,462
Other income	-	-	-	-
TOTAL	45,108	218	45,326	53,853
Expenditure for the year				
Benefits payable	(82,382)	(511)	(82,893)	(73,937)
Payments to, and on behalf of, leavers	(3,437)	(1,127)	(4,564)	(7,147)
Administrative expenses	-	-	-	(7)
Investment management expenses	(778)	-	(778)	(657)
TOTAL	(86,597)	(1,638)	(88,235)	(81,748)
Returns on investments				
Income less expenditure	(41,489)	(1,420)	(42,909)	(27,895)
Change in market value of investments	141,973	(815)	141,158	134,083
Net increase/(decrease) in the Fund during the period	100,484	(2,235)	98,249	106,188

Value of Fund at 30 June 2012: £1,877,936,000

Membership

The table below shows the movement of Scheme members during the period 1 July 2011 to 30 June 2012.

	Final Salary	Money Purchase	Total
Total Membership 1 July 2011	20,987	1,866	22,853
Active members 1 July 2011	-	76	76
Active members 30 June 2012	-	65	65
Pensioner members 1 July 2011	9,745	79	9,824
Pensioner members 30 June 2012	9,849	85	9,934
Preserved pensions 1 July 2011	11,242	1,711	12,953
Preserved pensions 30 June 2012	10,799	1,679	12,478
Total Membership 30 June 2012	20,648	1,829	22,477

The employer contribution rate during the period was:

- 11.7% of pensionable salary for Money Purchase section members

Pension increases

Pension payments in excess of Guaranteed Minimum Pension (GMP) were increased in line with the Scheme rules by 3.7% on 1 April 2012. The April 2011 increase was 5%.

Managing your investments

Money Purchase section

As at 30 June 2012, Money Purchase section members were able to choose from five Henderson Funds*, three Legal & General Funds and the Standard Life Managed Fund. If an investment choice is not made, the members' credits are invested in the default fund, which is the Legal & General World Equity Index 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 2012	
	Fund (%)	Benchmark (%)
Henderson Cash Fund	1.0	0.6
Henderson Enhanced Balanced Fund	18.9	18.8
Henderson Global Bond Fund	2.7	3.0
Henderson Global (50:50) Enhanced Equity Fund	23.6	23.5
Henderson Global Technology Fund	21.0	15.6
Henderson Index-Linked Bond Fund	10.3	9.7
Henderson Industries of the Future Fund	18.7	22.3
Legal & General Global Equity (Passive) Fund	24.6	24.7
Legal & General Over 15 yr Gilts Index Fund	2.7	2.8
Legal & General World Equity Index Fund	22.4	22.2
Standard Life Managed Fund	21.3	20.2

* Changes made to the Henderson Funds **after** 30 June 2012 are not reflected above. Visit www.pearlstaffpensionscheme.co.uk for more information.

** The Henderson Industries of the Future Fund merged with the Henderson Global Care Growth Fund on 19 July 2012 – the two funds are now known collectively as the Henderson Global Care Growth Fund.

Please remember 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. Reviewing the suitability of the funds you invested in is advised. 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. The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy it selected is designed to achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting the Scheme's liabilities.

During the period £50m was switched from Legal & General index linked gilts to Legal & General corporate bond fund. The Trustee also redeemed \$80m from the ISSF hedge fund in June 2012 and another \$80m in September 2012.

The Trustee has agreed a new investment strategy as part of the new pensions funding agreement and more details are included in the 'Latest News' section of the website (www.pearlstaffpensionscheme.co.uk) and will be included in the Report on the Actuarial Valuation due to be issued later this year.

The target allocation is as follows:

Portfolio	Mandate	Target Weight (%)	Weight at 30 June 2012 (%)
Legal & General	Index Linked Gilts	45.0	50.2
Legal & General	Equities	15.0	14.4
Ignis	Hedge Funds	15.0	13.6
DTZ	Property	15.0	8.5
Ignis	Corporate Bonds	10.0	9.5
Legal & General	Corporate Bonds	0.0	2.8
Ignis	Cash, etc	0.0	1.0

Summary Funding Statement – Final Salary Sections only

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

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

In the interval between formal valuations, the Scheme's funding is assessed to give a picture of movements in the Scheme's position over time. As at 30 June 2011 the actuary's updated figures showed that the Scheme's funding level stood at **75%**. The increase in the funding level since the valuation is due to Company contributions and better returns on the Scheme's assets.

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. Due to the impact of gilt yields it is likely that the funding level would have deteriorated since June 2011. More information on the impact of the markets is available on the Scheme's website.

The Scheme is currently undergoing a formal valuation as at 30 June 2012, and the results of this will be communicated later in the year.

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 2011 would have been sufficient to secure approximately 69% 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 2012.

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
Independent Chairman,
Pensioner 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 J Reedman-Taylor
Head of Operational Governance,
Pearl Group Holdings (No.2) Limited

Independent Director

The Law Debenture Pension Trust
Corporation plc, normally represented
by Mark Ashworth, MA, FCIS

Secretary

C L Wilson, BSc, APMI
First Actuarial LLP

Sponsoring Employer

Pearl Group Holdings (No.2) Limited
1 Wythall Green Way, Wythall,
Birmingham B47 6WG

Actuary

Towers Watson 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
K&L Gates LLP

Investment Managers

Final Salary sections

Ignis Investment Services Limited
DTZ Investment Management Limited

Legal & General Assurance
(Pensions Management) Limited

Money Purchase sections

Henderson Fund Management plc
(trading as Henderson Global Investors)

Legal and General Assurance (Pensions
Management) Limited

Standard Life Investments Limited

Investment Advisers

Aon Hewitt

Auditors

PricewaterhouseCoopers LLP

Custodians

State Street Bank and Trust Company

Bankers

HSBC Bank PLC

Your contacts

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

Pearl Group Staff Pension Scheme, First Actuarial LLP,
First House, Minerva Business Park, Lynch Wood,
Peterborough PE2 6FT

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Fax: 01733 393049

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