

The **Trustee's Report** to members
for the year ended **30 June 2013**

Welcome

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

The latest formal valuation of the Scheme was completed last year, and you will have received a copy of the report in September. These figures appear in our annual summary funding statement on pages 12 – 13 as a reminder of the Scheme's current position, together with an estimated update of the Scheme's funding as at 30 June 2013.

Following the recent MNT election (page 3), Max Mauchline and Chris Munro have been reappointed.

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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Scheme news

The Trustee Board

Graham Felston resigned from the Trustee Board on 15 April 2013 when he left the Company and was replaced by Quentin Zentner as a Company Nominated Trustee Director (appointed 28 March 2013). Law Debenture also resigned on 30 May 2013.

Member Nominated Trustee Election Result

The Trustee has recently carried out a ballot for the two Member Nominated Trustee Director vacancies. A selection panel reviewed all nominations and then active and pensioner members were invited to vote for their preferred nominees. Max Mauchline and Chris Munro were re-elected as Member Nominated Trustee Directors and their appointment for a term of six years was noted at the February Trustee's meeting. The Trustee would like to thank all the candidates for their interest in the position. Around 30% of eligible members returned clean ballot papers and the Trustee would also like to thank all members who voted.

Trustee

P.A.T. (Pensions) Limited

Trustee Chairman

K Jones, BSc, FIA, MBA, Independent Chairman, Pensioner member

Employer Nominated Directors

A Roffey-Jones, BSc, MA, IPD, Group HR Director, Pearl Group Holdings (No.2) Limited

Q J Zentner, Director, Phoenix Life Legal, 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



Back row L-R: Chris Munro; Alan Roffey-Jones
Front row L-R: Quentin Zentner; Keith Jones;
Tracey Reedman-Taylor; Max Mauchline

Company's Enhanced Transfer Value Exercise

The Company carried out an enhanced transfer value exercise during the second half of 2013. An enhanced transfer value exercise is an exercise where the Company contacts eligible deferred final salary members with an offer of an enhancement to the transfer value available from the Scheme (the enhancement to the transfer value is paid by the Company and not the Scheme). The Company provided independent financial advice to any eligible deferred members who wanted to consider the offer. The Trustee was kept informed at all times on this exercise.

As a result, a total of 770 deferred members transferred out, with around 10% of eligible members taking up the offer. The reduction in the liabilities from this exercise is approximately £12m on the technical provisions basis and £23m on the gilts funding target (details of the two funding bases can be found in the Valuation Report as at 30 June 2012 available on the Scheme's website).

Budget changes - Defined Contribution Benefit Flexibility

In the recent Budget the Chancellor announced some significant changes to allow greater flexibility in how benefits can be taken from Defined Contribution pots. Use of the flexibility will need careful consideration by individuals and might not suit everyone. More detail can be found on the website at www.pearlstaffpensionscheme.co.uk

New Trust Deed & Rules

The Trustee's legal adviser, Reed Smith, has produced a new consolidated Trust Deed and Rules to be signed off shortly by the Trustee and Company. The purpose of the consolidation is to do just that – consolidate all the legislative changes since the previous consolidated Trust Deed and Rules dated 11 November 1999. No material changes were made to the benefit structure of any sections of the Scheme in this consolidation.

Statement of Investment Principles

The Trustee reviews the Statement of Investment Principles (SIP) at least every three years and immediately after any significant change in investment policy. The Trustee will take investment advice and consult with the Company over any changes. The SIP was updated in February 2014 to reflect the new investment strategy for the final salary sections and the following is a summary which covers both the Defined Benefit and Defined Contribution sections of the Scheme.

Defined Benefit section – Investment objective

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 has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

The long-term strategy of the Trustee is to hold sufficient assets to cover all the liabilities of the Scheme measured on the gilts flat funding target by 2031 at the latest.

Defined Contribution section – Investment objective

The Scheme's investment objective is implemented using a range of investment options provided by Henderson Global Investors, Legal & General Assurance (Pensions Management) and Standard Life. Further details can be found in the SIP, a copy of which is available on request from the Scheme's Administrators. In investing the assets of the Scheme in a prudent manner, the Trustee's key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' circumstances, in particular members' attitudes to risk and term to retirement.

Pension liberation – warning

There has been a sharp increase recently in arrangements that encourage pension savers to transfer money away from their occupational scheme, with the promise of cash incentives or the ability to access pension savings prior to age 55 in the form of pension loans. Some arrangements that offer pension liberation are acting fraudulently.

The potential risks of these arrangements are:

- they often charge very high fees which may significantly reduce your pension savings;
- the remaining funds may be invested in high risk investments, sometimes overseas, with the risk that these investments could fail;
- where cash is paid out under a loan agreement this needs to be paid back at some point; and
- where cash is paid out before age 55 this could be considered an 'unauthorised payment' by Her Majesty's Revenue & Customs (HMRC) and could result in large tax charges being made.

The Pensions Regulator is working with a number of agencies in order to crack down on companies operating pension liberation schemes and, in association with The Pensions Advisory Service, has produced some useful literature to help identify such schemes. You can access this leaflet at www.pensionsadvisoryservice.org.uk.

The financial development of the Scheme

Fund Account for the year ended 30 June 2013

Value of Fund as at 1 July 2012: £1,877,936,000

	2013 Final Salary benefits £'000	2013 Money Purchase benefits £'000	2013 Total £'000	2012 Total £'000
Income for the year				
Contributions	26,665	213	26,878	26,368
Investment income	18,386	-	18,386	18,958
TOTAL	45,051	213	45,264	45,326
Expenditure for the year				
Benefits payable	(83,212)	(386)	(83,598)	(82,893)
Payments to, and on behalf of, leavers	(2,711)	(1,159)	(3,870)	(4,564)
Administrative expenses	(2)	-	(2)	-
Investment management expenses	(2,203)	-	(2,203)	(778)
TOTAL	(88,128)	(1,545)	(89,673)	(88,235)
Income less expenditure	(43,077)	(1,332)	(44,409)	(42,909)
Change in market value of investments	64,341	7,040	71,381	141,158
Net increase in the Fund during the period	21,264	5,708	26,972	98,249

Value of Fund at 30 June 2013: £1,904,908,000

Membership

The table below shows the movement of Scheme members during the period 1 July 2012 to 30 June 2013.

	Final Salary	Money Purchase	Total
Total membership 1 July 2012	20,648	1,829	22,477
Active members 1 July 2012	-	65	65
Active members 30 June 2013	-	59	59
Pensioner members 1 July 2012	9,849	85	9,934
Pensioner members 30 June 2013	10,049	93	10,142
Preserved pensions 1 July 2012	10,799	1,679	12,478
Preserved pensions 30 June 2013	10,346	1,655	12,001
Total membership 30 June 2013	20,395	1,807	22,202

The employer contribution rate following the valuation as at 30 June 2012 is 12.1% for money purchase members.

Pension increases

Pension payments in excess of Guaranteed Minimum Pension (GMP) were increased in line with the Scheme Rules by 3.2% on 1 April 2013. The April 2012 increase was 3.7%.

Money Purchase section

Managing your investments

Members of the Money Purchase section can choose to invest in four Henderson funds, three Legal & General funds and the Standard Life Managed Fund. If an investment choice is not made, the member's 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 Fund and the Henderson Global Care Growth Fund.

Fund	12 Month Performance to 30 June 2013	
	Fund (%)	Benchmark (%)
Henderson Institutional Cash Fund	1.2	0.5
Henderson Institutional Global (50:50) Enhanced Equity Fund*	21.7	21.0
Henderson Global Technology Fund	13.9	13.7
Henderson Index-Linked Bond Fund	2.9	2.7
Henderson Global Care Growth Fund	26.1	23.3
Henderson Institutional Overseas Bond Fund*	(1.8)	(1.7)
Legal & General Global Equity (Passive) Fund	9.6	9.6
Legal & General Over 15 Year Gilts Index Fund	(5.5)	(5.5)
Legal & General World Equity Index Fund	14.7	14.8
Standard Life Managed Fund	17.6	16.1

* During the year, the Henderson Enhanced Balanced Fund was merged with the Henderson Institutional Global (50/50) Enhanced Equity Fund and the Henderson Global Bond Fund was merged with the Henderson Institutional Overseas Bond 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 have invested in is advised. Detailed fund performance fact sheets are available on the website at www.pearlstaffpensionscheme.co.uk.**

DC Review

The Trustee carried out a review and took advice on the DC funds at its February Trustee meeting. This considered in detail the items raised by the Pensions Regulator's recent Code of Practice on DC funds. Following this review no changes are needed to the funds.

Option to switch

If you would like to switch any of your existing funds then a switch form is available on the Scheme's website or by calling the administration team on 01733 393020. You can switch all or part of your account between the different funds up to three times a year without charge.

Regular review of investment options

The Trustee is keen to remind members to consider their investment options carefully. Please note however that neither the Trustee nor its advisers are able to provide any investment advice. If you would like advice you should contact an independent financial adviser. More information to help you choose your investment options can be found in the Money Purchase Funds Investment Guide, a copy of which is available on the Scheme's website www.pearlstaffpensionscheme.co.uk where you can also find more information on the individual investment funds.



Final Salary sections

Following the funding agreement reached between the Trustee and the Company in November 2012, the strategy used to invest the assets of the Final Salary sections was updated. This change aims to lessen the volatility of the investments and lower the level of risk to which they are exposed.

The general approach is to manage interest and inflation rate risk by investing a proportion of the assets in a Liability Driven Investment (LDI) mandate, with the remainder invested in corporate bonds and some additional return-seeking assets. The hedge ratio will be further increased when market conditions appear favourable.

Castle Hill update

In July 2013 the Scheme engaged Castle Hill Asset Management LLP and Castle Hill Asset Management LLC to manage around 5% of Scheme assets. Their expertise is in leveraged loans and, investing in these, their objective is to generate a total return of LIBOR plus 3.5%. These companies are associated with the Phoenix group and another group company is a co-investor.

The investment takes the form of senior secured deferrable floating rate notes in CHEFRO (Castle Hill Enhanced Floating Rate Opportunities Ltd), a purpose-formed Irish company. These notes have an Irish Stock Exchange listing – although no public trading is, in fact, expected. The investment managers are to receive investment management fees of 0.65% of gross asset value (which may exceed net asset value) and a 20% performance fee for performance above LIBOR plus 4.25%.

The Trustee was advised that such fees were industry-typical and equivalent to what might have been charged in a fully externally-managed mandate.

The asset allocation is as follows:

Asset Class	Investment Manager	December 2013	Target value	Target range
		%	%	%
Return seeking assets		24.9	25.0	(a)
Property	DTZ	9.8	10.0	0 – 15.0
Global equity	Legal & General	5.9	5.0	0 – 7.5
Leveraged loans	Castle Hill	5.2	5.0	0 – 7.5
Hedge funds	Legal & General	3.9	5.0	0 – 7.5
Other	Legal & General	0.1	0.0	0 – 7.5
Risk reducing assets		73.1	75.0	
Liability hedging portfolio	Legal & General	27.4	25.0	(b)
Corporate bonds	Legal & General	45.7	50.0	(c)
Cash	Legal & General	2.0	0.0	0 - 5
TOTAL		100.0	100.0	

(a) The initial aim is to hold 25% in return seeking assets but this will reduce as opportunities arise to reduce risk.

(b) The target range in relation to the liability hedging portfolio will vary in accordance with the hedging strategy.

(c) The target range for corporate bonds will vary with the intention that these holdings cover the remainder of the assets.

Summary Funding Statement – Final Salary Sections only

The latest formal valuation of the Scheme was carried out as at 30 June 2012, with the results being communicated to members last September. In that report, we explained that, following the funding agreement reached between the Trustee and the Company in November 2012, the funding position would be monitored and reported on using two separate bases; the intermediate target and the gilts flat basis.

These two measures have been adopted firstly to ensure that the Scheme reaches its target of being 100% funded (measured against its liabilities, or the amount it would need to pay out to cover all members' benefits) and secondly to strengthen the Scheme's overall position by using a conservative method of valuation (the gilts flat basis) to further improve the position of the Scheme.

The valuation showed that on 30 June 2012, the funding position of the Scheme (excluding Money Purchase and AVC assets and liabilities) was as follows:

	Intermediate target	Gilts flat funding target
Assets	£1,832m	£1,832m
Amount needed to provide benefits	£2,312m	£2,674m
Shortfall	£480m	£842m
Funding level	80%	69%

A copy of the Actuarial Valuation Report can be found on the website www.pearlstaffpensionscheme.co.uk.

Funding update as at 30 June 2013

A formal valuation of the Scheme must be carried out at least every three years. During the years between valuations, the Scheme Actuary calculates changes in the Scheme's funding position to provide a yearly update. As at 30 June 2013 the Actuary's updated figures showed that the Scheme's funding level stood at 79% on the intermediate funding basis. The main reason for the funding level being lower than at the valuation (80%) is due to a reduction in short-term credit spreads which increased the value placed on the liabilities. The funding level as at 30 June 2013 on the gilts funding basis was 71% compared to the level as at 30 June 2012 of 69%. The main reasons for this increase was the deficit funding contributions paid by the Company and changes in the shape and level of the gilt yield curves.

It is important to remember that these figures represent a snapshot of the Scheme's position on one particular day. You should also keep in mind that pensions are a long-term investment.

As part of the actuarial valuation, the law also requires an assessment to be made of the extent to which the assets would cover the liabilities of the Scheme if the Scheme were to start to wind up. The last valuation, as at 30 June 2012, showed that the Scheme assets represented approximately 64% of the cost of securing the Scheme benefits with an insurer.

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.

While the Scheme remains on-going, even though funding is temporarily below target, benefits at retirement or on the death of a member will continue to be paid in full.

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.

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 (called actuarial valuations).

The importance of the Company's support

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, the success of the Scheme relies on the Company continuing to support it 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 were to wind up, you might not get the full amount of pension you have built up. In this situation, the Company is required to pay enough into the Scheme to enable the 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 might be able to take over the Scheme and pay compensation to members.

Further information and guidance is available on the Pension Protection Fund's website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

Why does the funding plan not call for full solvency at all times?

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. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By 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 advisers, such as an independent financial adviser, before taking any action.

Where can I get more information?

If you have any other questions, or would like any more information, please contact the Scheme Administrators. The following is a list of more detailed documents that provide further information. If you want us to send you any of these documents please let us know.

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 up to 30 June 2013.

The full Report on the Actuarial Valuation, following the Actuary's check of the Scheme's financial situation as at 30 June 2012.

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.

Advisers to the Scheme

Secretary

C L Wilson, BSc, FPMI
First Actuarial LLP

Sponsoring Employer

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

Actuary

Towers Watson
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
Lawrence Graham LLP

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.

Investment Managers

Final Salary sections

Castle Hill Asset Management LLP
DTZ Investment Management Limited
Legal & General Assurance
(Pensions Management) Limited

Money Purchase section

Henderson Fund Management plc
(trading as Henderson Global Investors)
Legal & 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

Telephone: 01733 393020

Fax: 01733 393049

Email: pearl@firstactuarial.co.uk

Website: www.pearlstaffpensionscheme.co.uk



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