

Your

Pension Matters

The Trustees' report to members

Welcome

It is a pleasure to present the latest issue of Your Pension Matters, the newsletter for members of the Pearl Group Staff Pension Scheme. It brings you the latest news from the Scheme as well as an update about pensions in general.

You can read about the Scheme's finances on page 10, where there is a summary of the year to 30 June 2018, taken from the formal Report and Accounts. This is followed by information about the Scheme's investments for **Final Salary** section members.

The latest actuarial valuation of the Scheme, looking at the position as at 30 June 2018, is currently in progress and so there is no Summary Funding Statement in this year's newsletter. We will send you an update later in the year.

If you are a member of the **Money Purchase** section, you can find the latest fund performance information on page 16. Thinking ahead about how you would like to access your money purchase savings at retirement is useful when reviewing your investment choices. Don't forget you can make changes at any time through the year.

We hope you find this newsletter interesting and useful. We welcome your feedback and if there are any subjects you would like to know more about in a future issue, please get in touch with the Scheme administrators, using the contact details on the back page.

Keith Jones, Chairman of Trustees

At a glance...

For the year to 30 June 2018, highlights from the Scheme include:

As at 30 June 2018, the Scheme's assets were worth **£2,721 million**

The Company paid contributions of **£40 million** in line with the funding agreement

During the year, the value of benefits paid to members was **£84 million**

The Scheme had **18,818 members**



Scheme news

Looking after your data

The Trustees of the Scheme, as data controllers, hold certain personal information about you in order to run the Scheme and pay benefits to members. This personal data is held in accordance with the General Data Protection Regulation (GDPR), which came into effect in May 2018.

You will have received a privacy notice outlining how we hold, process and share your data. This notice is updated from time to time and the latest version is available on the Scheme website.

Member tracing and existence checks

The Trustees want to keep in touch with all members of the Scheme and keep their member records up to date. The Trustees carry out monthly checks to make sure that they are not paying any pensions to members who may have died. As these checks are complex, it may only provide a partial match, therefore if you are a member of the Scheme and in receipt of a pension, you may receive a communication from the Scheme administrators to check your details.

Please note that generally we do not contact you by telephone but if a matter is urgent, we may phone you. Given the prevalence of pension scams, if you have any doubt that it is a genuine call or correspondence, do not proceed any further and call the Scheme administrators directly on 01733 447620.

The Trustees also try to trace any members where they do not hold a current address. Again, the Scheme administrators may contact you to confirm your address.

Guaranteed Minimum Pension (GMP) reconciliation

We mentioned in Your Pension Matters last year that all schemes are required to reconcile their GMP member data against HMRC records. The Scheme administrators have completed this complex exercise by the required deadline and all affected records have been corrected.



GMP equalisation

As you may have seen in the news, the High Court has ruled that Lloyds Banking Group must equalise its Guaranteed Minimum Pensions (GMP) for men and women. This is an extension of the existing requirement to treat men and women equally in relation to their pension benefits.

While the judgment relates specifically to Lloyds, it is likely that other UK defined benefit schemes with GMPs, like ours, will also need to take action at some point in the future. It could affect you if you were an active member of the Scheme between 17 May 1990 and 5 April 1997. If so, it's possible that your benefits will need to be recalculated which might result in a small increase to your entitlement.

Official guidelines on how GMPs should be equalised are not yet available, but the Trustees are monitoring the situation and will work with their advisers as required.

Due to the complexity of the issue, it may take some time to implement any changes necessary. You don't need to do anything as we will contact any members who are affected by this in due course. This update is intended for your information only. Meanwhile, we will continue to provide benefits on the current basis.



Company news

Phoenix Group update

by Jim McConville, Group Finance Director, Phoenix Group

I am pleased to provide an update on developments at Phoenix over the last year. Phoenix Group continues to specialise in the acquisition and management of closed life insurance and pension funds – known as heritage books.

Phoenix is now the largest consolidator of heritage life insurance books in Europe. In 2018, Phoenix completed the £2.9bn acquisition of Standard Life Assurance Ltd ('SLAL') which was the UK and European insurance business of Standard Life Aberdeen plc, as well as completing the successful integration of the Abbey Life business.

The SLAL transaction was underpinned by a strategic partnership with Standard Life Aberdeen, where Phoenix manufactures retail and workplace pension products that Standard Life Aberdeen markets and distributes. The Group now has over 10.4 million policyholders and £240bn of assets under management and has expanded into wider Europe with operations in Ireland and Germany.

The Phoenix Group entered the FTSE 100 index on 18 March 2019.

Bringing Pearl archives to life

In May, Phoenix Group appointed an archivist to capture, preserve and bring our valuable corporate heritage to life. Phoenix can trace its history back to 1782, and the records it has reveal some fascinating stories, reflecting the economic and social transformation of Britain.

The archive seeks to preserve material which reflects the development and operations of Phoenix Group, its predecessors and subsidiaries. This includes, but is not limited to, governance records, reports, correspondence, press releases, promotional material, staff magazines, photographs and film.

Pearl Assurance, London Life, NPI and AMP all make up a significant part of the archive. They pioneered so many developments in the life-assurance industry and established themselves as respected household names. The archivist's job is to gather these items from different areas in the business into one central repository.

There was previously an established Pearl Assurance archive collection and many items from that collection are currently in Peterborough. Work is now under way to transfer them to the central collection.

If you would like to find out more or donate anything of historical interest, please get in touch:

By email:

archives@thephoenixgroup.com

By post:

Ayah Al-Rawni
Lead Archivist
Phoenix Group
1 Wythall Green Way
Wythall
Birmingham
B47 6WG

Phoenix Group website

Phoenix has been an historical insurance brand in the insurance world since 1782. From its beginnings more than 200 years ago, it has grown to become Europe's largest specialist consolidator of heritage life assurance funds. To see the full history of the Group, follow the link below and click on 'View the Phoenix Group timeline': <http://www.thephoenixgroup.com/about-us/company-history.aspx>

Pension Increase Exchange (PIE) exercise

In June 2018, the Company wrote to eligible pensioners to offer them the option to receive a one-off increase to their current level of pension income by giving up the right to future non-statutory increases that would otherwise be applied to part of their pension. The offer was made to exchange these for a higher flat rate pension with this part of the pension not receiving future increases. This is known as a Pension Increase Exchange (PIE).

This was a Company initiative, but the Company kept the Trustees fully informed throughout the process. Approximately 39% of eligible pensioners contacted by the Company accepted the PIE offer. The exercise resulted in a reduction of around £20m in the Scheme's liabilities.



Running the Scheme

The Scheme is run by a corporate Trustee called P.A.T. (Pensions) Limited. There are six Trustee Directors, three of whom are appointed by the Company, including an independent chair, and three are nominated by members of the Scheme.

If you would like to know more about your Trustee Board there is further information available on the Members' page of the Scheme website.

Your Trustee Directors

Keith Jones (independent chair)
Bob Seaman (company appointed)
Quentin Zentner (company appointed)
Graham Felston (member nominated)
Max Mauchline (member nominated)
Chris Munro (member nominated)

Secretary to the Trustees

Clare Wilson, First Actuarial LLP

The Trustees have appointed the following professional advisers to help run the Scheme.

Actuary

Neil Wearing FIA, Willis Towers Watson

Auditor

PricewaterhouseCoopers LLP

Investment adviser

Aon Hewitt Limited

Custodians

State Street Bank and Trust Company

Credit advisers (employer covenant)

PricewaterhouseCoopers LLP

Banker

HSBC Bank PLC

Main legal advisers

Reed Smith LLP

Sponsoring employer

Pearl Group Holdings (No. 2) Limited (part of the Phoenix Group)

The Scheme's finances

The information on these pages is a summary that has been taken from the Trustees' formal Report and Accounts for the year to 30 June 2018.

Fund value at 1 July 2017: £2,725m (including Money Purchase assets of £60m)

	12 months to 30 June 2018 (£m)			(£m)
	Final Salary	Money Purchase	TOTAL	2017 TOTAL
Income				
Contributions	40.0	0.6	40.6	70.6
Investment income	18.5	-	18.5	15.5
Total	58.5	0.6	59.1	86.1
Expenditure				
Benefit payments to members	-83.9	-0.2	-84.1	-83.3
Payments to leavers*	-48.7	-6.4	-55.1	-59.5
Investment expenses	-5.0	-	-5.0	-3.4
Total	-137.6	-6.6	-144.2	-146.2
Income less expenditure	-79.1	-6.0	-85.1	-60.1
Change in market value	78.3	3.2	81.5	195.5
Net increase/decrease	-0.8	-2.8	-3.6	135.4
Fund value at 30 June 2018: £2,721m (including Money Purchase assets of £60m)				

*Deferred members have continued to transfer out of the Scheme as a result of the increased pensions flexibilities.

Who's in the Scheme?

As at 30 June 2018, there were 18,818 members in the Scheme.

Final Salary section

Active members - 0

Deferred members - 7,421

Pensioner members - 9,862

Total - 17,283

Money Purchase section

Active members - 38

Deferred members - 1,391

Pensioner members - 106

Total - 1,535

Hybrid members are those members who have both Final Salary and Money Purchase benefits. They are included in the totals for the Money Purchase section.

Final Salary section

Investment strategy

The Trustees are responsible for investing the Scheme's assets. Taking advice from their investment adviser, the Trustees' strategy also takes account of the membership profile and the structure and duration of the Scheme's liabilities. The day-to-day management of the asset portfolio is delegated to the investment managers.

The long-term objective is for the assets to produce an annual return of at least 2.5% above the liabilities. A minimum-risk benchmark has been constructed, representing the value of the liabilities, to use as a measure for the performance of the assets.

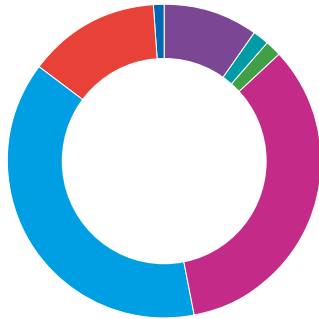
Work continues to bring the Scheme's portfolio up to the target level for investment in infrastructure equity. A further investment manager, DIF Management B.V., was therefore appointed in January 2018 to manage a portfolio of infrastructure equity.

The Scheme's assets are divided between return-seeking investments to achieve long-term growth and risk-reducing investments, which aim to manage inflation and interest-rate risks.



Asset allocation

The Scheme's initial target was to hold 25% in return-seeking assets and this level will reduce as de-risking occurs. In line with this long-term funding plan, the Trustees sold their equity holding in December 2018. As at 31 December 2018, the Scheme's actual asset allocation was:



	Actual
Return-seeking assets	
Property	9.8%
Hedge/private equity funds	1.7%
Infrastructure equity	1.6%
Risk-reducing assets	
Liability hedging	34.1%
Corporate bonds	38.1%
Infrastructure debt	13.7%
Cash	1.0%

The above figures are provided directly by the investment managers and are unaudited (subject to rounding).



Final Salary section continued

Investment performance

During the year to 30 June 2018, the Scheme's investments underperformed the benchmark by -0.7%, however over the three-year and five-year periods, annualised returns have been positive, outperforming their benchmarks.

Annualised return over	One year	Three years	Five years
Scheme	1.0%	8.3%	10.0%
Benchmark	1.7%	7.6%	9.4%
Difference	-0.7%	0.6%	0.6%

The majority of the Scheme's assets are invested with the aim of achieving returns broadly in line with their benchmark. At a total Scheme level, performance relative to benchmark is mainly due to differences between the long-term strategic asset allocation and the actual asset allocation.

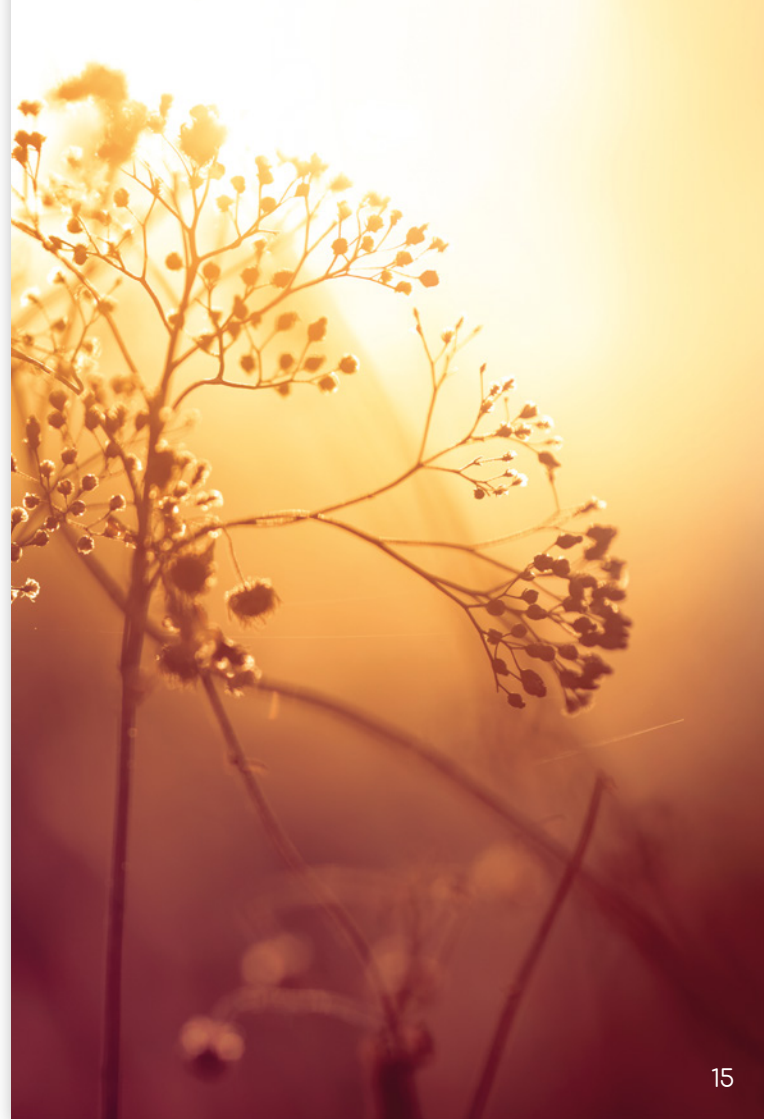


Putting a value on the Scheme

Every three years, the Scheme's actuary carries out a full actuarial valuation. This is a detailed snapshot of the financial position of the Scheme on a given date, in our case 30 June.

The actuary compares the value of the Scheme's assets with that of the liabilities and the funding level is expressed as the percentage of the liabilities that can be covered by the assets. In the years in between valuations, the actuary also provides an estimated update of the funding position.

The most recent full valuation, looking at the position as at 30 June 2018, is currently in progress. Early indications suggest the results will show that the funding level has increased since the previous valuation as at 30 June 2015 (and since the estimated update as at 30 June 2017). It is a complex process and the final results won't be known for some time, but we will send you an update later in the year when the results have been agreed between the Trustee and the Company.



Money Purchase section

There are two investment approaches offered in the Money Purchase section. You can choose how you would like to invest your savings in the way that suits you best.

The **Retirement Pathway** is for members who prefer not to make decisions about which specific funds to invest in. Instead, when you are still a long way from retirement, your Account is invested in funds to maximise growth over the long term. Then, when you get closer to retirement, your Account is gradually and automatically moved into lower-risk investments to protect the value of your savings. When you are within five years of retirement, you can choose the Retirement Pathway that matches how you would like to access your savings.

Retirement Pathway funds

Performance (Gross) for the year to 31 December 2018 (%)

Aon Managed Retirement Pathway Fund	Portfolio	Benchmark	Relative
2016 – 2018 Fund	-2.5	-0.8	-1.7
2019 – 2021 Fund	-2.7	-1.0	-1.7
2022 – 2024 Fund	-3.3	-1.2	-2.1
2025 – 2027 Fund	-3.0	-1.5	-1.5
2028 – 2030 Fund	-2.9	-2.0	-0.9
2031 – 2033 Fund	-2.7	-2.9	0.2
2034 – 2036 Fund	-2.8	-3.2	0.4
2037 – 2039, 2040 – 2042, 2043 – 2045 Funds	-2.7	-3.2	0.5
2046 – 2048 Fund	-2.8	-3.2	0.4
Aon Managed Retirement Pathway Fund to Cash			
2016 – 2018 Fund	0.6	0.5	0.1
2019 – 2021 Fund	-0.7	-0.2	-0.5

The **Self-Select funds** are for members who are comfortable making their own investment decisions. You can choose from a range of funds that include different types of investments and have different levels of risk. If you are using the Self-Select funds, it's important to check your investments regularly to make sure they are on track with your retirement plans.

Please remember that past performance is not a guide to future returns and the value of your investments can go down as well as up.

Self-Select funds

Performance (Gross) for the year to 31 December 2018 (%)

Fund name	Portfolio	Benchmark	Difference
Active Global Equity	-5.4	-3.0	-2.4
Active UK Equity	-10.4	-9.5	-0.9
Global Equity	-3.3	-3.8	0.5
Liquidity	0.6	0.5	0.1
Long-term Inflation Linked	-0.5	-0.4	-0.1
Passive Corporate Bond	-1.5	-1.5	0.0
Pre-Retirement Bond	-1.3	-1.5	0.2
Progressive Growth Phase	-6.8	3.7	-10.5
Property & Infrastructure	2.0	1.9	0.1

Details of annual management and additional charges can be found on the Scheme website.

Money Purchase section continued

Thinking about your retirement income

It's a good idea to think about how you will prefer to manage your income when you retire. Do you want a regular, guaranteed income? Maybe you need a cash lump sum? Or perhaps you would you like to take income as and when you need it?

You can use your Money Purchase Account to:

- buy an annuity – an insurance product that provides a taxable income for life
- take cash – access your entire Account in one go as a taxable cash lump sum
- take income drawdown – leave your savings invested and take taxable cash as and when you need to
- use a combination of these choices.

What's your target retirement age?

Did you know you can change your Money Purchase target retirement age? It's really important to let the Scheme administrators know if you plan to retire earlier or later than your normal retirement date. That way, you won't miss out on a longer period of growth if you plan to retire later or have your savings exposed to market volatility close to retirement if you plan to retire earlier.





Are your investments on target?

Don't forget to keep an eye on your investments on a regular basis – whether you are using a Retirement Pathway or the Self-Select funds. Fund factsheets are available on the Scheme website.

You can make changes to your investments at any time – it's free to make changes up to three times during a year. Simply fill in an Investment Option form, available from the Scheme administrators or the Scheme website.

Chair's statement

As required by legislation, the Trustees have included a DC Chair's statement in the Scheme Report and Accounts. A link to the full statement is available on the Scheme website.

Get in touch

If you have any questions about the Scheme or your benefits, please contact the Scheme administrators:

Call us:

01733 447620

Email us:

pearl@firstactuarial.co.uk

Write to us:

Pearl Group Staff Pension Scheme

First Actuarial LLP

First House

Minerva Business Park

Lynch Wood

Peterborough PE2 6FT

Use the Scheme website:

www.pearlstaffpensionscheme.co.uk

Please remember!

If you move house or your personal circumstances change, please let us know so we can keep in touch with you and pay your benefits when they are due.