Pearl Group Staff Pension Scheme

Report on the Actuarial Valuation
as at 30 June 2012

Welcome

Welcome to the Pearl Group Staff Pension Scheme Actuarial Valuation Report. The information in this booklet has been produced following the Scheme's latest actuarial valuation which was carried out by the Scheme Actuary from Towers Watson.

The actuarial valuation provides a snapshot of the Scheme's health, as at 30 June 2012. By law, a full actuarial valuation must be carried out every three years. The valuation has two main purposes; it checks whether the Scheme has enough assets to be able to pay out members' benefits in the future, and it calculates the level of future contributions needed for the Scheme to be able to pay those benefits as they become due.

Pearl Group Holdings (No.2) Limited continues to be the sponsoring employer for the Scheme, and is referred to throughout this report as 'the Company'. In 2012, after the previous full valuation, the Group changed its name from Pearl to Phoenix.

The actuarial valuation has an effective date of 30 June 2012. Data is provided a couple of months after the effective date to allow all member movements during the period to be included and then the complex calculations take a number of months to complete. Discussion takes place between the Trustee and the Company on the assumptions to be used in the calculations and when agreed, the valuation can be completed and signed off. This means that the results are not normally available until at least a year after the valuation date. Where possible we have included more up to date information in this report, for example the investment strategy update. The next funding update with an effective date of 30 June 2013 will be provided in the Short Report issued to members early in 2014.

Contents

The new funding agreement 2012

In the last actuarial valuation report we told you about the funding agreement which had been reached between the Trustee and the Company.

The 2009 agreement was reached at a time of financial difficulty for the Company, with the intention that, should the Company's circumstances improve, an improved funding agreement could be secured to strengthen the Scheme's position. Hence in November 2012 a new funding agreement was reached. Here is a summary of the key points:

- **Accelerated Company contributions** – planned contributions will be significantly raised. £70 million to be paid in both September 2013 and September 2014, followed by £40 million each year from September 2015 to September 2021 (inclusive). Should there be a shortfall after 2021, annual payments will be made to address this.
- **Commitment to a gilts flat funding target has been retained** – the Trustee's target is to reach 100% funding on a 'gilts flat basis' by 2027, or 2031 at the latest. The gilts flat basis is a conservative measure of valuation, therefore it encourages the Scheme to build up a strong reserve with which to meet its liabilities in the future.

  Initially there will be an intermediate target to be 100% funded by 30 June 2022 on the amount of the Scheme's liabilities calculated using gilts yields plus a prudent margin. This intermediate target will assist in monitoring to ensure we are on track to meet the longer term target. Both the gilts flat funding and intermediate target funding positions are shown on page 5.
- **Additional safety and fairness measures** – a number of tests to monitor the Company's performance in relation to the Scheme's shortfall and an improved sharing mechanism to provide accelerated contributions in certain circumstances have been agreed. These together with improved steps to protect the Scheme if the Company fails to meet its obligations have all strengthened the Scheme's position as a result of the new agreement.

For more information on the new funding agreement, visit: **www.pearlstaffpensionscheme.co.uk** and look at the section 'Latest news'.

The 2012 valuation – a summary of the results

The most recent actuarial valuation of the Pearl Group Staff Pension Scheme was carried out as at 30 June 2012.

The Statutory Funding Objective (SFO) requires that the Scheme holds sufficient assets to cover the value of its liabilities or ‘Technical Provisions’.

The Trustee, with the Employer’s agreement, decides how to calculate the value of the Technical Provisions (an estimate of the assets needed to pay benefits when they are due).

If a valuation shows that a scheme is not meeting the SFO it must put in place a recovery plan to show how the scheme will achieve its target over a set period of time.

Following the new funding agreement in 2012, the Scheme monitors the funding position on two bases described on page 3. The gilts flat funding target is consistent with the stronger valuation basis used for the 2009 valuation and indicated that the funding level on this basis has improved from 67% to 69%.

The Trustee and Company agree the following documents as part of the valuation:

- Statement of Funding Principles, which sets out the Scheme's funding plan and the method and assumptions used for the valuation.
- Recovery Plan, which sets out the steps to be taken to ensure that any shortfall against the SFO is made up in a set period of time.
- Schedule of Contributions, which sets out the contributions due from the Employer.

	30 June 2012	
	Intermediate target (Technical Provisions) **£m**	**Gilts flat funding target** **£m**
Amount required to provide for the Scheme's liabilities of:		
Pensioners and dependants	1,296	1,429
Deferred pensioners	994	1,216
Employed members, in respect of service up to valuation date	0	1
Money purchase funds and AVCs	46	46
Expenses	22	28
Total value of accrued benefits	2,358	2,720
Market value of assets	1,878	1,878
Past service deficit (value of accrued benefits less assets)	480	842
Funding level (assets ÷ total value of accrued benefits)	80%	69%

The last actuarial valuation of the Scheme, carried out as at 30 June 2009, showed that the funding position at that time stood at 67%.

The following table summarises the change in the Scheme's funding position since the date of the last actuarial valuation.

Summary of the changes from the position in 2009 to the position in 2012		
	Intermediate target (Technical Provisions) £m	Gilts flat funding target £m
Surplus/(Deficit) as at 30 June 2009	**(755)**	**(755)**
Interest on the shortfall	(115)	(115)
Extra company contributions	122	122
Higher than assumed investment returns	251	251
Effect of updated financial conditions and assumptions	(105)	(467)
Release of reserves from commutation and transfers out	20	20
Miscellaneous – including pensioner mortality experience	(6)	(6)
Effect of updated demographic assumptions	(61)	(61)
Reduction on liability resulting from PIE exercise	17	17
Change from RPI to CPI indexation	120	120
Restatement of value of 2009 liabilities	32	32
Surplus/(Deficit) as at 30 June 2012	**(480)**	**(842)**

- The change from RPI to CPI does not affect pension increases in payment but has changed future revaluations of deferred pensions from RPI to CPI.
- Examples of financial assumptions include assumptions for returns on investments, inflation, future pension increases and revaluation in deferment.
- Examples of demographic assumptions include life expectancy and proportion of members that are married.

It is important to remember that pensions are a long-term investment and that the Scheme is constantly monitored. The Trustee has reviewed its investment strategy for the Final Salary sections of the Scheme (page 8) and will continue to do so as market conditions change. The new funding agreement reached by the Trustee and the Company will also strengthen the Scheme's position (see page 3 for more details on this).

Summary Funding Statement

The latest valuation of the Scheme showed that on 30 June 2012, the funding position (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%

*this is the Scheme's Technical Provisions for the valuation. Please note these figures are subject to rounding.

The Trustee and the Company have entered into an agreement to fund this deficit – you can read more about this agreement on page 3.

The previous annual update on the gilts funding basis as at 30 June 2011 was 75%, this has dropped to 69% as at 30 June 2012. The reason for the change in the funding level was that although the assets increased, the liabilities increased by more, due to falling gilt yields. The Trustee and the Company also reviewed the life expectancy assumptions as part of the 2012 valuation which also slightly increased the liabilities. A note of the impact of gilt yields on the Scheme is included in the Frequently Asked Questions section of the Scheme website.

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.

If the Scheme had started winding up (full solvency), it is estimated that the assets available would have been sufficient to secure 64% 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.

Payment to the Company

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

A new investment strategy

The following changes in the investment strategy are in respect of the funding of the Final Salary sections of the Scheme only.

Final Salary sections

As part of the new funding agreement between the Company and the Trustee, a new strategy for investing the assets of the Final Salary sections of the Scheme was agreed.

The new strategy is designed to lessen the volatility of the investments.

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.

Asset Class	June 2013 (£m) (%)	Target value (£m) (%)	Target range (%)
Return seeking assets	**20.8**	**25.0**	(a)
Global equity	5.9	5.0	0 - 7.5
Property	8.6	10.0	0 - 15.0
Leveraged loans	-	5.0	0 - 7.5
Hedge funds	6.2	5.0	0 - 7.5
Other	0.1	0.0	0 - 7.5
Risk reducing assets	**72.4**	**75.0**	
Liability hedging portfolio	27.5	25.0	(b)
Corporate bonds	44.9	50.0	(c)
Cash	**6.8**	**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 de-risking occurs.
(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.

The above figures are provided directly by the investment managers and are unaudited.

An allocation of 25% of the Scheme's assets will be invested in collateral for the interest rate and inflation rate hedging. Initially, 65% of the inflation and interest rate risk was hedged. Following further discussions with the Company, the hedge was increased to 80% in February 2013. The hedge ratio will be further increased to 100% when market conditions appear favourable.

The assets will be managed as follows:

Equities	**Legal & General** will continue to manage the equities.
Property	**DTZ** will continue to manage the property.
Leveraged loans	**Castle Hill** was appointed in July 2013 to manage this portfolio.
Hedge funds	**Ignis Investment Management** will continue to manage the hedge funds.
Liability hedging portfolio	**Legal & General** have been appointed to manage this portfolio.
Diversified corporate bond portfolio on a buy to hold basis	**Legal & General** will manage this portfolio and the corporate bonds currently with **Ignis** will be transferred to **Legal & General**.

Money Purchase section

The Trustee's key investment aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. This means ensuring that members' circumstances are considered, with particular focus on attitudes to risk and term to retirement.

There are no changes to the choice of Money Purchase funds available at this time but the Trustee does keep this under regular review.

Money Purchase contributions for active members

The valuation found that future Company contributions for the Money Purchase section members must be paid at 12.1% of members' salary. As the Final Salary sections have been closed to future accrual no ongoing contributions for future service are required.

How the Scheme operates

How is my pension paid for?

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 were 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.

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.

Please help us to keep in touch with you by telling us if you change address.

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 2012.

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.

Next review

The next full actuarial valuation of the Scheme will be carried out no later than 30 June 2015.

Get in touch

If you have any queries about your benefits or the valuation, please contact the Scheme Administrators using the details below:

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

www.pearlstaffpensionscheme.co.uk

Important warning
There has been an increase in companies operating schemes which encourage pension savers to transfer monies away from occupational schemes, promising cash incentives, or the ability to access pension savings prior to age 55 in the form of pension loans. Unless someone is in ill health, it's against the law to access pension funds before the age of 55. The Pensions Regulator has produced written information on this topic; visit **www.pensionsadvisoryservice.org.uk** and click on 'Pension fraud campaign' for more details.

Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser such as an independent financial adviser, before taking any action.