Pearl Group Staff Pension Scheme

Scheme Funding Update

Actuarial Valuation as at 30 June 2018

Welcome

I am pleased to present the results of the most recent actuarial valuation of the Pearl Group Staff Pension Scheme, looking at the financial position as at 30 June 2018.

Every three years, the Scheme actuary carries out a full actuarial valuation of the Scheme, as required by law. Its two main purposes are:

- to check whether the Scheme has enough money to pay members' benefits in the future
- to calculate the level of future contributions needed for the Scheme to pay benefits as they become due.

I am pleased to report a further improvement in the Scheme's funding level since the 2015 valuation. The funding level on the intermediate funding target (technical provisions) has improved from 88% to 104% and on the gilts flat funding target from 81% to 96%. We provide more information in this booklet.

We monitor the funding level regularly and in between formal valuations, the Scheme actuary provides us with annual updates. The next full actuarial valuation will be due as at 30 June 2021, whilst an interim funding update looks at the position as at 30 June 2019. We will bring you the results of this update in the next issue of *Your Pension Matters* in early 2020.

Keith Jones
Chair of Trustees

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'.

Valuation highlights
as at 30 June 2018

On the INTERMEDIATE FUNDING TARGET (TECHNICAL PROVISIONS) basis:

- The funding level has improved from 88% to 104%.
- The Scheme had a deficit of £300 million at the previous valuation in 2015 and now has a surplus of £104 million.

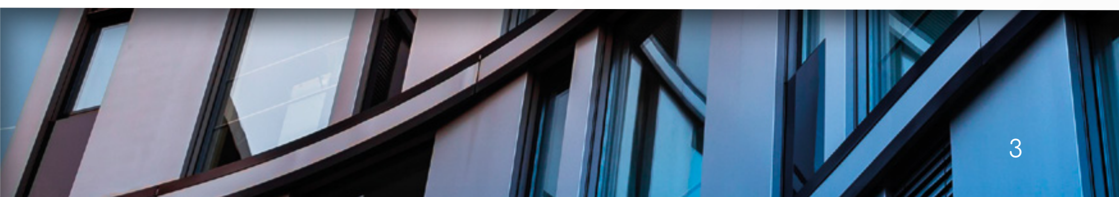
On the GILTS FLAT FUNDING TARGET basis:

- The funding level has improved from 81% to 96%.
- The Scheme's deficit has reduced from £536 million to £126 million.

What measures are used to value the Scheme?

The Trustees monitor the Scheme funding position on two bases:

- the **INTERMEDIATE FUNDING TARGET** (technical provisions), as required by law, is an estimate of the money needed to pay members' pensions when they are due
- the **GILTS FLAT FUNDING TARGET** is a more cautious measure and is expected to protect the Scheme better against future risks. The technical provisions will be changed to the gilts flat funding target in 2031, or earlier when the assets reach that target.



Valuation 2018 results

The position as at 30 June 2018

	Intermediate funding target (technical provisions)	Gilts flat funding target
Market value of assets*	£2,721m	£2,721m
Amount needed to provide benefits*	£2,617m	£2,847m
Surplus / (Deficit)	£104m	(£126m)
Funding level	104%	96%

*includes money purchase funds and AVCs

The value of the Scheme's liabilities takes account of the following benefits and expenses:

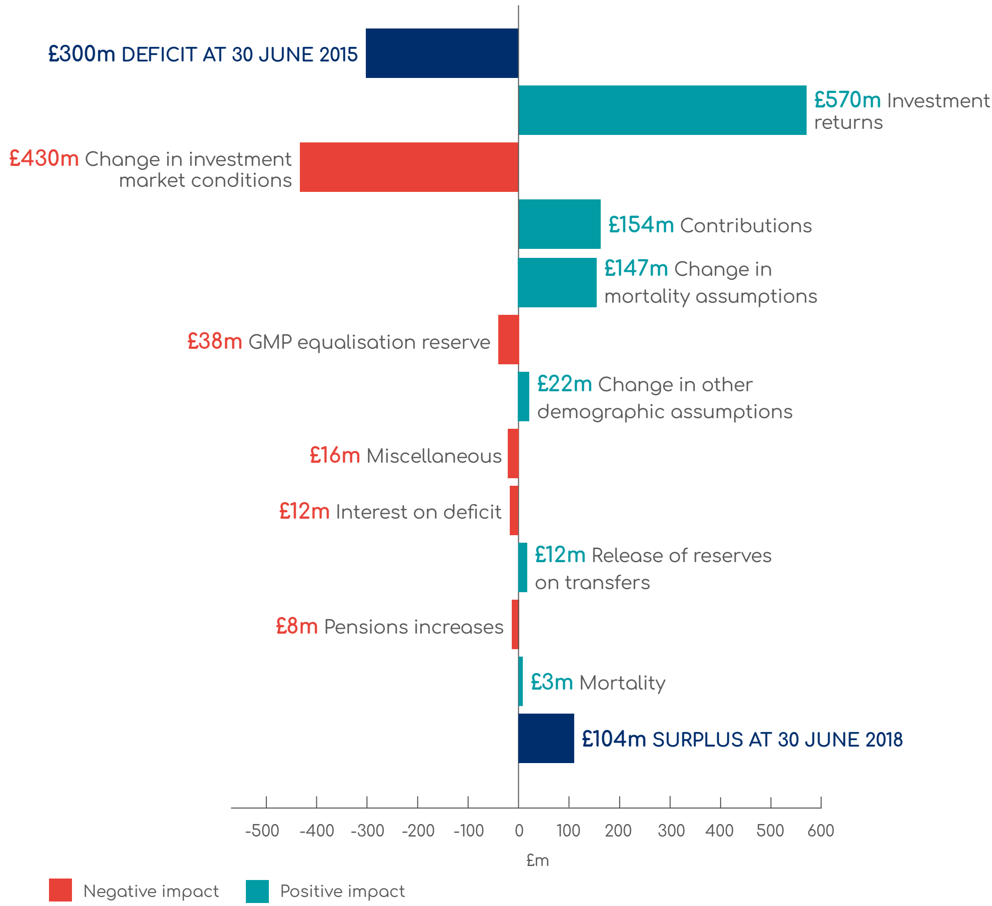
	Intermediate funding target (technical provisions)	Gilts flat funding target
Pensioners and dependants	£1,430m	£1,521m
Deferred pensioners	£1,054m	£1,186m
GMP equalisation reserve	£38m	£41m
Expenses	£33m	£37m
Money purchase funds and AVCs	£62m	£62m
Total liabilities	**£2,617m**	**£2,847m**

GMP equalisation

Following a High Court ruling in October 2018, the Trustees and the Company are aware that members' benefits may need to be equalised in respect of Guaranteed Minimum Pensions (GMPs) earned between May 1990 and April 1997. It is assumed that this will increase the liabilities by approximately 1.5%.

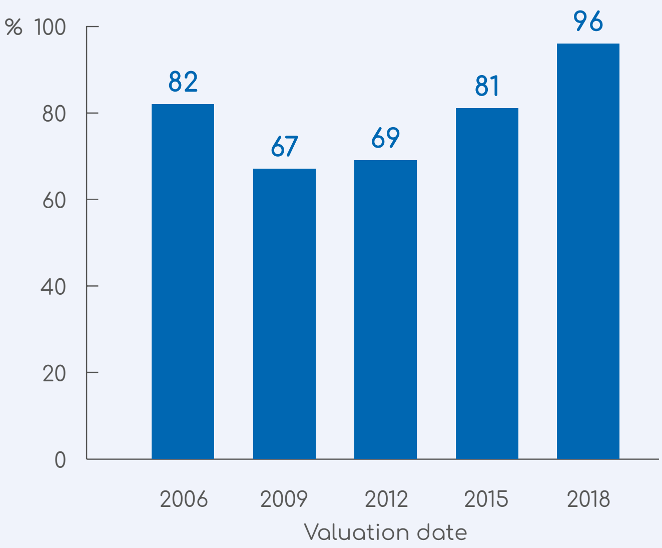
How has the position changed?

On the technical provisions basis, the Scheme has moved from a deficit to a surplus since the previous valuation. The main factors contributing to this improvement are shown below:



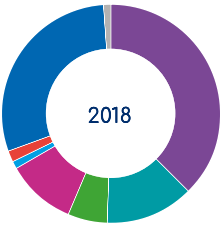
Scheme funding progress (gilts flat funding target)

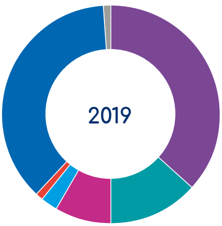
The chart below shows the developments in the Scheme's funding position before and after the 2008 credit crunch/financial crisis on the gilts flat funding target.



How are the assets invested?

The Trustees' investment strategy is set out in a document called the Statement of Investment Principles (SIP), a copy of which is available on request from the Scheme administrators. The charts show how the Scheme's assets were invested as at 30 June 2018 and 30 June 2019.





Asset class	Proportion 2018	Proportion 2019
Corporate bonds	38.4%	37.0%
Infrastructure debt	13.2%	13.3%
Global equities	6.0%	0.0%
Property	10.5%	8.4%
Infrastructure equity	0.9%	2.4%
Legacy hedge funds	1.8%	1.2%
Liability hedging portfolio	28.3%	37.1%
Cash	0.9%	0.5%
TOTAL	**100.0%**	**100.0%**

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

Money Purchase section

The Trustees provide a range of suitable investments for members' long-term and short-term investment objectives. They consider members' circumstances and attitude to risk. You can find details of the funds currently available and performance in the Investment Guide and factsheets on the Scheme's website.

Money Purchase contributions for active members

The valuation assessed that the future Company contributions to the Money Purchase section must be paid at 12% of pensionable earnings. This covers Company contributions and future expenses. As the Final Salary sections are closed to future accrual, no ongoing contributions for future service are required.

Summary funding statement

The latest valuation of the Scheme showed that on 30 June 2018, the funding position (excluding Money Purchase and AVC assets and liabilities) was as follows:

	Intermediate funding target (technical provisions)	Gilts flat funding target
Market value of assets	£2,659m	£2,659m
Amount needed to provide benefits	£2,555m	£2,785m
Surplus / (Deficit)	£104m	(£126m)
Funding level	104%	96%

The Scheme's funding level improved to 104%, based on the intermediate funding target (technical provisions) as at 30 June 2018 (compared with 96% at the 30 June 2017 update). The main factors contributing to this improvement were:

- better-than-expected investment returns
- the additional contributions paid into the Scheme
- changes to the data and assumptions to measure the liabilities.

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 members as they are due. They are not held in separate accounts for each individual.

How is the amount the Scheme needs worked out?

The Trustees agree a funding plan 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 actuarial valuations.

When calculating the amount needed to provide benefits (the intermediate funding target), the actuary has to make prudent assumptions about what might happen in the future. These include how long members will live, what inflation might be and what investment returns the Scheme can expect. Together, the Trustees and the Company agree on what these assumptions should be.

As part of the valuation, they also agree the following documents:

- the Statement of Funding Principles, which sets out the Scheme's funding plan and the method and assumptions used for the valuation
- the Schedule of Contributions, which sets out the contributions due from the Company.

Future Company contributions

To make progress towards the gilts flat funding target, the Company continues to pay contributions into the Scheme of £3.3 million a month from July 2018 to September 2021, in line with the current funding agreement.

The importance of the Company's support

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 each year
- the funding level can fluctuate and when there is a funding deficit, the Company will usually need to put in more money
- if the target funding level is insufficient, the Company will need to put in more money.

Summary funding statement
continued

The solvency position

If the Scheme had started to wind up (full solvency) at 30 June 2018, it is estimated that the assets available would have been sufficient to secure 90% of benefits for members of the Final Salary sections (compared with 73% as at the 2015 valuation).

The Pensions Regulator requires us to provide you with this information. It does not imply that the Company is thinking of winding up the Scheme.

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 members' benefits to be completely secured with an insurance company.

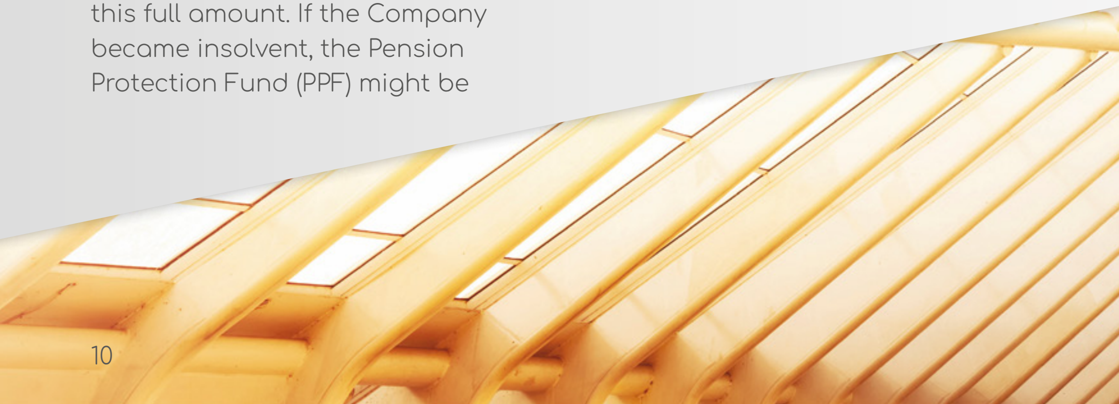
It may be, however, that the Company would not be able to pay this full amount. If the Company became insolvent, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members. You can find out more about the PPF at **www.ppf.co.uk**

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 includes future administration expenses. By contrast, our funding plan assumes that the Company will continue in business and support the Scheme.

Payments to the Company

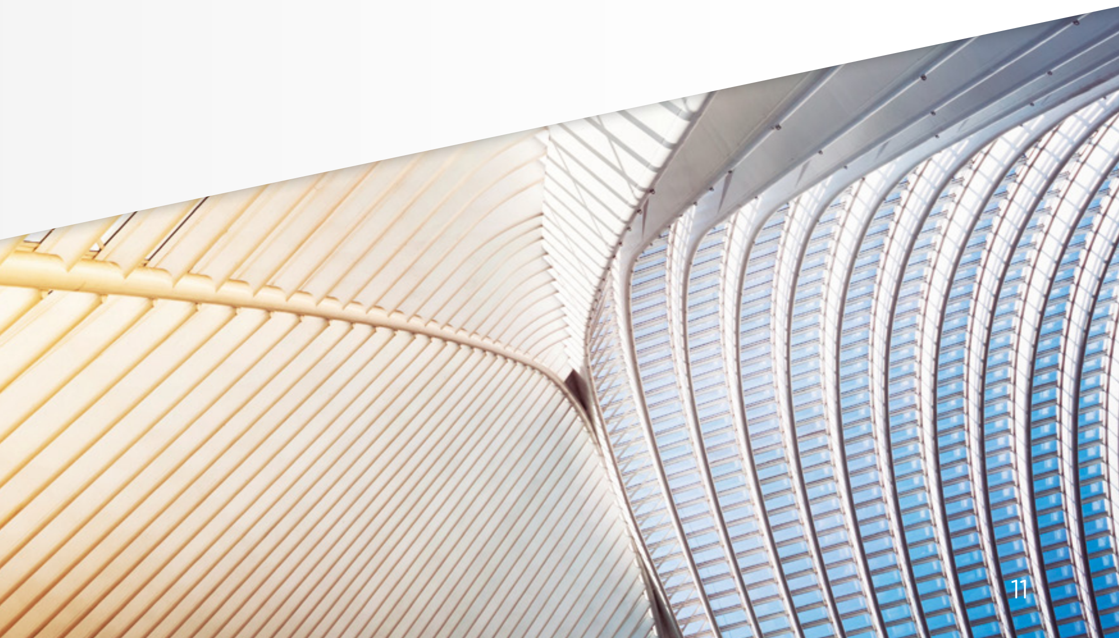
There have not been any payments to the Company out of Scheme funds since the last summary funding statement was issued.



Where can I get more information?

If you have any other questions or would like more information, please contact the Scheme administrators. The following documents are available on request:

- The Statement of Funding Principles, which sets out the Scheme's funding plan
- The Statement of Investment Principles, which explains how the Trustees invest 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, which shows the Scheme's income and expenditure in the year to 30 June 2018
- The full Report on the Actuarial Valuation as at 30 June 2018
- An annual benefit statement – if you are an active member and have not received a benefit statement in the last 12 months, you can ask for one that provides an illustration of your likely pension.



Get in touch

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

Call us:
01733 447620

Email us:
pearl@firstactuarial.co.uk

Write to us:
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First Actuarial LLP
First House
Minerva Business Park
Lynch Wood
Peterborough PE2 6FT

Use the Scheme website:
www.pearlstaffpensionscheme.co.uk

Next actuarial valuation
The next full actuarial valuation of the Scheme will be carried out no later than 30 June 2021.

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.