Pearl Group Staff Pension Scheme

Scheme Funding Update

Actuarial Valuation as at 30 June 2021

Welcome

As a member of the Pearl Group Staff Pension Scheme (the Scheme), you have built up valuable benefits for your future, so knowing that the Scheme is well funded is important.

This report provides you with an update on the latest valuation of the Scheme, which is a snapshot of its funding position on a particular day (in our case, 30 June 2021).

A valuation is carried out every three years by the Scheme actuary, with the aim of:

- checking that the Scheme has enough money to pay members' benefits in the future
- calculating the level of future contributions needed for the Scheme to pay benefits as they become due.

Previous valuation reports have also included details of the level of future contributions for Money Purchase members, but this is no longer required as there are no future contributions for these members.

I am pleased to report that, despite the challenging financial conditions experienced over the previous two years, the Scheme continues to enjoy a funding surplus on the technical provisions basis, albeit slightly smaller than in 2018.

However, on the solvency basis, the funding level has improved from 90% to 100%. The details are provided on the pages that follow.

In the years between formal valuations the Scheme actuary provides us with interim annual funding updates, with the next one looking at the position as at 30 June 2022.

We will bring you the results of this update in the next issue of *Your Pension Matters*.

The next full actuarial valuation will be due as at 30 June 2024.

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 results 2021

Technical provisions basis

	30 June 2021	30 June 2018
Market value of assets*	£2,932m	£2,721m
Amount needed to provide benefits*	£2,865m	£2,617m
Surplus	£67m	£104m
Funding level	102%	104%

*Includes money purchase funds and AVCs.

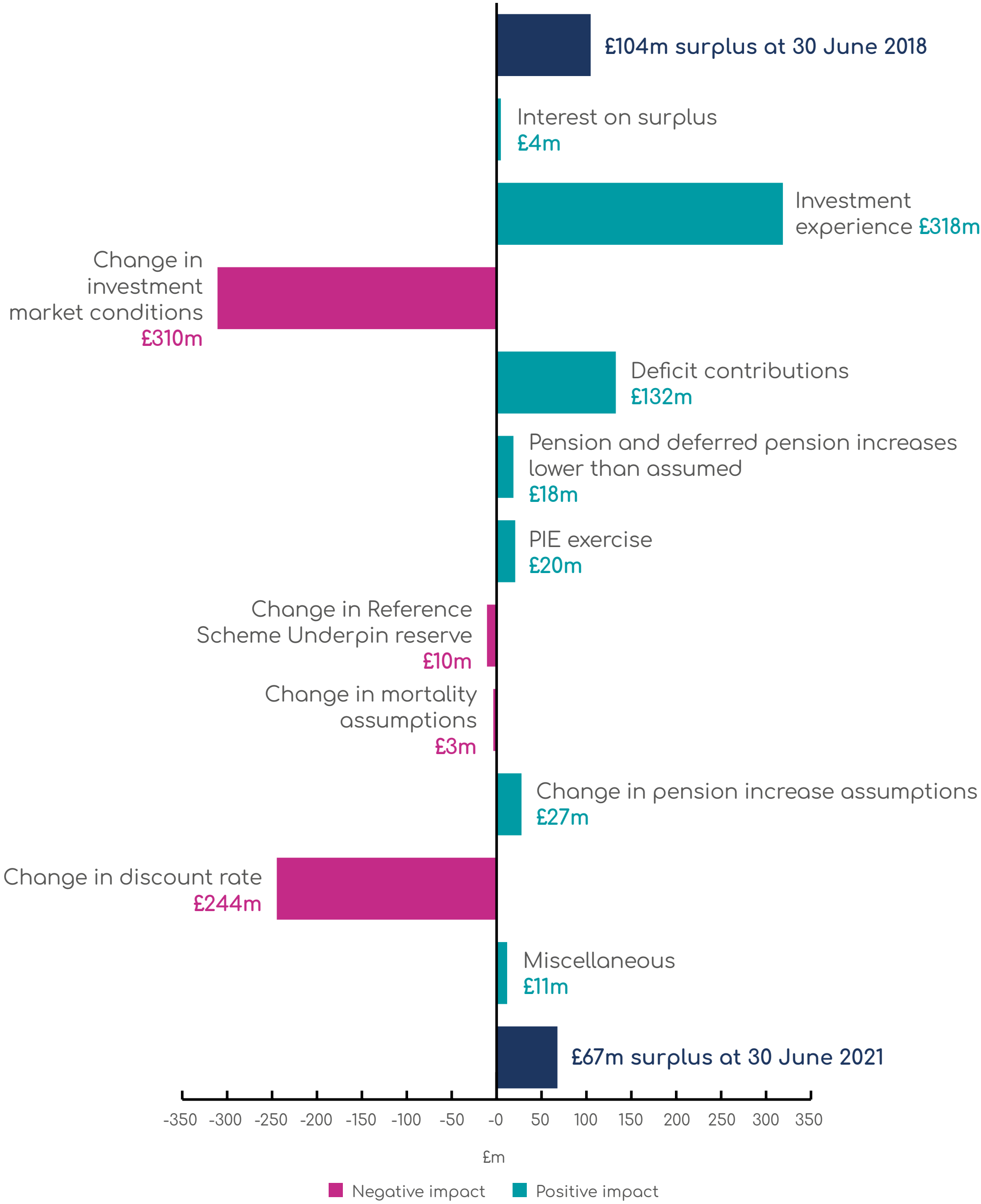
The value of the Scheme's liabilities takes account of the following benefits and expenses:

	30 June 2021	30 June 2018
Pensioners and dependants	£1,583m	£1,430m
Deferred pensioners	£1,131m	£1,054m
GMP equalisation reserve*	£41m	£38m
Expenses	£42m	£33m
AVCs and other money purchase benefits	£68m	£62m
Total liabilities	£2,865m	£2,617m

*A Guaranteed Minimum Pension (GMP) equalisation reserve of 1.5% of the technical provisions liabilities has been included to allow for the expected cost of equalising benefits for the effects of unequal GMPs.

How has the position changed?

On the technical provisions basis, the Scheme remains in surplus, although levels have dropped slightly since the previous valuation. The main factors contributing to this slight deterioration are shown below:



Developments since the last valuation

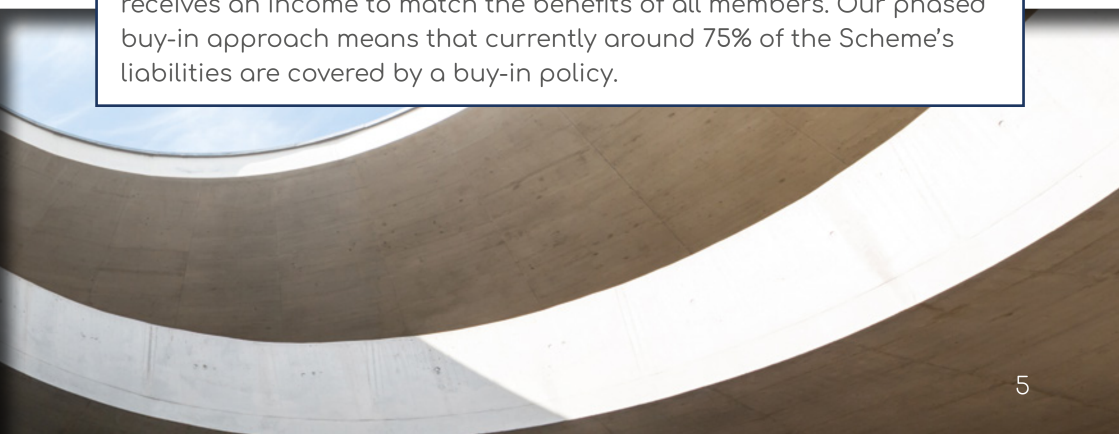
In November 2020, the Trustees entered into a Commitment Agreement with the Company to buy-in all of the Scheme's liabilities over a period of time. The buy-in process is planned to take place in a series of tranches. To date, there have been three buy-in tranches as follows:

Buy-in tranche	Date	Approximate percentage of liabilities covered
Tranche 1	November 2020	25%
Tranche 2	July 2021	35%
Tranche 3	October 2021	15%

At the valuation date (30 June 2021), the Trustees had completed the first buy-in tranche. However, the 30 June 2021 accounts also took into account the second tranche, which was completed shortly after the valuation date. Tranche 3 was not allowed for in the accounts.

What is a buy-in?

A buy-in is effectively an insurance contract where the Scheme pays a lump sum (a premium) to an insurer, in exchange for which the insurer will provide an income that exactly matches the benefit payments to those members covered by the contract (in our case, both pensioners and deferred members). A total buy-in would mean that the Scheme receives an income to match the benefits of all members. Our phased buy-in approach means that currently around 75% of the Scheme's liabilities are covered by a buy-in policy.



Running the Scheme

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

Your Trustee Directors

Keith Jones, Chair (independent)

Graham Felston, MNT

Max Mauchline, MNT

Chris Munro, MNT

Bob Seaman

Gary Welsh

Lesley Williams

Quentin Zentner

Secretary to the Trustees

Clare Wilson, First Actuarial LLP

Advisers to the Scheme

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

Actuary
Neil Wearing FIA, WTW

Auditor
RSM UK Audit LLP (from March 2021)
PricewaterhouseCoopers LLP
(to February 2021)

Investment adviser
Aon Solutions UK Limited

Custodians
State Street Bank and Trust Company

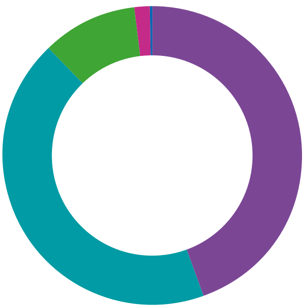
Bank
HSBC Bank plc

Main legal adviser
Reed Smith LLP

Principal employer
Pearl Group Holdings (No. 2) Limited

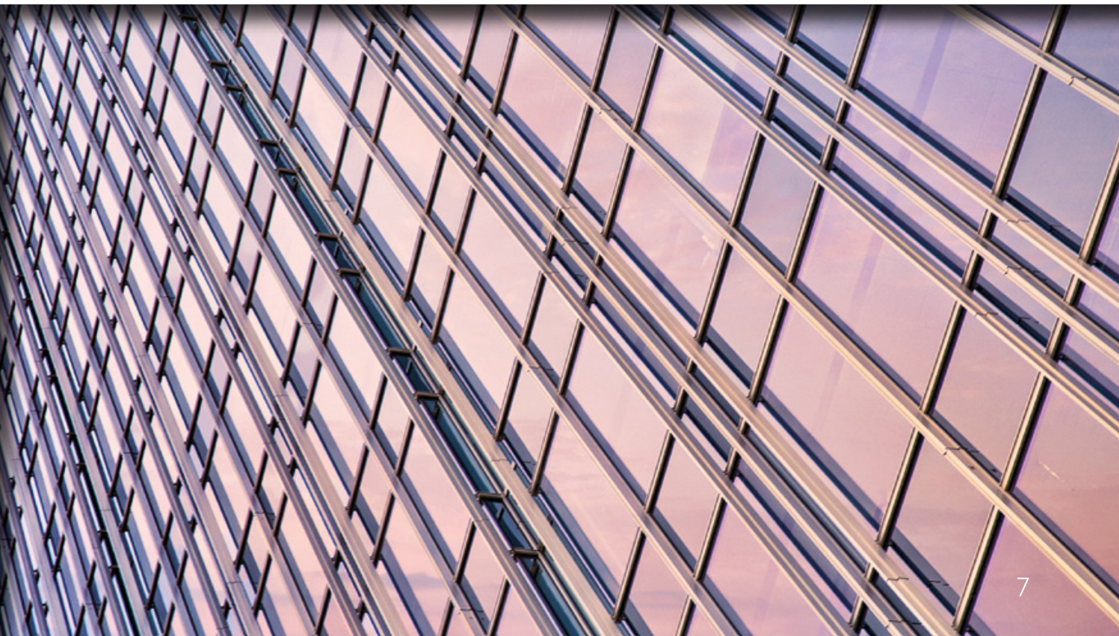
How are the assets invested?

The Trustees' investment strategy is set out in a document called the Statement of Investment Principles (SIP), a copy of which is available on the Scheme website under 'General Scheme information'. The chart shows how the Scheme's assets were invested as at 30 June 2021.



Asset class	
Pooled investment vehicles	£1,720m
Insurance policies*	£1,672m
Debt securities	£395m
Property	£67m
Other investment balances*	(£997m)
Cash and net current assets	£7m
TOTAL	**£2,864m**

*The insurance policies of £1,672 million allow for Tranche 1 and 2 (first and second buy-ins). However, as Tranche 2 was completed on 22 July 2021, this figure includes a backdated trade with the associated liability included in 'Other investment balances'.



Summary funding statement

The latest valuation of the Scheme showed that on 30 June 2021, the funding position (excluding Money Purchase/AVC assets and liabilities) was as follows:

	30 June 2021	30 June 2018
Market value of assets*	£2,864m	£2,659m
Amount needed to provide benefits*	£2,797m	£2,555m
Surplus	£67m	£104m
Funding level	102%	104%

*Excludes money purchase funds and AVCs.

The Scheme's funding level was 2% lower on the ongoing technical provisions basis, compared with 104% at the 30 June 2018 update. The main factors contributing to this change were:

- investment experience
- change in valuation assumptions.

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 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 covers any contributions due from the Company.

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.

The solvency position

If the Scheme had started to wind up (full solvency) at 30 June 2021, it is estimated that the assets available would have been sufficient to secure 100% of benefits for members of the Final Salary sections (compared with 90% as at the 2018 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.

Money Purchase section

The Money Purchase section is closed to future contributions, but members' accounts within this section remain invested. 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.

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 2021
- the full Report on the Actuarial Valuation as at 30 June 2021.

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:
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 2024.

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.