



PEARL GROUP STAFF PENSION SCHEME



YOUR PENSION MATTERS



THE TRUSTEE'S REPORT TO MEMBERS FOR THE YEAR ENDED 30 JUNE 2014



WELCOME

Welcome to Your Pension Matters, your new look Short Report from the Pearl Group Staff Pension Scheme. We've taken on board a number of your suggestions to make the information in it easier for members to follow and we hope you approve. If you have any comments we'd be delighted to hear from you – our contact details can be found below.

The Pearl Group Staff Pension Scheme (the 'Scheme') is one of the largest schemes in the UK but, big or small, we all have to give our members certain information. This includes the updated funding position of the **Final Salary** sections on pages 8-11 which is improving, thanks to the Company's continued support.

You'll see on the opposite page that we've summarised some of the key information from this report to give you a quick view on how the Scheme has changed over the year.

You'll find general Scheme news on pages 4 and 5, and to allow our members to access the information that's relevant to them, we've made the **Money Purchase** and **Final Salary** sections clearer by colour coding them. so you can find them more easily.

As always, please contact the Scheme Administrators if you have any general pension questions.

Keith Jones, Chairman of Trustees



Telephone: 01733 393020



Email: pearl@firstactuarial.co.uk



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Website: www.pearlstaffpensionscheme.co.uk

AT A GLANCE...

Here's a look at how the Scheme has changed over the year to 30 June 2014:

- There are now **21,150 members** in the Scheme, 1,052 less than at 1 July 2013.
- The value of the Scheme's assets rose by **£85m**, from £1,905m in June 2013 to £1,990m in June 2014. You can find out more about this on page 6.
- **£86m** – the amount paid out to pensioners in benefits during the year
- The **Final Salary** section funding position was **83%** at 30 June 2014. You can find out more about this on pages 8 and 9.



SCHEME NEWS

THE TRUSTEES



Bob Seaman

Since our last report, Alan Roffey-Jones has retired from the Company and Bob Seaman (Commercial and Procurement Director) replaced him as a Company Nominated Trustee.

The Trustees are now:

Trustee

P.A.T. (Pensions) Limited

Trustee Chairman

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

Employer Nominated Directors

RBF Seaman, Commercial and Procurement Director, Pearl Group Holdings (No.2) Limited
QJ Zentner, General Counsel, Phoenix Life Legal, Pearl Group Holdings (No.2) Limited

Member Nominated Directors

MJ Mauchline, FCII, Pensioner member
CA Munro, BSc, FIA, Pensioner member
TJ Reedman-Taylor, Head of Operational Governance, Pearl Group Holdings (No.2) Limited

NEW TRUST DEED & RULES

In our previous report we told you that a new consolidated Trust Deed and Rules had been produced and was awaiting sign off by the Company and the Trustees. This has now been completed.



PENSION INCREASES

Pensions in payment were increased by 2.7% from 1 April 2014 (2013: 3.2%) in line with the Scheme Rules.

BUDGET UPDATE

The March 2014 budget announced increased flexibility for Defined Contribution (DC) pensions, also known as **Money Purchase**. A summary of the main changes is available on the Scheme's website. If you have not yet reached retirement, you would need to transfer your benefits to another provider to take full advantage of the flexibility. (If you are a pensioner, the changes will have no impact on your pension paid by the Scheme).



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.

THE SCHEME'S FINANCES

	Scheme year 1 July to 30 June			
	2014 final salary £m	2014 money purchase £m	2014 TOTAL	2013 TOTAL
2013: £1,904.9M				
INCOME				
Contributions	71.6	0.1	71.7	26.9
Investment income	15.5	0.0	15.5	18.4
Total	87.1	0.1	87.2	45.3
EXPENDITURE				
Benefit payment to members	-85.0	-0.5	-85.5	-83.6
Transfers out and State Scheme premiums	-68.7*	-9.4	-78.1	-3.9
Investment expenses	-2.5	0.0	-2.5	-2.2
Total	-156.2	-9.9	-166.1	-89.7
INCOME - EXPENDITURE	-69.1	-9.8	-78.9	-44.4
CHANGE IN MARKET VALUE	150.0	14.2	164.2	71.4
NET INCREASE	80.9	4.4	85.3	27.0

2014: £1,990.2M

* More people transferred out of the Scheme in the period as a result of the Company's Enhanced Transfer Value exercise.

WHO'S IN THE FUND?

Final Salary people...

0 active members

9,224 deferred members

10,222 pensioner members

Money Purchase people...

55 active members

1,550 deferred members

99 pensioner members

On 30 June 2014, there were **21,150** members in the Scheme.



The Company will contribute 12.1% of salary for **Money Purchase** section members working for them to pay for their future money purchase benefits.

FINAL SALARY SECTIONS

FUNDING UPDATE AS AT 30 JUNE 2014

In last year's briefing we told you that we last formally valued the Scheme on 30 June 2012 (we have to do this at least every three years). We also explained that under our funding agreement with the Company we monitor progress towards our funding targets against two bases; the intermediate target and the final funding target. We use these measures to check that the fund is growing over time to be enough to meet all members' benefits.

The valuation at 30 June 2012 showed that the funding position of the Scheme (excluding money purchase and AVC assets and liabilities) was as follows:

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

- The Intermediate target – also called the Technical Provisions basis. The target is to be 100% funded by 30 June 2022 on the amount needed to cover all members' benefits calculated using gilts yields plus a prudent margin.
- The Final funding target – to be 100% funded by 2027, or 2031 at the latest, measured against the amount it would need to cover all members' benefits (the Scheme's liabilities).

A copy of the Actuarial Valuation Report is on the Scheme website.

During the years between valuations, the Scheme Actuary updates the Scheme's financial position to highlight the changes. At 30 June 2014, the Actuary updated the Scheme's funding level on the intermediate basis to **83%**. The main reasons for the increase since 2012 were the deficit funding contributions paid by the Company and better than expected returns on the Scheme assets.

The solvency position

As part of the Actuarial Valuation, we have to assess the extent to which the assets would cover the liabilities of the Scheme if the Scheme were to start to wind up (known as the 'solvency position', or 'buy out basis'). The last valuation, as at 30 June 2012, showed that the Scheme's assets represented approximately **64%** of the cost of securing the Scheme benefits with an insurer.

Securing benefits with an insurance company is particularly expensive, as insurers must take a cautious view and need to make a profit; this is reflected in the difference between

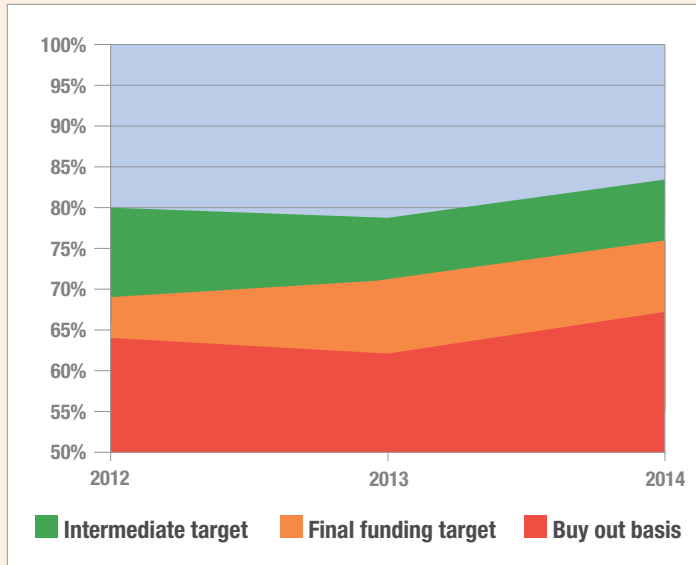
the solvency position and the ongoing funding position, which assumes that the Company will continue to support the Scheme in the future.

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.

We must give members this information on the financial health of the Scheme every year (the Summary Funding Statement).

We hold the assets of the Scheme in a common fund. This is used to pay pensions and other benefits to Scheme members as they fall due. The Company pays contributions into this fund as required. It is not held in separate funds for each individual. Through the life of the Scheme, even though funding is temporarily below target we will continue to pay benefits at retirement or on the death of a member in full.

FINAL SALARY SECTIONS CONTINUED



This graph plots the yearly movement of the three different valuation measures since the last valuation in 2012.

Don't forget that pensions are a long-term investment and these figures represent a snapshot of the Scheme's position on one particular day.

Funding

We agreed a Recovery Plan with the Company, as part of the valuation, to meet the shortfall in funding. The Company agreed to pay £70 million in both September 2013 and September 2014, followed by £40 million each year from September 2015 to September 2021 (inclusive). If there is a shortfall after 2021, the Company will make annual payments to address this.

The Company has paid all its contributions to date in line with the Recovery Plan.

We confirm that no payments have been made to the Company out of Scheme funds since our last annual briefing. We also confirm that the Pensions Regulator has not made any modifications or directions on the Scheme. Our confirmations are a legal requirement.

The importance of the Company's support

Our 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.

Pension Protection Fund

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. The level of compensation depends on whether the member has reached the normal Scheme retirement age.

You can find more information and guidance on the Pension Protection Fund's website at **www.pensionprotectionfund.org.uk**. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA.

FINAL SALARY SECTIONS CONTINUED



INVESTMENT STRATEGY

Our investment strategy aims to lessen the volatility of the investments and lower the level of risk to which they are exposed.

Our 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.

The asset allocation is as follows:

Asset Class	Investment Manager	Dec 2014 value %	Target value %	Target range %
Return seeking assets		20.6	25.0	(a)
Property	DTZ	7.7	10.0	0 – 15.0
Global equity	Legal & General	5.3	5.0	0 – 7.5
Leveraged loans	Castle Hill	4.3	5.0	0 – 7.5
Hedge funds	Legal & General	3.2	5.0	0 – 7.5
Other	Legal & General	0.1	0.0	0 – 7.5
Risk reducing assets		76.2	75.0	
Liability hedging portfolio	Legal & General	32.8	25.0	(b)
Corporate bonds	Legal & General	43.4	50.0	(c)
Cash	Legal & General	3.2	0.0	0 – 5
TOTAL		100.0	100.0	

- (a) Our 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.

MONEY PURCHASE SECTION

If you're a member of the **Money Purchase** section, you have a choice of four Henderson funds, three Legal & General funds and the Standard Life Managed Fund in which to invest. If you do not choose where to invest your funds, we invest your credits in the default fund, which is the Legal & General

World Equity Index Fund (please see opposite for more information on default funds). You can also invest Additional Voluntary Contributions (AVCs) in the Henderson Global Technology Fund and the Henderson Global Care Growth Fund.

Fund	Relative level of risk/ investment return	Year to 30 June 2014	
		Performance %	Benchmark %
Henderson Institutional Global (50/50) Enhanced Equity Fund	High	11.7	11.3
Legal & General World Equity Index Fund (default fund)	High	9.5	9.7
Legal & General Global Equity Fund	High	12.0	12.1
Standard Life Managed Fund	Medium to high	10.2	9.5
Henderson Institutional Overseas Bond Fund	Medium	-6.3	-6.1
Legal & General Over 15 yr Gilts Index Fund	Low	5.3	5.3
Henderson Index Linked Bond Fund	Low	3.9	4.3
Henderson Institutional Cash Fund	Low	0.5	0.4
Henderson Global Technology Fund	High	13.5	16.8
Henderson Global Care Growth Fund	High	15.0	10.6

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. You can find detailed fund performance fact sheets on the Scheme website, www.pearlstaffpensionscheme.co.uk.

What is a 'default fund'?

If you do not tell us which funds you'd like to invest in, we will invest on your behalf in what is known as the default fund.

Our default fund aims to balance the risk involved in investing with the goal of still making an acceptable return on the investment. However, as a default fund must meet the needs of a wide variety of pension scheme members, you may find that it doesn't suit your personal needs as well as you'd like.

Option to switch

You can switch all or part of the credits you have invested into the other available funds up to three times a year without charge. You can get the form you need to complete a switch from the Scheme website, **www.pearlstaffpensionscheme.co.uk**, or by contacting the Scheme Administrators (details can be found on the back page).

Are you reviewing your investment choices regularly?

You can find information to help you choose where to invest your fund in the **Money Purchase** Investment Guide on the Scheme website. The Guide has more information on each of the funds.

As you progress towards retirement, you should consider whether you need to change where you're investing your fund. Unfortunately, by law, neither we, nor the Scheme's advisers, are allowed to give you financial advice. If you'd like advice on your investments, you should contact an Independent Financial Adviser (IFA). You can find an IFA in your area on the website **www.unbiased.co.uk**.

GET IN TOUCH...

If you have a query about your Scheme benefits, you should contact the Scheme Administrators:

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

IMPORTANT – Keeping our records up to date. It is important to tell the Scheme Administrators if you change your address or personal circumstances. Contact details for the Scheme Administrators are shown above.

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.

February 2015

