

YOUR PENSION MATTERS





WELCOME

Welcome to *Your Pension Matters*, your annual update on the developments of the Pearl Group Staff Pension Scheme.

This year we provide the usual information on the Scheme's financial movements and changes

in membership, together with some more specific news on both the **Final Salary** and **Money Purchase** sections. As mentioned in our last issue, these have been colour coded to make it easier to find the information most relevant to you.

Last year saw some significant changes in pensions, most notably the flexibilities which were introduced in April 2015. As a result, people with defined contribution (DC) savings now have some new options open to them at retirement,

and the Trustees felt that a review of the investment options available to **Money Purchase** section members was necessary. You can read more about this on pages 12 to 15. We've also included a reminder on the importance of identifying pension scams (page 5) and more information on the Government's Pension Wise service (page 15).

We hope you find this short report informative and if you have any questions about your pension, please contact the Scheme Administrators using the details below.

Keith Jones, Chairman of Trustees



Telephone: 01733 447620



Email: pearl@firstactuarial.co.uk



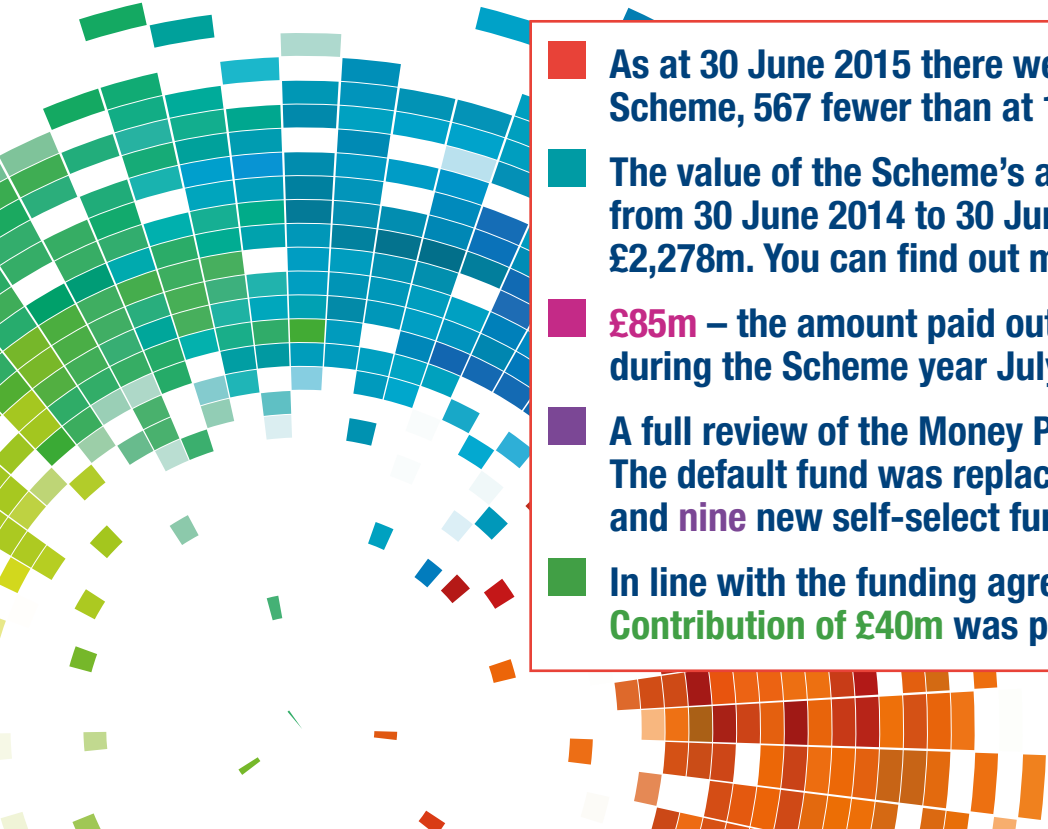
Fax: 01733 393049



Website: www.pearlstaffpensionscheme.co.uk

AT A GLANCE...

Here's a look at how the Scheme has changed over the past year:

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- As at 30 June 2015 there were **20,583 members** in the Scheme, 567 fewer than at 1 July 2014.
 - The value of the Scheme's assets rose by **£288m** from 30 June 2014 to 30 June 2015, from £1,990m to £2,278m. You can find out more about this on page 6.
 - **£85m** – the amount paid out to pensioners in benefits during the Scheme year July 2014 to June 2015.
 - A full review of the Money Purchase funds took place. The default fund was replaced with **Retirement Pathway** and **nine** new self-select funds were introduced.
 - In line with the funding agreement the **Company Contribution of £40m** was paid in September 2015

SCHEME NEWS

During the year, Tracey Reedman completed her term of office as Trustee and made the decision not to re-stand. The Trustee Board would like to take the opportunity to thank Tracey for her valuable contribution to the Board. Tracey was replaced by Graham Felston. Graham was previously a Trustee from 2002 to 2013.



Graham Felston

The Trustees are now:

Trustee

P.A.T. (Pensions) Limited

Trustee Chairman

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

Employer Nominated Directors

Bob Seaman, Commercial and Procurement Director,
Pearl Group Holdings (No.2) Limited

Quentin Zentner, General Counsel, Phoenix Life Legal,
Pearl Group Holdings (No.2) Limited

Member Nominated Directors

Graham Felston, BSc, FCII, MBA, C.Dir, Pensioner member

Max Mauchline, FCII, Pensioner member

Chris Munro, BSc, FIA, Pensioner member

LOOKING AFTER YOUR DATA

Some personal data for scheme members (such as date of birth and salary) is required for the running of the Scheme, including paying out benefits. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers') under the Data Protection Act. Data controllers would include the Trustees of the Scheme, and in certain circumstances, professional advisers to the Scheme. These may include the Scheme Actuary and Towers Watson, (now known as Willis Towers Watson) who have provided further details www.towerswatson.com/personal-data

PROTECT YOUR PENSION



Pension scams are on the increase and scammers have a variety of tricks to catch you out. They may approach you out of the blue over the phone, email, via text message or in person door-to-door, and will try to entice you with a 'free pension review', 'one-off investment opportunity' or 'legal loophole'. The scammers may even pretend that the government has asked them to contact you.

The only time you are normally able to draw money from a company pension before age 55 is if you have had to stop work because of ill health. Otherwise, if you draw money from a pension before 55, you will have to pay a very high tax charge. On top of this, a number of people who have been persuaded to 'cash in' their pensions have not even received the money they were promised by a salesperson.

Please check the facts before you make an irreversible decision. Find out more by visiting www.pension-scams.com.



THE SCHEME'S FINANCES

FUND VALUE AT 2014: £1,990m	Scheme year 1 July to 30 June (£m)			
	2015 final salary	2015 money purchase	2015 TOTAL	2014 TOTAL
INCOME				
Contributions	67.9	0.7	68.6	71.7
Investment income	12.6	0	12.6	15.5
Total	80.5	0.7	81.2	87.2
EXPENDITURE				
Benefit payment to members	-85.1	-0.2	-85.3	-85.5
Transfers out and State Scheme premiums	-9.1	-1.3	-10.4	-78.1*
Investment expenses	-2.2	0	-2.2	-2.5
Total	-96.4	-1.5	-97.9	-166.1
INCOME LESS EXPENDITURE	-15.9	-0.8	-16.7	-78.9
CHANGE IN MARKET VALUE	302.7	2.1	304.8	164.2
NET INCREASE	286.8	1.3	288.1	85.3

FUND VALUE AT 2015: £2,278m

* 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 SCHEME?

Final Salary people...

0 active members

10,064 pensioner members

8,849 deferred members

Money Purchase people...

51 active members

95 pensioner members

1,524 deferred members

On 30 June 2015, there were **20,583** 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.

The new pensions flexibilities allow members whose benefits are valued at less than £10,000 to take their pension as a one off lump sum. During 2015 the Scheme Administrators contacted all eligible pensioners to provide details of the potential small lump sum payable. 499 pensioners took this option. This option will automatically be offered to any eligible deferred members as part of their retirement options.



FINAL SALARY SECTIONS

ACTUARIAL VALUATION OF THE SCHEME

By law, we must carry out a formal actuarial valuation of the Scheme at least once every three years. This requirement applies to all Final Salary (also known as defined benefit, or DB) schemes, and is intended to provide members with updates on the funding of their scheme. 2015 was a valuation year and the valuation is now in progress.

A valuation takes a number of months to complete as it involves complicated calculations, advice from the Scheme Actuary and then discussions with the Trustees and Company on the assumptions to be used. Once the assumptions are agreed then the results can be finalised. The Pensions

Regulator's deadline for signing off a valuation is 15 months after the valuation date, therefore the deadline for the Scheme is 30 September 2016. The results of the valuation will be communicated in the Valuation Report issued later in 2016.

As mentioned above, 2015 was a valuation year and therefore the annual funding update will not be produced. For information, we have reproduced an extract of the last annual funding update as at 30 June 2014 and the last valuation as at 30 June 2012, which was included in the report last year. These can be found opposite.

THE SCHEME'S LAST FULL VALUATION - 2012

	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%

FUNDING UPDATE AS AT 30 JUNE 2014

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.

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.

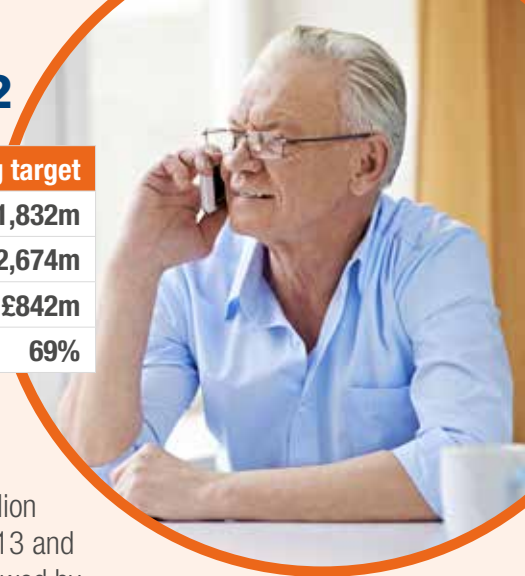
Funding

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.



FINAL SALARY SECTIONS CONTINUED

INVESTMENT STRATEGY

The Trustees are responsible for deciding on the Scheme's investment strategy and advising the chosen investment managers of the policy they wish to follow.

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 Trustees appointed a new manager in June 2015, Macquarie, who will manage a portfolio of infrastructure debt for the Scheme. The target investment is £200m and this will be gradually invested over the next three years. Infrastructure assets are physical structures and networks which provide essential services. These assets, along with the organisations which run them, are viewed as essential drivers of any economy, as basic infrastructure is a precondition for sustainable economic development. Examples the Scheme is currently invested in include utilities and social housing.

Equity markets

You may have seen that there has been lots of coverage in the media in recent months about the impact of falling equity markets on pension funds. Since our scheme currently holds a small amount in equities (5%), the impact on the total value of our assets due to changes in equity markets (in either direction) is relatively small.

The asset allocation as at 31 December 2015 is as follows:

Asset Class	Investment Manager	Dec 2015 value %	Target value %	Target range %
Return seeking assets		21.0	25.0	(a)
Global equity	Legal & General	5.5	5.0	0–7.5
Property	DTZ	9.2	10.0	0–15
Leveraged loans	Castle Hill	3.3	5.0	0–7.5
Hedge funds	Legal & General	2.9	5.0	0–7.5
Other	Legal & General	0.1	0.0	0–7.5
Risk reducing assets		76.9	75.0	
Liability hedging portfolio	Legal & General	31.4	25.0	(b)
Infrastructure Debt	Macquarie	2.2	10.0	0–15
Corporate bonds	Legal & General	43.3	40.0	(c)
Cash	Legal & General	2.1	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

Changes to the investment funds

If you are a member of the Money Purchase section or have paid Additional Voluntary Contributions (AVCs), you will have received a letter from us at the end of last year to advise you of some changes to the investment funds available.

As Trustees, it is our responsibility to monitor the options available and ensure that these are suitable for Scheme members. Following the introduction of the new pension flexibilities in April 2015, we reviewed the existing investment funds and made the decision to replace them, taking into account the needs of both members who select their own funds and those who rely on the Scheme's chosen default fund. The Trustees have therefore introduced a new range of funds – The Retirement Pathway and nine self-select funds.

What are the new options at retirement?

Since April 2015, when you reach age 55 there are more choices about how benefits can be taken. The earliest age you may draw benefits from the Scheme is currently 55 (other than on grounds of ill-health or disability, or if you have a protected pension age).

It is now possible to take Defined Contribution benefits in the following way:

- By purchasing an **annuity**
- By drawing all of your pension pot as **cash**, in one lump sum
- By withdrawing your savings in instalments, known as '**drawdown**'

It is important to note that the **cash** and **drawdown** options are not available through the Scheme at present. If you wish to take your Scheme benefits in either of these ways, you would need to transfer your Money Purchase Account to another arrangement. The Trustees strongly recommend that if you are considering your options or transferring out of the Scheme that you take independent financial advice.



How does Retirement Pathway work?

Retirement Pathway is the new default fund. Until five years before your target retirement age, Retirement Pathway will invest your assets in investments focused on achieving good rates of growth.

From five years before retirement, your Money Purchase Account will be automatically moved towards more 'protective' investments (it's important that you tell the Scheme Administrators when you plan to retire, so this movement happens at the correct time).

As you get closer to retirement age, the most appropriate investments will differ depending on how you plan to take your benefits, and accordingly **we will contact you five years before your retirement age** to ask how you expect to take them. At this point, you will have three options for your retirement savings:

- Retirement Pathway to Annuity
- Retirement Pathway to Cash
- Retirement Pathway to Drawdown

If you do not choose which Retirement Pathway you wish to follow, you will automatically be placed in Retirement Pathway to Drawdown, but you will still be able to select the cash or annuity options at retirement if you wish.

MONEY PURCHASE SECTION CONTINUED

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, the Retirement Pathway to Drawdown. A default fund must meet the needs of a wide variety of pension scheme members and you may find that it doesn't suit your personal needs as well as you'd like.

Self-select funds are also available

If you wish to be more 'hands on' with some or all of your Money Purchase funds, the Trustees have made nine self-select funds available. The details are below.

Fund name
Aon Managed Global Equity Fund (passively managed)
Aon Managed Active Global Equity Fund
Aon Managed Active UK Equity Fund
Aon Managed Progressive Growth Phase Fund
Aon Managed Passive Corporate Bond Fund
Aon Managed Long Term Inflation Linked Fund
Aon Managed Liquidity Fund
Aon Managed Property and Infrastructure Fund
Aon Managed Pre-Retirement Bond Fund



More information

An interactive Investment Choices guide is available on the Scheme website providing details of all the funds available and the three Retirement Pathways. Fund factsheets for the new funds are also available on the Scheme website www.pearlstaffpensionscheme.co.uk. 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.

Option to switch

You can switch all or part of the funds 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 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?

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.

WHAT HELP IS AVAILABLE?

To help individuals understand the options now available to them, the government has set up a free, independent, guidance service called Pension Wise. This is available to anybody with money purchase benefits who is age 50 or over. More information can be found at their website, www.pensionwise.gov.uk.

The Trustees cannot provide you with financial advice and therefore recommend that you obtain your own independent financial advice to help you decide which options are best for you. You will have to pay for this advice.

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 447620

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.