PEARL GROUP STAFF PENSION SCHEME

February 2018

Your Pension Matters

The Trustees' report to members

Welcome

Welcome to the latest issue of Your Pension Matters, the newsletter for members of the Pearl Group Staff Pension Scheme. It brings you an update on the news from the Scheme and about pensions in general.

We have included a summary on page 6 of the Scheme's finances, so you can see how we are managing the money that goes into and out of the Scheme during the year. This has been taken from the formal annual Report and Accounts.

For **Final Salary** members, the latest funding update, looking at the position as at 30 June 2017, is on page 8. This is followed by an update on the Scheme's investments.

For **Money Purchase** members, we have included an overview of the investment options that are available to you. Don't forget that whatever investment approach you take, it's always a good idea to review your investments from time to time to check that they still fit with your plans for retirement. You can read more about investments on page 13.

We hope you enjoy reading this newsletter and find it useful and informative. If you have any questions or if there is anything you would like to see covered in a future issue, please get in touch with the Scheme administrators, using the details on the back page.

Keith Jones, Chairman of Trustees

Don't forget!
Please remember to let us know if you move house or if your personal circumstances change.

At a glance...

Here are some of the highlights from the Scheme during the year ending 30 June 2017:

The Company is now paying monthly contributions to the Scheme

£135 million – the amount by which the Scheme's assets increased in value

£70 million – the Company's contribution to the Scheme

96% – the funding level of the Final Salary section

£2,724 million – the total value of the Scheme's assets

Scheme news

Looking after your data

In order to run the Scheme and pay the correct benefits, some personal data for members is required, such as name, address, date of birth and National Insurance number. 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').

Data controllers would include the Company, the Trustees of the Scheme and certain professional advisers to the Scheme such as the administrators and the actuary.

In May 2018, a new European legal framework for data protection called the General Data Protection Regulation (GDPR) will come into effect in the UK. The decision to leave the European Union will not affect the commencement of the GDPR. The Trustees are currently reviewing how the new requirements may affect the way in which your data is held and processed.

Guaranteed Minimum Pension (GMP) reconciliation

The principles of good record-keeping apply to all work-based pension schemes. The Pensions Regulator recommends the regular testing of all member records to ensure the data held is accurate.

Contracting-out of the additional State pension was abolished in April 2016. As a result, all affected pension schemes are now required to reconcile their member data against HMRC records. This will ensure the information they and HMRC are holding is correct. This process is known as GMP reconciliation and the deadline for its completion is December 2018. The administrators are in the process of completing the reconciliation and are on target to meet the deadline.

For more information about contracting out and GMP please look on the Scheme website.

Running the Scheme

The Scheme is run by a corporate Trustee called P.A.T. (Pensions) Limited. There are six Trustee Directors, three of whom are appointed by the Company, including an independent Chairman, and three are nominated by members of the Scheme.

Independent Chairman
Keith Jones – BSc, FIA, MBA, pensioner member
Company appointed
Bob Seaman – Commercial Partnerships Director, Pearl Group Holdings (No.2) Limited Quentin Zentner – General Counsel, Phoenix Life Legal, Pearl Group Holdings (No.2) Limited
Member nominated
Graham Felston – BSc, FCII, MBA, C.Dir, pensioner member Max Mauchline – FCII, pensioner member Chris Munro – BSc, FIA, pensioner member

The Trustees have appointed the following professional advisers to the Scheme:

Secretary
Clare Wilson – BSc, FPMI, First Actuarial LLP
Actuary
Neil Wearing FIA, Willis Towers Watson
Legal advisers
Reed Smith LLP
Investment advisers
Aon Hewitt Limited
Independent auditor
PricewaterhouseCoopers LLP
Custodians
State Street Bank and Trust Company
Banker
HSBC Bank PLC
Sponsoring Employer
Pearl Group Holdings (No.2) Limited (part of Phoenix Group)
Credit advisers (employer covenant)
PricewaterhouseCoopers LLP

The Scheme's finances

The following information is taken from the Trustees' formal Report and Accounts for the year to 30 June 2017.

	12 months to 30 June 2017 (£m)			(£m)
Fund value at 1 July 2016: £2,589m this includes the Money Purchase assets of £55m	Final Salary	Money Purchase	Total	2016 Total
Income				
Contributions	70.0	0.6	70.6	40.7
Investment income	15.5	-	15.5	12.7
Total	**85.5**	**0.6**	**86.1**	**53.4**
Expenditure				
Benefit payments to members	-83.0	-0.3	-83.3	-85.8
Payments to leavers*	-54.6	-4.9	-59.5	-23.5
Investment expenses	-3.4	-	-3.4	-3.1
Total	**-141.0**	**-5.2**	**-146.2**	**-112.4**
Income less expenditure	-55.5	-4.6	-60.1	-59.0
Change in market value	187.1	8.4	195.5	369.9
Net increase	131.6	3.8	135.4	310.9

Fund value at 30 June 2017: £2,724m
this includes the Money Purchase assets of £60m

*More deferred members transferred out of the Scheme in the period as a result of the impact of the increased pensions flexibilities.

Who's in the Scheme?

On 30 June 2017, there were 19,377 members in the Scheme.

Final Salary section

Active members - 0

Deferred members - 7,935

Pensioner members - 9,866

Total - 17,801

Money Purchase section

Active members - 44

Deferred members - 1,432

Pensioner members - 100

Total - 1,576

Hybrid members are included in the Money Purchase section totals. A hybrid member is one who has both Final Salary and Money Purchase benefits.

Final Salary section

Funding update as at 30 June 2017

Every three years, the Scheme actuary carries out a full actuarial valuation. The most recent one looked at the position as at 30 June 2015. In between full valuations, the actuary also provides estimated updates on the Scheme's financial position. In the tables below, you can see the most recent update as at 30 June 2017, compared with the update in 2016 and full valuation in 2015.

THE INTERMEDIATE FUNDING TARGET	Update 2017	Update 2016	Valuation 2015
Assets	£2,664m	£2,533m	£2,225m
Amount needed to provide benefits*	£2,784m	£2,740m	£2,525m
Shortfall	£120m	£207m	£300m
FUNDING LEVEL	96%	93%	88%

THE GILTS FLAT FUNDING TARGET	Update 2017	Update 2016	Valuation 2015
Assets	£2,664m	£2,533m	£2,225m
Amount needed to provide benefits*	£3,054m	£3,065m	£2,761m
Shortfall	£390m	£532m	£536m
FUNDING LEVEL	87%	83%	81%

*Figures do not include Money Purchase and AVC assets and liabilities.

The main reasons for the improvement in funding level are the deficit funding contributions made by the Company and better than assumed returns on the Scheme's assets.

It is important to remember that these figures show a snapshot of the Scheme's position on one particular day. You should also keep in mind that pensions are a long-term investment and that funding levels can fluctuate in response to movements in the market.

You can see a copy of the 2015 valuation report on the Scheme website.

The solvency position

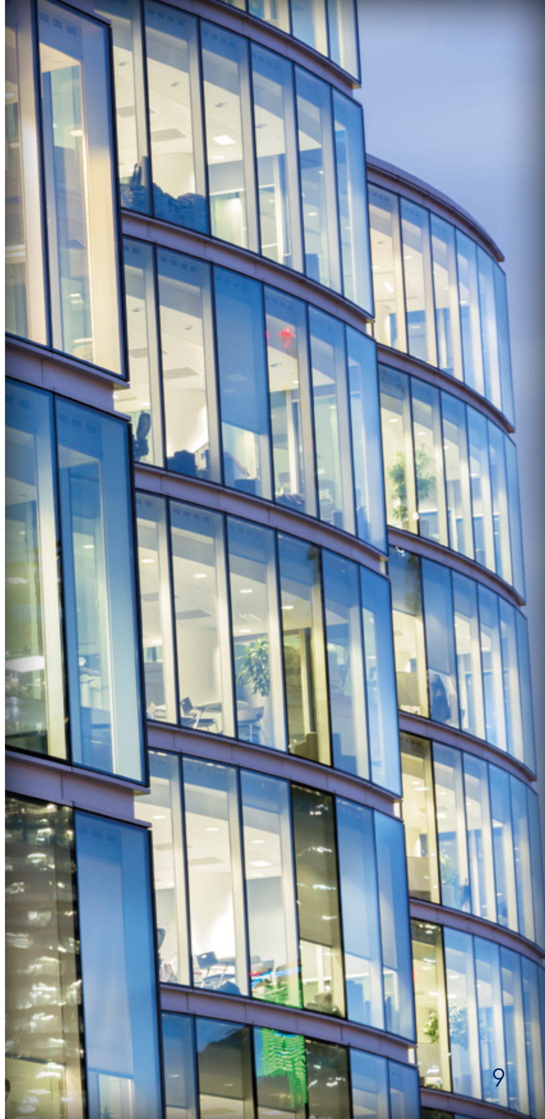
If the Scheme had started winding up (full solvency), it is estimated that the assets available would have been sufficient to secure 82% of the benefits due to members in the Final Salary section (in 2016, this was 75% and in 2015, it was 73%).

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

If the Scheme were to wind up, 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 might be able to take over the Scheme and pay compensation to members. Further information and guidance is available at **www.pensionprotectionfund.org.uk**

There have been no payments to the Company out of Scheme funds since the last funding update, nor has the Pensions Regulator made any modifications or directions on the Scheme.



Final Salary section continued

Funding agreement

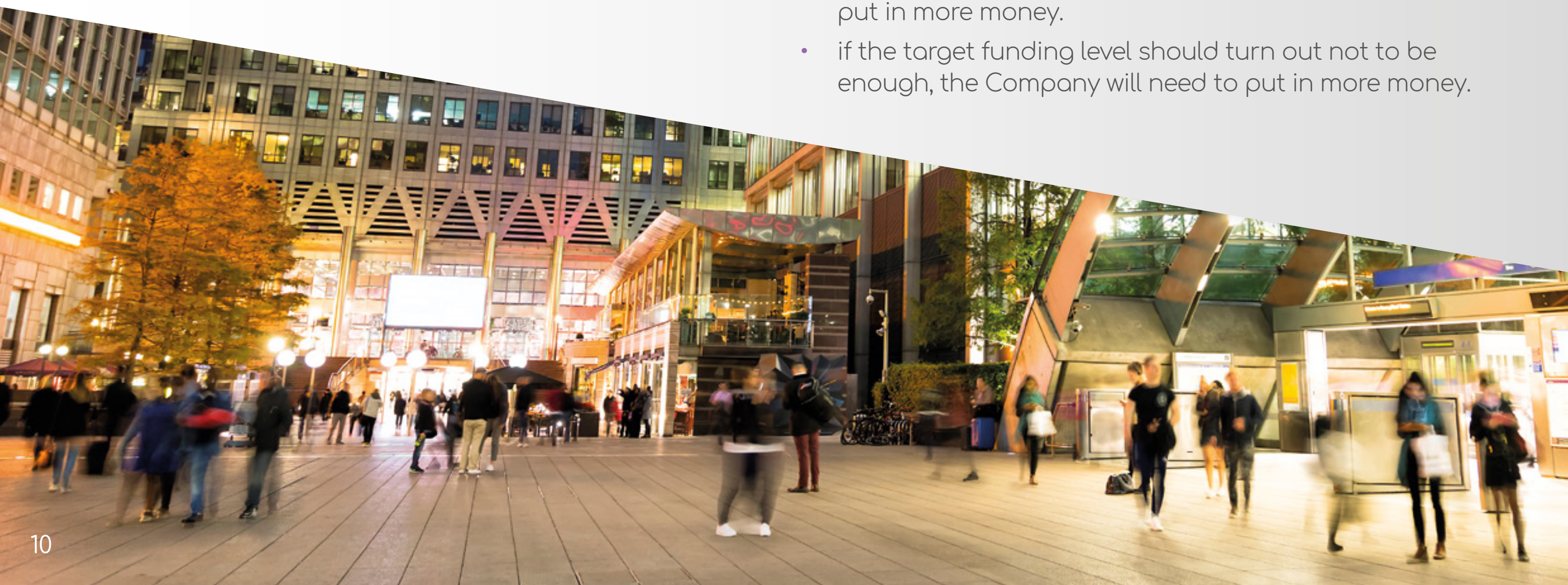
The Trustees and the Company have a funding agreement (recovery plan) in place to provide for the long-term funding of the Scheme.

The current contributions due to the Scheme are £40 million each year payable monthly to September 2021. If there is a shortfall after 2021, payments will be made to address this.

The importance of the Company's support

The Trustees' 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.
- 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.



Investment strategy

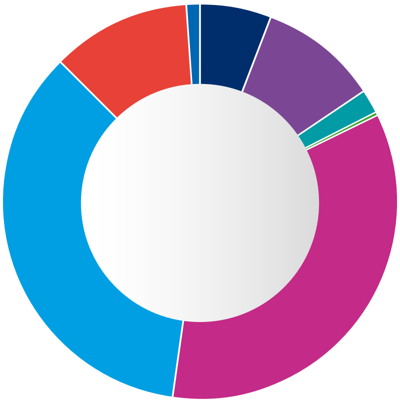
The Trustees are responsible for setting the investment strategy for the Scheme. Their objective is to invest the assets in a prudent way in order to pay pensions to members now and in the future. They take advice from the Scheme's investment advisers and their policy is set out in a formal document called the Statement of Investment Principles (SIP).

The day-to-day management of the Scheme's assets is carried out by the investment managers, who have been appointed by the Trustees.

The Scheme's assets are divided into two portfolios: return-seeking and risk-reducing. The return-seeking portfolio includes equities, property, hedge/private equity funds and infrastructure equity. The risk-reducing portfolio aims to manage interest and inflation rate risks and it achieves this by investing in a liability hedging mandate, corporate bonds and infrastructure debt.

Asset allocation

Asset allocation as at 31 December 2017



Return-seeking assets	Actual
Global equities	5.9%
Property	10.0%
Hedge/private equity funds	1.9%
Infrastructure equity	0.2%
Risk-reducing assets	
Liability hedging	34.5%
Corporate bonds	35.3%
Infrastructure debt	11.4%
Cash	0.8%

Final Salary section continued

Investment performance

In the year to 30 June 2017, the Scheme's assets achieved a positive return of 7.9%, outperforming the benchmark of 7.0%. The table shows the annualised return over the one-year, three-year and five-year periods to 30 June 2017, compared with the benchmark performance.

Annualised return over	One year	Three years	Five years
Scheme	7.9%	13.5%	10.7%
Benchmark	7.0%	12.2%	10.0%
Difference	0.9%	1.3%	0.7%

Spotlight on infrastructure debt

Infrastructure debt investment provides financing in the form of loans for building, running or maintaining infrastructure assets. These are the facilities and structures essential for the operation of an economy. Transportation, communication, sewage, water and power systems are all examples of infrastructure.

The Scheme made its first investment in infrastructure debt in July 2015. The portfolio is invested in a diverse range of subsectors, including renewables, transport, social housing and utilities (water, electricity and gas). The Scheme has allocated £340 million to invest in this asset class.

Our infrastructure debt investment gives us stable, long-term income from interest on the loan and the loan repayments. This income stream will help the Scheme meet its long-term cash outflow to pay pensions. These investments are difficult to sell before the contracts end. Care has therefore been taken as far as possible to ensure that there will be no need to do so. The Scheme has sufficient assets elsewhere in its portfolio that can easily be converted into cash if required.

The Scheme has also started to invest in infrastructure projects where we benefit from the profits made (similar to investing in the shares of a company). As this is higher risk than debt investing it is included with the other return-seeking assets.

Money Purchase section

If you are a member of the Money Purchase section or have paid Additional Voluntary Contributions (AVCs), you can choose how to invest your savings. The Scheme offers you two investment approaches: Retirement Pathway or Self Select.

Retirement Pathway

This investment approach aims to maximise growth in your Money Purchase Account while you are still a long way from retirement.

As you get closer to retirement, your Account is then automatically moved from growth investments into 'lower-risk' investments to protect the value of your Account. There are different Retirement Pathways depending on how you plan to take your savings, so five years before your anticipated retirement date, you will need to think about how you would like to take the money in your Account when you retire.

This type of approach is useful if you prefer not to take a hands-on role in choosing specific assets to invest in.

However, it is important to let the Scheme administrators know if you plan to retire earlier or later than your normal retirement date. This is so your funds can automatically be moved into the most appropriate investments for you in the last few years before retirement.

Your choices at retirement

When you retire, you can choose to take your Money Purchase savings in one of the following ways:

- Buy an annuity – this is a product from an insurance company which gives you a taxable income (a pension) for life.
- Cash – you can take your entire Account as a taxable cash lump-sum.
- Drawdown – you can leave your savings invested and take taxable sums as and when you need to.
- A combination of these options.

Money Purchase section continued

Reviewing your investments regularly

Whether you choose a Retirement Pathway or the Self Select option, it is important to keep an eye on your investments and review them on a regular basis.

Don't forget, you are not 'locked into' an investment option and you can make changes up to three times a year free of charge. Complete an Investment Option form which is available from the Scheme administrators or the Scheme website.

The Company will contribute 12.0% of pensionable earnings for Money Purchase section members working for them, to pay for their future Money Purchase benefits.

Performance summary to 31 December 2017

Retirement Pathway funds	Annual %		
Aon Managed Retirement Pathway Fund	Portfolio	Benchmark	Relative
2016 – 2018 Fund	7.0	5.3	1.7
2019 – 2021 Fund	7.6	5.9	1.7
2022 – 2024 Fund	8.2	6.6	1.6
2025 – 2027 Fund	9.0	7.5	1.5
2028 – 2030 Fund	10.4	9.6	0.8
2031 – 2033 Fund	11.9	12.1	-0.2
2034 – 2036, 2037 – 2039, 2040 – 2042, 2043 – 2045, 2046 – 2048 Funds	12.0	12.2	-0.2
Aon Managed Retirement Pathway Fund to Cash			
2016 – 2018 Fund	0.6	0.4	0.2
2019 – 2021 Fund	5.1	3.9	1.2

Self Select funds

If you are comfortable making your own investment decisions, you might prefer to use the Self Select funds. Don't forget to review your investments on a regular basis to make sure you are on track with your plans for retirement. In the table on the right, you can see a summary of the performance of the different funds for the year to December 2017.

	Annual %			
Self Select funds	Active/passive	Portfolio	Benchmark	Relative
Active Global Equity	Active	13.4	11.8	1.6
Active UK Equity	Active	8.6	13.1	-4.5
Global Equity	Passive	12.9	13.2	-0.3
Liquidity	Active	0.3	0.1	0.2
Long-term Inflation Linked	Passive	2.5	2.5	0.0
Passive Corporate Bond	Passive	4.5	4.3	0.2
Pre-Retirement Bond	Passive	4.2	4.2	0.0
Progressive Growth Phase	Active	6.6	0.4	6.2
Property & Infrastructure	Mix of both	3.2	2.9	0.3

For all Money Purchase funds

The main charge relating to the investment of your DC assets is the annual management charge. This is the cost of the fund manager running the particular fund and varies by fund. The performance figures shown here are calculated before the annual management charge is paid and therefore actual performance received will be lower once these charges are taken into account. There are also additional expenses relating to administration, custody and other incidental costs. The performance figures already allow for these additional costs. Details of annual management and additional charges can be found on the Scheme website.

Please remember that past performance is not a guide to future returns and the value of your investments and the income from them can fluctuate and is not guaranteed.

Get in touch

If you have a query about your Scheme benefits or require further information about the Scheme, please 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

Email: pearl@firstactuarial.co.uk

Website: www.pearlstaffpensionscheme.co.uk

Don't forget!

Please remember to let us know if you move house or if your personal circumstances change.