



Pearl Group Staff Pension Scheme

May 2021

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. We bring you the news from the Scheme as well as an update from the world of pensions.

There is no doubt that the last year has been a challenging one for us all, and I hope that you and your family are staying safe and well. However, during the Covid-19 pandemic, I am pleased to report that Scheme business has continued without interruption and members' pensions and benefits have been paid as usual. The move to home working went well and the majority of the administration team continue to work from home. My thanks to the Scheme administrators and our advisers for ensuring this has happened.

In August 2020, two new Trustee Directors joined the Board. We welcome Gary Welsh and Lesley Williams, who have been appointed by the Company, and look forward to working with them. You can read more about them and some changes to the structure of the Trustee Board on page 8.

The term of office for our member-nominated Trustee Directors comes to an end this year. While Graham, Max and Chris have all indicated their willingness to stand for reselection to the Trustee Board, this is an opportunity for any other members who would be interested in taking an active role in running the Scheme to put themselves forward for nomination. Pensioners and members still working for Phoenix will have received a booklet about this. The outcome of this process will be announced on the Scheme website on 1 June 2021.

Finally, due to harmonisation activity within the Phoenix Group, the Money Purchase section closed to future contributions on 30 June 2020. For future contributions, all active members have been offered membership of a new defined contribution pension arrangement – the Standard Life Master Trust.

These members are now deferred members of our Scheme.

I hope you find this issue of *Your Pension Matters* useful and informative. If you have any queries or feedback, please get in touch with the Scheme administrators using the contact details on the back page.

Keith Jones  
Chair of Trustees

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# At a glance...

These are the Scheme highlights for the year to 30 June 2020, when:

the Scheme's assets were worth  
**£3,109 million**

the Scheme had **17,996** members

the Company paid in contributions of  
**£40 million**

the Scheme paid benefits to members  
totalling **£88 million**

the Scheme had a funding level (on  
the technical provisions basis) of **110%**.

# Scheme news

## Update on GMP equalisation

In the 2019 issue of *Your Pension Matters*, we reported on Guaranteed Minimum Pensions, also known as GMPs. A High Court ruling has stated that UK defined benefit (final salary) pension schemes, like ours, must make sure that GMPs are equal for men and women. This ruling could affect you if you were an active member of the Scheme between 17 May 1990 and 5 April 1997.

Following further clarification on some outstanding issues by the courts, we are working with our advisers on the complex process of adjusting members' benefits. Some members may receive a small increase, however, please note that any uplift is likely to be modest. You do not need to take any action as we will contact you in due course if this affects you.

## Buy-in with Phoenix

The Trustees agreed with the Company to enter into a buy-in with Phoenix Life, and this was completed in November 2020. This is good news because it increases the security of all members' benefits.

Also known as a bulk annuity, a buy-in is essentially an insurance policy which covers some of the Scheme's liability for paying members' pensions. This is a form of investment that we may consider adding to in the future. Under the buy-in, 25% of the Scheme's liabilities are covered, including benefits for both deferred and pensioner members.

There is no change to your benefits, and the Scheme is still responsible for paying pensions to members. The buy-in policy is held as one of the Scheme's assets.

## Monthly Company contributions ceasing

Under the existing Schedule of Contributions, monthly contributions of £3.3m were payable by the Company until September 2021. As part of the discussions with the Company about the buy-in, the Company agreed to pay these monthly contributions early and so paid a lump sum of £36.6m into the Scheme in November 2020.

## Money Purchase fund update

The Trustees have been working with their investment adviser to sell the legacy UK equity holdings, and a partial distribution of funds is expected in the autumn. We will write to members who are affected by this when more details are available.

The Aon Managed Global Equity Fund was subject to the volatile market conditions of 2020, resulting in a drop in performance compared with its benchmark (see pages 18 and 19). This was mainly due to allocations to 'alternative' equities, with more exposure to financial, energy and industrial sectors and lower exposure to the technology sector which has driven market performance, in comparison to the benchmark. However, this strategy is intended to add value over the longer term and provide benefits in terms of additional diversification, helping to reduce some of the concentration risks inherent in global equities.

Recent changes to the fund have introduced allocations to both 'momentum' and 'quality' strategies to add further diversification and reduce the reliance on any single factor to generate returns. The Fund now also includes an allocation with an ESG overlay, with a focus on low carbon, which results in a material reduction in the carbon footprint of members' savings.

The Aon Managed Global Equity Fund is a component of the Retirement Pathway Funds and has also impacted upon their performance compared with the benchmark. This is particularly the case for members who have a longer time to retirement, where their Retirement Pathway Fund will have a higher allocation to the Aon Managed Global Equity Fund.



## Scams – stay alert

Scammers are continuing to target pension pots of all sizes. They normally target pensions not yet in payment. The pandemic has impacted all kinds of companies, including those listed on the stock markets. As a result, markets have been volatile and are likely to remain so for a while. This can cause people to worry about their savings, and scammers may use this as an opportunity to try to gain access to your money.

If you're facing financial difficulties because of the pandemic, you may be tempted to cash in some of your pension. Scammers design attractive offers to persuade you to transfer your pension pot to them, where it is:

- invested in unusual and high-risk investments
- invested in more conventional products but within an overly complex structure that hides multiple fees and high charges
- stolen outright.

Common pension scams include early pension release or pension reviews. You should:

- reject any unsolicited contact about investments
- check the Financial Conduct Authority's warning list
- don't be rushed or pressured
- get impartial advice.

New regulations to support pension trustees in blocking transfers that display pension scam red flags are expected to come into force this autumn.



## We've made the pledge!

The Pensions Regulator is asking trustees of pension schemes to pledge to combat pension scams by following the Pension Scams Industry Group's (PSIG) code of good practice.

This includes providing regular warnings to members about scams, encouraging members asking for a transfer to take independent advice, carrying out checks on pension transfers and reporting suspected scams to the authorities.

First Actuarial, the Scheme's administrators, have signed up to make the pledge to combat pension scams on behalf of their clients.

# Change in structure of Trustee

In August 2020, it was agreed to increase the size of the Trustee Board from six Trustee Directors to eight.

This change is to help with succession planning so that the Board can maintain appropriate levels of experience and skill sets and also to assist in managing any potential conflicts of interest that Trustee Directors may have. As mentioned earlier, we are pleased to welcome Gary and Lesley to the Board.

## Meet our new Trustee Directors



### Gary Welsh

Gary has worked for Pearl Assurance since 2002 in various actuarial roles, including Head of Planning and Forecasting, and Senior Internal Auditor. Qualifying as an actuary in 2008, he is currently a Project Actuary.



### Lesley Williams

Lesley worked for Pearl Assurance and Henderson between 1994 and 2007 in various roles, including Head of Staff Pensions and Secretary to the Trustee Board, before moving to Whitbread as Group Pension Director until 2018.

She was also non-executive Director of NAPF/PLSA between 2010 and 2018, serving as Chair of the Board from 2015 to 2017.

Gary and Lesley join our Trustee Board as Company-appointed Trustee Directors and have also joined a number of the Trustee Board sub committees.



# 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.

## Your Trustee Directors

Keith Jones (independent chair)  
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 Trustees

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

### Actuary

Neil Wearing FIA, Willis Towers Watson

### Auditor

RSM UK Audit LLP

### 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 (part of the Phoenix Group)

# Who's in the Scheme?

As at 30 June 2020, you were one of 17,996 members in the Scheme.

## Final Salary section

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Active members - 0

Deferred members - 6,588

Pensioner members - 9,917

**Total - 16,505**

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## Money Purchase section

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Active members - 0

Deferred members - 1,361

Pensioner members - 130

**Total - 1,491**

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Hybrid members have benefits in both the Final Salary and Money Purchase sections. They are included in the totals for the Money Purchase section.

The Money Purchase section of the Scheme closed as at 30 June 2020, when all active members were offered membership of the Standard Life Master Trust.

# The Scheme's finances

The information on these pages is a summary that has been taken from the Trustees' formal report and accounts for the year to 30 June 2020.

Fund value at 1 July 2019: £2,905m (including Money Purchase assets of £63m)

	12 months to 30 June 2020 (£m)			(£m)
	Final Salary	Money Purchase	TOTAL	2019 TOTAL
<b>Income</b>				
Contributions	40.0	0.6	40.6	40.6
Investment income	16.8	-	16.8	21.1
<b>Total</b>	<b>56.8</b>	<b>0.6</b>	<b>57.4</b>	<b>61.7</b>
<b>Expenditure</b>				
Benefit payments to members	(88.3)	(0.1)	(88.4)	(88.6)
Payments to leavers	(22.7)	(3.1)	(25.8)	(30.0)
Investment expenses	(4.0)	-	(4.0)	(5.0)
<b>Total</b>	<b>(115.0)</b>	<b>(3.2)</b>	<b>(118.2)</b>	<b>(123.6)</b>
<b>Income less expenditure</b>	<b>(58.2)</b>	<b>(2.6)</b>	<b>(60.8)</b>	<b>(61.9)</b>
<b>Change in market value</b>	<b>264.1</b>	<b>0.4</b>	<b>264.5</b>	<b>246.3</b>
<b>Net increase/decrease</b>	<b>205.9</b>	<b>(2.2)</b>	<b>203.7</b>	<b>184.4</b>

Fund value at 30 June 2020: £3,109m (including Money Purchase assets of £61m)

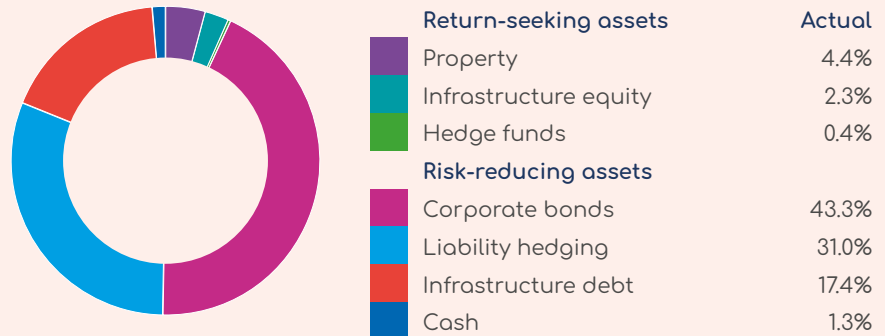
# Final Salary section

## Investment policy

The Trustees are responsible for investing the Scheme's assets and, in doing so, considers the membership profile and the structure and duration of the liabilities. Taking the advice of its investment adviser, the Trustees' formal investment policy is set out in the Statement of Investment Principles (SIP). It was last updated in November 2020, and if you would like to see a copy of the SIP, you can find it on the Scheme website.

Day-to-day management of the Scheme's asset portfolio is delegated to the Scheme's investment managers. It is split between return-seeking assets which target long-term growth and risk-reducing assets, which are intended to manage inflation and interest-rate risks.

## Asset allocation as at 31 December 2020



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

The planned reduction in allocation to property and hedge funds is continuing as the Scheme continues to de-risk.

The strategic allocation to return-seeking assets will reduce, in favour of risk-reducing assets, as additional de-risking occurs.



## Investment performance

During the year to 30 June 2020, the Scheme's investments returned 9.9%, ahead of a benchmark of 9.3%. The table below also shows the annualised performance for the three and five-year periods.

	1 year %	3 years % p.a.	5 years % p.a.
Scheme	9.9	7.0	9.0
Benchmark	9.3	6.5	8.1
Difference	0.6	0.5	0.9



## Funding update

Every three years, the Scheme actuary carries out a full actuarial valuation. In between valuations, the actuary provides an estimated update of the Scheme's financial position. The results of the most recent valuation as at 30 June 2018 are shown in the table below, along with the updates as at 2019 and 2020.

Funding target	Valuation 30 June 2018		Update 30 June 2019		Update 30 June 2020	
	Intermediate	Gilts flat	Intermediate	Gilts flat	Intermediate	Gilts flat
Assets*	£2,659m	£2,659m	£2,840m	£2,840m	£3,047m	£3,047m
Liabilities*	£2,555m	£2,785m	£2,621m	£2,856m	£2,756m	£3,029m
Surplus/(deficit)	£104m	(£126m)	£219m	(£16m)	£291m	£18m
Funding level	104%	96%	108%	99%	110%	101%

\*excludes Money Purchase and AVC assets and liabilities

The main factors contributing to the change in the funding level were:

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

## Company contributions

As mentioned previously the Company paid the monthly contributions to the Scheme early and a lump sum of £36.6m was paid in November 2020.

## The importance of the Company's support

The success of the Scheme relies on the Company continuing to support it because:

- the Company will still 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 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 2020, it is estimated that the assets would have been sufficient to secure 97% of benefits for members of the Final Salary section (as at 30 June 2018, this was estimated to be 90%).

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](http://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.

You can see a copy of the 2018 valuation report on the Scheme website.



# Money Purchase section

The Money Purchase section closed to future contributions on 30 June 2020. If you are a member of the Money Purchase section, your savings are invested using either the Retirement Pathway, where your investments are managed for you, or using the Self-Select Funds, where you can take an active role in managing your investments.

Your savings in the Money Purchase section can be used at retirement in the way that suits you best. You can either:

- buy an annuity – an insurance product that provides the security of a guaranteed income for life.
- use income drawdown – an arrangement where you leave your money invested but take cash sums as and when you need to.
- take a cash lump sum – you take the entire value of your Account in cash.
- take a pension direct from the Scheme – most Money Purchase members have a Reference Scheme Test underpin which means the Scheme has to provide a minimum level of pension at your normal retirement age.

Not all these options are available directly through the Scheme and you may need to transfer to another provider, if you want to access your savings flexibly. It is also important to consider the tax implications of each option before deciding how you access your savings.



## Retirement Pathway Funds

See the Money Purchase fund update on page 5 for an overview of the year in the markets.

### Performance (gross) for the year to 31 December 2020 (%)

Aon Managed Retirement Pathway Fund	Portfolio	Benchmark	Relative
2016 – 2018 Fund	6.4	6.0	0.4
2019 – 2021 Fund	6.9	6.6	0.3
2022 – 2024 Fund	6.5	6.8	-0.3
2025 – 2027 Fund	6.2	7.0	-0.8
2028 – 2030 Fund	5.8	7.3	-1.5
2031 – 2033 Fund	4.6	8.2	-3.6
2034 – 2036 Fund	4.1	10.2	-6.1
2037 – 2039, 2040 – 2042, 2043 – 2045, 2046 – 2048 Funds	4.2	10.4	-6.2
<b>Aon Managed Retirement Pathway Fund to Cash</b>			
2019 – 2021 Fund	0.1	-0.1	0.2
2022 – 2024 Fund	3.4	3.9	-0.5
2025 – 2027 Fund*	6.2	7.0	-0.8
<b>Aon Managed Retirement Pathway to Annuity</b>			
2019 – 2021 Fund	7.6	7.7	-0.1
2022 – 2024 Fund	6.5	6.9	-0.4
<b>Aon Managed Retirement Pathway Perpetual</b>			
	5.9	4.5	1.4

Source: BlackRock, Aegon, Aon Investments Limited.

Returns are shown gross of fees and will be reduced by the AMC paid by members.

Inception date for majority of funds is 31 May 2015, except funds marked with \* which launched 29 June 2019.

## Self-Select Funds

Performance (gross) for the year to 31 December 2020 (%)

	Portfolio	Benchmark	Relative
Global Equity	5.5	12.7	-7.2
Active Global Equity	16.8	12.3	4.5
Active UK Equity**	-5.9	-9.8	3.9
Property & Infrastructure	-7.6	-8.6	1.0
Passive Corporate Bond	8.1	7.8	0.3
Diversified Asset*	7.7	0.2	7.5
Long-term Inflation Linked	12.9	12.4	0.5
Pre-Retirement Bond	11.1	11.1	0.0
Liquidity	0.3	0.0	0.3

Source: BlackRock, Aegon, Aon Investments Limited.

Returns are shown gross of fees and will be reduced by the AMC paid by members.

\*Returns are shown relative to the performance objective. AM Diversified Asset Fund: LIBOR +3% p.a. up to 31 October 2019 and SONIA +3.25% p.a. with effect from 31 October 2019.

\*\*As at 31 December 2020, the Scheme held £9,567 in the Aon Managed UK Equity (Legacy) Fund, which was created to hold the legacy Woodford Equity Income Fund assets that are in the process of being wound down. Given the Aon Managed UK Equity (Legacy) Fund launched on 13 February 2020, performance is not included in the table above.

Inception date: Aon Managed Funds – 31/12/2014.

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

You can make changes to your investments at any time. It is free to make changes up to three times a year and you can do this by completing an Investment Option form, which is available from the Scheme administrators or the Scheme website.

# Get in touch

If you have any questions about the Scheme or your benefits, please contact the Scheme administrators.

**Call us:**

01733 447620

**Email us:**

[pearl@firstactuarial.co.uk](mailto:pearl@firstactuarial.co.uk)

**Write to us:**

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Peterborough PE2 6FT

**Scheme website:**

[www.pearlstaffpensionscheme.co.uk](http://www.pearlstaffpensionscheme.co.uk)

## Let us know!

Please remember to tell us if you move house or your personal circumstances change, so we can keep in touch with you and pay your benefits when they are due.