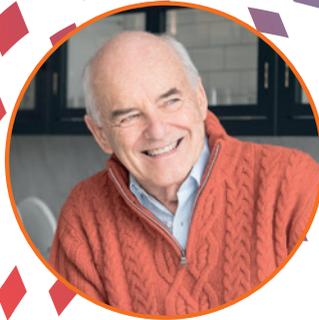


# YOUR PENSION MATTERS





# WELCOME

**It is a pleasure to present this issue of *Your Pension Matters*, the annual newsletter for members of the Pearl Group Staff Pension Scheme, bringing you up to date on the latest developments from the Scheme.**

You can read about the Scheme's finances on page 6, where there is a summary of the income and expenditure over the year, taken from the formal annual report and accounts.

**Final Salary** members will be interested to read about the results of the most recent actuarial report for the Scheme, looking at the position at 30 June 2016. Despite the turmoil in markets in the days after the Brexit vote this appears to have had no immediate impact on the Scheme. The funding level has increased to 93% and there are more details about this in the Funding Update on pages 8 to 12.

If you are a member of the **Money Purchase section** or have Additional Voluntary Contributions (AVCs), don't forget to review your investments regularly to make sure they still make sense with your plans for retirement. There is more about the range of investment funds on pages 13 to 15.

We hope you find this newsletter interesting. If you have any questions or there is anything you would like to see covered in future issues, please get in touch with the Scheme Administrator, using the details on the back page.

**Keith Jones**, Chairman of Trustees



# AT A GLANCE...

Here's a quick look at key developments in the Scheme during the past year:

- The value of the Scheme's assets rose by £311 million over the year to 30 June 2016, increasing from £2,278 million to £2,589 million.
- As at 30 June 2016, there were 19,895 members in the Scheme.
- The funding level of the **Final Salary section** increased from 88% to 93% at 30 June 2016.
- £86 million was paid in benefits to pensioners between July 2015 and June 2016.
- In line with the funding agreement, another Company contribution of £40 million was paid in September 2016.

# SCHEME NEWS

## 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 nominated by members of the Scheme.

### Independent Chairman

Keith Jones, BSc, FIA, MBA,  
pensioner member

### Company appointed

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

Graham Felston, BSc, FCII, MBA, C.Dir, pensioner member  
Max Mauchline, FCII, pensioner member  
Chris Munro, BSc, FIA, pensioner member

## Scheme advisers

**Secretary** - C Wilson, BSc, FPML, First Actuarial LLP

**Sponsoring Employer** - Pearl Group Holdings  
(No.2) Limited (part of Phoenix Group)

**Actuary** - N Wearing, FIA, Willis Towers Watson  
(formerly Towers Watson Limited)

**Legal Advisers** - Reed Smith LLP

**Investment Advisers** - Aon Hewitt Limited

**Independent Auditors** - PricewaterhouseCoopers LLP

**Custodians** - State Street Bank and Trust Company

**Credit advisers (employer covenant)** -  
PricewaterhouseCoopers LLP

**Bankers** - HSBC Bank PLC

# COMPANY UPDATE

Phoenix Group Holdings has a Premium Listing on the London Stock Exchange and is a member of the FTSE 250 index.

The Group is a closed life assurance fund consolidator that specialises in the management and acquisition of closed life and pension funds, and operates primarily in the United Kingdom. Measured by total assets, the Group is the largest UK consolidator of closed life assurance funds. The Group has over 6.1 million policyholders and £74 billion of assets held by the Group's life companies, including the newly acquired Abbey Life, AXA Wealth and SunLife businesses.

I am pleased to provide an update on developments at Phoenix over the last year. In December 2015 the Prudential Regulatory Authority (PRA) approved our internal model for calculating capital requirements for Solvency II. We were one of 19 insurers whose models were approved.

We then announced on 13 December 2016 that the PRA has given its consent to the acquisition of Abbey Life Assurance Company Limited. Completion of this acquisition then took place on 30 December 2016.

This follows our announcement on 1 November 2016 of completion of the acquisition of AXA Wealth's pension and protection business from AXA UK Plc.

These acquisitions have no impact on the funding and support we provide for your Scheme but do strengthen the Phoenix Group.

**Jim McConville (Group Finance Director of Phoenix Group)**

# THE SCHEME'S FINANCES

FUND VALUE AT 2015: £2,278m	Scheme year 1 July to 30 June (£m)			
	2016 final salary	2016 money purchase	2016 TOTAL	2015 TOTAL
<b>INCOME</b>				
Contributions	40.0	0.7	40.7	68.6
Investment income	12.7	-	12.7	12.6
<b>Total</b>	<b>52.7</b>	<b>0.7</b>	<b>53.4</b>	<b>81.2</b>
<b>EXPENDITURE</b>				
Benefit payments to members	-85.4	-0.4	-85.8	-85.3
Transfers out and State Scheme premiums	-20.2	-3.3	-23.5*	-10.4
Investment expenses	-3.1	-	-3.1	-2.2
<b>Total</b>	<b>-108.7</b>	<b>-3.7</b>	<b>-112.4</b>	<b>-97.9</b>
<b>INCOME LESS EXPENDITURE</b>	<b>-56.0</b>	<b>-3.0</b>	<b>-59.0</b>	<b>-16.7</b>
<b>CHANGE IN MARKET VALUE</b>	<b>364.6</b>	<b>5.3</b>	<b>369.9</b>	<b>304.8</b>
<b>NET INCREASE</b>	<b>308.6</b>	<b>2.3</b>	<b>310.9</b>	<b>288.1</b>

**FUND VALUE AT 2016: £2,589m**

\*More people 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 2016, there were 19,895 members in the Scheme.

## Final Salary section

0 active members

8,440 deferred members

9,838 pensioner members

## Money Purchase section\*

49 active members

1,474 deferred members

94 pensioner members

\*These numbers also include hybrid members, i.e. those members who have benefits in both the Money Purchase and Final Salary sections.



# FINAL SALARY SECTION

## Funding update as at 30 June 2016

During the years between valuations, the Scheme Actuary updates the Scheme's financial position to highlight changes. As at 30 June 2016, the Scheme's funding level on the **intermediate funding target** was 93%. The main reasons for the increase since 2015 were the Company contributions paid into the Scheme, good performance on the Scheme assets and a higher interest rate used in the calculation of liabilities, which leads to a lower value being placed on these liabilities.

**It's important to remember that these figures represent a snapshot of the Scheme's position on one particular day.** You should also keep in mind that pensions are a long-term investment.

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

	Intermediate funding target		Gilts flat funding target	
	2016	2015	2016	2015
<b>Assets</b>	£2,533m	£2,225m	£2,533m	£2,225m
<b>Amount needed to provide benefits (Technical Provisions)*</b>	£2,740m	£2,525m	£3,065m	£2,761m
<b>Shortfall</b>	£207m	£300m	£532m	£536m
<b>Funding level</b>	<b>93%</b>	<b>88%</b>	<b>83%</b>	<b>81%</b>

\*Excluding Money Purchase and AVC assets and liabilities. Please note, figures are subject to rounding.

## 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 75% of benefits for members of the Final Salary section (compared with the 2015 figure of 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, 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.

Further information and guidance is available on the Pension Protection Fund's website at **[www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)**.

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

## 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 from September 2016 to September 2021. If there is a shortfall after 2021, annual payments will be made to address this.



# FINAL SALARY SECTION CONTINUED

## 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 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.



## Investment strategy

The Trustees are responsible for setting the investment strategy for the Scheme and advising the chosen investment managers of the policy they are to follow.

A proportion of the assets are invested in a Liability Driven Investment mandate (LDI) where movements in the investments tend to match changes in interest and inflation rates. The remainder is invested in corporate bonds, infrastructure debt and some additional return seeking investments, which include equity, property and hedge funds.

In this edition, we thought we would provide more information on our property portfolio – see the item on the right.

### Spotlight on property

For many years the Scheme has been successfully investing in commercial property, where we are aiming to achieve both capital growth and rental income.

The three main types of property that we invest in are:

- **Industrial** – typically warehouse sites with good transport links,
- **Offices** – mainly in London and South East England, and
- **Retail** – ranging from small units in thriving high streets to out of town shopping retail parks.

By value, the properties we currently hold range from £2 million to just over £26 million, with a total holding of around £200 million. Locations include Birmingham, Bradford, Bristol, Canterbury, Glasgow, Northampton and York, as well as a number in both central and outer London.

We have around 130 tenants, including a number of well-known high street brands and other household name companies.

In addition to the direct property investments described above, we also currently have a holding in a property unit trust that invests in the healthcare sector.

## Asset allocation at 31 December 2016

Asset Class	Investment Manager	31 December 2016		Target range %
		£m	%	
<b>Return seeking assets</b>		<b>412</b>	<b>15.4</b>	
Global Equity	Legal & General	134	5.0	0-7.5%
Property	DTZ	209	7.8	0-15%
Hedge Funds	Legal & General	66	2.5	0-7.5%
Other	Legal & General	3	0.1	0-7.5%
<b>Risk reducing assets</b>		<b>2,220</b>	<b>82.8</b>	
Liability Hedging Portfolio	Legal & General	1,106	41.2	Variable
Corporate Bonds	Legal & General	965	36.0	Variable
Infrastructure Debt	Macquarie	150	5.6	0-15%
<b>Cash</b>	Legal & General	<b>50</b>	<b>1.9</b>	
<b>TOTAL</b>		<b>2,682</b>	<b>100</b>	

Figures are subject to rounding.

## Investment performance

The performance of the Scheme's investments over one, three and five year periods to 31 December 2016 is shown below:

Annualised return over	One year	Three years	Five years
<b>Scheme</b>	24.6%	15.3%	10.6%
<b>Benchmark</b>	19.6%	13.7%	9.8%
<b>Difference</b>	+5.0%	+1.6%	+0.8%

# MONEY PURCHASE SECTION

## Investment funds

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.

**Self Select:** If you are comfortable making your own investment decisions, you might prefer to use the self select funds. Recent performance figures for these are shown on the next page.

**Retirement Pathway:** If you are not comfortable making your own investment decisions, you can opt for one of the Retirement Pathways.

## Changing your mind

Whichever investment strategy you choose you are not 'locked in' and can make changes to the funds that you are investing in. You can change how your Money Purchase Account is invested up to three times a year free of charge. You need to complete an Investment Option form which is available on the Scheme website or by contacting the Scheme Administrator.

The Trustees strongly recommend that, if you are considering your options or thinking of transferring out of the Scheme, you take independent financial advice.

## Reviewing your investments regularly

Don't forget to keep an eye on how your investments are affecting the value of your Money Purchase Account as it's important to make sure that your investments are growing in line with your expectations. Your annual benefit statement shows the value of your Money Purchase Account at the statement date, along with investment returns for the year. You can get more regular updates on the performance of the funds on the Scheme website.

## Self select funds

### Performance summary to 31 December 2016

Aon Managed Fund	Active/Passive	Annual (%)		
		Portfolio	Benchmark	Relative
Active Global Equity	Active	28.2	28.2	0.0
Active UK Equity	Active	15.5	16.8	-1.3
Global Equity	Passive	30.7	28.7	2.0
Liquidity	Active	0.5	0.3	0.2
Long Term Inflation Linked	Passive	27.5	27.4	0.1
Passive Corporate Bond	Passive	10.8	10.7	0.1
Pre-Retirement Bond	Passive	15.5	15.4	0.1
Progressive Growth Phase	Active	0.6	0.5	0.1
Property & Infrastructure	Mix of both	23.1	22.2	0.9

Source: BlackRock. Returns quoted gross of fees. Any discrepancy in the relative performance is due to rounding.

Past performance is not a reliable guide to future performance and the value of investments and the income from them can fluctuate and are not guaranteed.



## Retirement pathway funds

### Performance summary to 31 December 2016

Aon Managed Retirement Pathway Fund	Annual (%)		
	Portfolio	Benchmark	Relative
2016 - 2018 Fund	17.2	15.2	2.0
2019 - 2021 Fund	17.8	15.8	2.0
2022 - 2024 Fund	18.9	16.9	2.0
2025 - 2027 Fund	20.3	18.4	1.9
2028 - 2030 Fund	26.0	24.0	2.0
2031 - 2033 Fund	30.0	28.0	2.0
2034 - 2036 Fund	30.0	28.0	2.0
2037 - 2039 Fund	30.0	28.0	2.0
2040 - 2042 Fund	30.0	28.0	2.0
2043 - 2045 Fund	30.0	28.0	2.0
2046 - 2048 Fund	30.0	28.0	2.0
<b>Aon Managed Retirement Pathway Fund to Cash</b>			
2016 - 2018 Fund	4.0	3.4	0.6
2019 - 2021 Fund	14.7	12.9	1.8

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.

# GET IN TOUCH...

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

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

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

## Don't forget!

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