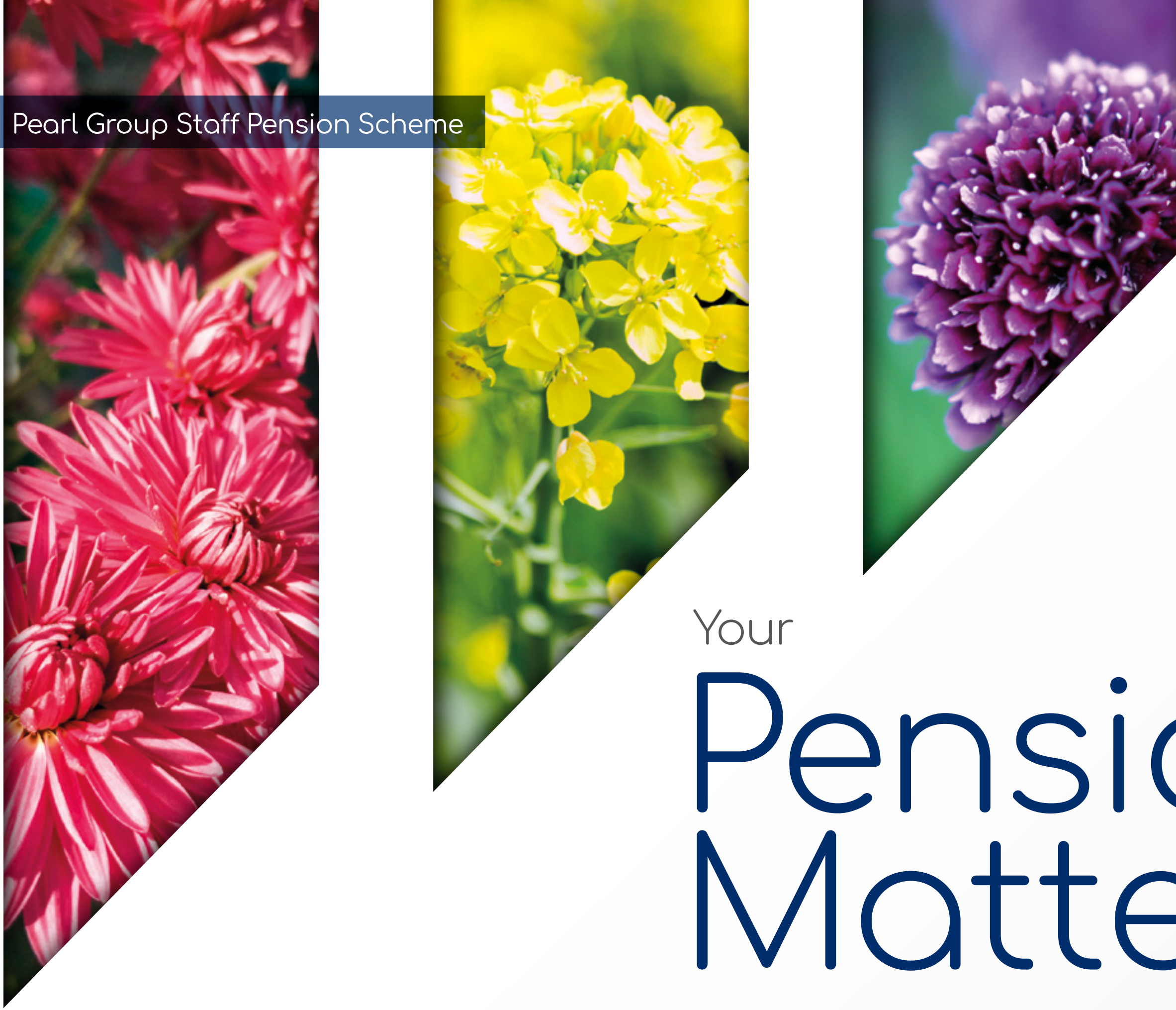
Pearl Group Staff Pension Scheme

March 2020



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 provides an update on the news from the Scheme as well as information about pensions in general.

The most recent actuarial valuation looked at the position as at 30 June 2018 and we sent you a report on the results last autumn. Since that valuation, the actuary has provided an update on the funding position as at 30 June 2019, when the funding level had improved to 108%. There is more about this in the Final Salary section beginning on page 10.

We have included a summary of the Scheme's finances for the year to 30 June 2019 on page 9, so you can see how we are managing the money going into and out of the Scheme during the year.

If you are a member of the Money Purchase section or have paid Additional Voluntary Contributions (AVCs), I would encourage you to review your investment choices from time to time to make sure that they still fit with your plans for retirement. You can make updates to your investments at any time.

I hope you enjoy reading this issue of *Your Pension Matters*. If there is anything you would like to see covered in more detail in a future issue, please get in touch with the Scheme administrators, using the contact details on the back page.

Keith Jones, Chair of Trustees

At a glance...

For the year to 30 June 2019, highlights from the Scheme include:

The Scheme's assets as at 30 June 2019 were worth £2,905 million

The Scheme had 18,370 members

The Company paid in contributions of £40 million

During the year, the value of benefits paid to members was £88 million

The Scheme's technical provisions funding level was 108% and gilts flat funding level was 99%

In this issue

Scheme news	4
Company news	7
Who's in the Scheme?	8
The Scheme's finances	9
Final Salary section	10
Money Purchase section	16
Running the Scheme	19
Get in touch	20

Scheme news

Moving house? Don't go away without telling us!

The reason you are able to read this edition of *Your Pension Matters* is that our administrators, First Actuarial, hold your current address in their records.

Every year, roughly 1,200 of our members move, but only around 80% of them remember to tell us. For the rest, the first we know is when a mailing is returned marked 'Gone away'. The immediate impact is that the address we hold is marked 'suspect' and to comply with data protection rules, no more mailings of any sort (including annual statements, retirement quotes etc.) can be sent until a new address has been identified and confirmed.

This can be a very time consuming and expensive process for us, involving contact with the DWP and, if necessary, using an external tracing agency. Despite every effort, we're not always successful. We have a small number of long-term suspect addresses which will only get resolved if the member makes contact with us again, or sadly if they are eventually identified through our death screening checks.

The cost of us re-establishing contact with a member can be up to £200, compared with the cost of a second-class stamp or phone call, for example.

You can simply download the change of address form which sets out all the necessary information from our website:

www.pearlstaffpensionscheme.co.uk/Members/Forms

Remember: if we don't hear from you when you move, you soon won't hear from us!

Chair's statement

Workplace pension schemes need to provide a governance statement from the Trustees for their Money Purchase members. You can find the latest Chair's statement on the Scheme website, which covers the following:

- the default investment arrangement
- processing of core financial transactions
- member charges and transaction costs
- how the Scheme represents good value for money to members
- Trustee knowledge and understanding.

Could you spot a pensions scam?

Pension scams can be hard to spot, and we would like to remind members who haven't yet commenced their pension to continue to be vigilant.

Scammers can be articulate and financially knowledgeable with credible-looking websites, testimonials and materials that are hard to distinguish from the real thing. Scammers will try to persuade you to transfer your preserved pension benefits or release funds from it. They make false claims to gain your trust, for example claiming to be authorised by the Financial Conduct Authority (FCA) or that they do not need to be because they are not providing the advice themselves. They may also offer 'legal loopholes' and claim they can help you access your pension before age 55.

Before a transfer can proceed, the administrators are required to do a number of checks. They check the IFA is registered with the FCA and will also issue you a leaflet providing details of how to spot a scam. If the administrators are suspicious, they will contact you with any concerns. Ultimately though, the final decision is yours so please take care.

In January 2019, the government introduced a ban on cold calling about pensions. If someone contacts you out of the blue about your pension, it is best simply to hang up. The Pensions Regulator advises members to reject unexpected offers, check who you are dealing with, resist being pressured or rushed and get impartial information and advice.

You can find out more about pension scams and how to avoid them, as well as what to do if you think you are being targeted by scammers, at **www.fca.org.uk/scamsmart**

ESG and responsible investing

In setting the investment strategy for the Scheme, the Trustees' primary concern is to act in the best financial interests of the members, seeking the best return within an appropriate level of risk. In fulfilling this objective, the Trustees believe they must also act as responsible stewards of the assets that the Scheme invests in and expect the Scheme's investment managers to take account of environmental, social and corporate governance considerations (ESG) when selecting companies to invest in.

Briefly, environmental issues cover the use of fossil fuels or renewable energy and how a company uses natural resources as raw materials. Social issues include diversity, human rights and impact on society; while governance looks at management structure, employee relations and executive pay.

If you would like to know more about the Scheme's ESG policy, this is included in the Statement of Investment Principles, which you can find on the Scheme website.

Changes in State pension ages

The State pension age for both men and women will rise to age 66 by October 2020, with a further increase to age 67 by 2028.

The State pension age is set to rise again to age 68 between 2037 and 2039, seven years sooner than originally planned. It affects people born between 6 April 1970 and 5 April 1978, currently aged between 41 and 49.

The minimum age at which you can access private or workplace pensions is currently 55, but it is proposed that this will rise to 57 in 2028.

Company news

Phoenix Group Holdings plc: Board changes

The Group Chief Executive, Clive Bannister is retiring in March 2020 after nine years with the business. He will be succeeded by Andy Briggs, who joined the business as CEO-designate on 1 January 2020 in order to effect a smooth handover. Andy Briggs has also been appointed to the Board of Phoenix Group Holdings plc.

In December, Phoenix announced the proposed £3.2 billion acquisition of ReAssure Group plc, which cements Phoenix's position as the largest life and pensions consolidator in Europe, creating an enlarged Group with £329 billion of assets under administration and 14.1 million policies. The acquisition bolsters Phoenix's balance sheet strength with its Solvency II Surplus estimated to increase from £3.0 billion to £4.2 billion after completion. Phoenix will leverage its highly efficient operating model and approach to capital management to generate an expected £800 million of cost and capital synergies from the integration of Reassure.

The additional cash flows, skills and scale of the acquisition will enhance Phoenix's ability to harness its range of growth opportunities across Bulk Purchase Annuities, new Open Business and further mergers and acquisitions and bring further sustainability to Phoenix's long-term cash generation.

Who's in the Scheme?

As at 30 June 2019, there were 18,370 members in the Scheme.

Final Salary section

Active members - 0

Deferred members - 6,955

Pensioner members - 9,910

Total - 16,865

Money Purchase section

Active members - 34

Deferred members - 1,352

Pensioner members - 119

Total - 1,505

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 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 2019.

Fund value at 1 July 2018: £2,721m (including Money Purchase assets of £60m)

	12 months to 30 June 2019 (£m)			(£m)
	Final Salary	Money Purchase	TOTAL	2018 TOTAL
Income				
Contributions	40.0	0.6	40.6	40.6
Investment income	21.1	-	21.1	18.5
Total	**61.1**	**0.6**	**61.7**	**59.1**
Expenditure				
Benefit payments to members	(88.1)	(0.5)	(88.6)	(84.1)
Payments to leavers	(26.7)	(3.3)	(30.0)	(55.1)
Investment expenses	(5.0)	-	(5.0)	(5.0)
Total	**(119.8)**	**(3.8)**	**(123.6)**	**(144.2)**
Income less expenditure	(58.7)	(3.2)	(61.9)	(85.1)
Change in market value	241.1	5.1	246.2	81.5
Net increase/decrease	182.4	1.9	184.3	(3.6)

Fund value at 30 June 2019: £2,905m (including Money Purchase assets of £63m)

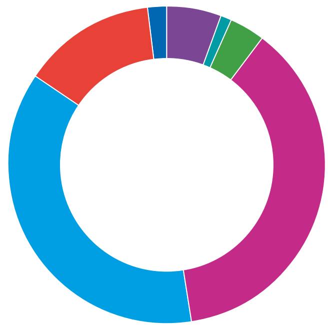
Final Salary section

Investment strategy

With the advice of their investment adviser, the Trustees are responsible for setting the Scheme's investment strategy. They take into account the membership profile and the structure and duration of the liabilities. Day-to-day management of the Scheme's asset portfolio is delegated to the investment managers, who act in accordance with the Trustees' policy.

In the **Final Salary** section, the portfolio is split between return-seeking assets for long-term growth and risk-reducing assets, which aim to manage inflation and interest-rate risks. The Scheme's long-term objective continues to be for the assets to produce a return of at least 2.25% per annum above the liabilities.

Asset allocation as at 31 December 2019



Return-seeking assets	Actual
Property	5.8%
Hedge Fund	0.9%
Infrastructure equity	3.7%
Risk-reducing assets	
Corporate bonds	37.2%
Liability hedging	37.0%
Infrastructure debt	13.6%
Cash	1.8%

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

Changes during the year

An allocation of 30% of the Scheme's assets is invested in collateral for interest rate and inflation rate hedging. During the year, the hedge ratio was increased to 100% of the interest rate and inflation rate risk.

Work is still ongoing to bring the infrastructure equity portfolio up to the target level.

The return-seeking assets will reduce further as more de-risking, via property sales, takes place.

Investment performance

During the year, the Scheme's investments outperformed the benchmark by 1.3%. The annualised returns for the three-year and five-year periods have also been positive and are shown in the table below.

	1 year %	3 years % p.a.	5 years % p.a.
Scheme	10.2	6.3	10.2
Benchmark	8.9	5.6	9.3
Difference	1.3	0.7	0.9

Funding update as at 30 June 2019

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 most recent valuation as at 30 June 2018 are shown in the table below, along with an update as at 30 June 2019.

	Valuation 30 June 2018		Update 30 June 2019	
	Intermediate funding target	Gilts flat funding target	Intermediate funding target	Gilts flat funding target
Market value of assets*	£2,659m	£2,659m	£2,840m	£2,840m
Amount needed to provide benefits*	£2,555m	£2,785m	£2,621m	£2,856m
Surplus/(deficit)	£104m	(£126m)	£219m	(£16m)
Funding level	**104%**	**96%**	**108%**	**99%**

*excluding Money Purchase and AVC assets and liabilities

The main factors contributing to the improvement 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

To make progress towards the gilts flat funding target, the Company continues to pay contributions into the Scheme of £3.3 million a month from July 2018 to September 2021, in line with the current funding agreement.

The importance of the Company's support

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 each year
- the funding level can fluctuate and when there is a funding deficit, the Company will usually 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 2019, it is estimated that the assets available would have been sufficient to secure 94% of benefits for members of the **Final Salary** sections, (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**

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

For members in the Money Purchase section, or if you have paid Additional Voluntary Contributions (AVCs), the Scheme provides you with choices on how to invest your savings. These choices are either the Retirement Pathway or Self Select funds and are designed to fit with your circumstances and risk appetite.

The Scheme provides you with choices on how to invest your savings that fit with your circumstances: either the Retirement Pathway or Self Select. For details of your fund options and their charges, please see the fund factsheets on the Scheme website.

Retirement Pathway

The Retirement Pathway is for members who prefer not to make their own investment decisions about the selection of funds to invest in. While you are still a long way from retirement, your Account is invested in return-seeking funds which aim to maximise growth over the long term.

When you get closer to retirement, your Account is automatically and gradually moved into lower-risk investments so that the value of your savings is better protected from the ups and downs of the financial markets.

Then, once you are within five years of retirement, you can choose the Retirement Pathway that fits with the way you plan to access your savings and manage your income in retirement, either drawdown, cash or annuity.

Retirement Pathway Funds

Performance (Gross) for the year to 31 December 2019 (%)

Aon Managed Retirement Pathway Fund	Portfolio	Benchmark	Relative
2016 – 2018 Fund	10.7	8.9	1.8
2019 – 2021 Fund	11.7	10.0	1.7
2022 – 2024 Fund	13.0	10.9	2.1
2025 – 2027 Fund	13.8	12.3	1.5
2028 – 2030 Fund	15.2	14.0	1.2
2031 – 2033 Fund	18.0	18.5	-0.5
2034 – 2036, 2037 – 2039, 2040 – 2042, 2043 – 2045, 2046 – 2048 Funds	19.6	21.1	-1.5
Aon Managed Retirement Pathway Fund to Cash			
2016 – 2018 Fund	0.8	0.6	0.2
2019 – 2021 Fund	3.8	3.3	0.5
2022 – 2024 Fund	11.1	9.8	1.3
Aon Managed Retirement Pathway to Annuity			
2022 – 2024 Fund	12.3	10.9	1.4
Aon Managed Retirement Pathway Perpetual			
	7.4	5.4	2.0

Self-select funds

These funds are for people who are comfortable making their own investment choices and want a more hands-on approach to their investments. There is a range of different types of investments to choose from with varying levels of risk.

It is important that you have the knowledge and time to devote to monitoring your self-select funds so that you can regularly keep track of your investments and ensure they remain on target with your plans for retirement.

Self-select Funds

Performance (Gross) for the year to 31 December 2019 (%)

	Portfolio	Benchmark	Relative
Active Global Equity	26.3	22.7	3.6
Active UK Equity	13.6	19.2	-5.6
Global Equity	19.9	21.7	-1.8
Liquidity	0.8	0.6	0.2
Long-term Inflation Linked	6.5	6.8	-0.3
Passive Corporate Bond	9.5	9.3	0.2
Pre-Retirement Bond	12.0	12.0	0
Diversified Asset	10.4	0.8	9.6
Property & Infrastructure	16.2	15.2	1.0

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.

You can make changes to your investments at any time – it's free to make changes up to three times during a year. Simply fill in an Investment Option form, available from the Scheme administrators or the Scheme website.

Your retirement options

When deciding how to invest your money, it is also useful to give some thought to your choices for accessing your savings at retirement. You can use the funds in your **Money Purchase** Account in the way that suits you best.

- **Annuity** – this is an insurance product that provides the security of a guaranteed income for life.
- **Income drawdown** – you leave your money invested but take cash sums as and when you need to.
- **Cash lump sum** – take the entire value of your Account in cash.

Not all of these options are available directly from the Scheme and you may need to transfer your benefits to another provider, if you want to access them more flexibly. You should also consider the different tax implications of these options before choosing how you access your savings.

Running the Scheme

The Scheme is managed 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 chair, and three are nominated by the members of the Scheme.

Your Trustee Directors

Keith Jones (independent chair)

Graham Felston (member nominated)

Max Mauchline (member nominated)

Chris Munro (member nominated)

Bob Seaman (company appointed)

Quentin Zentner (company appointed)

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
PricewaterhouseCoopers LLP

Investment adviser
Aon Hewitt 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)

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

Write to us:

Pearl Group Staff Pension Scheme
First Actuarial LLP
First House
Minerva Business Park
Lynch Wood
Peterborough PE2 6FT

Scheme website:

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.