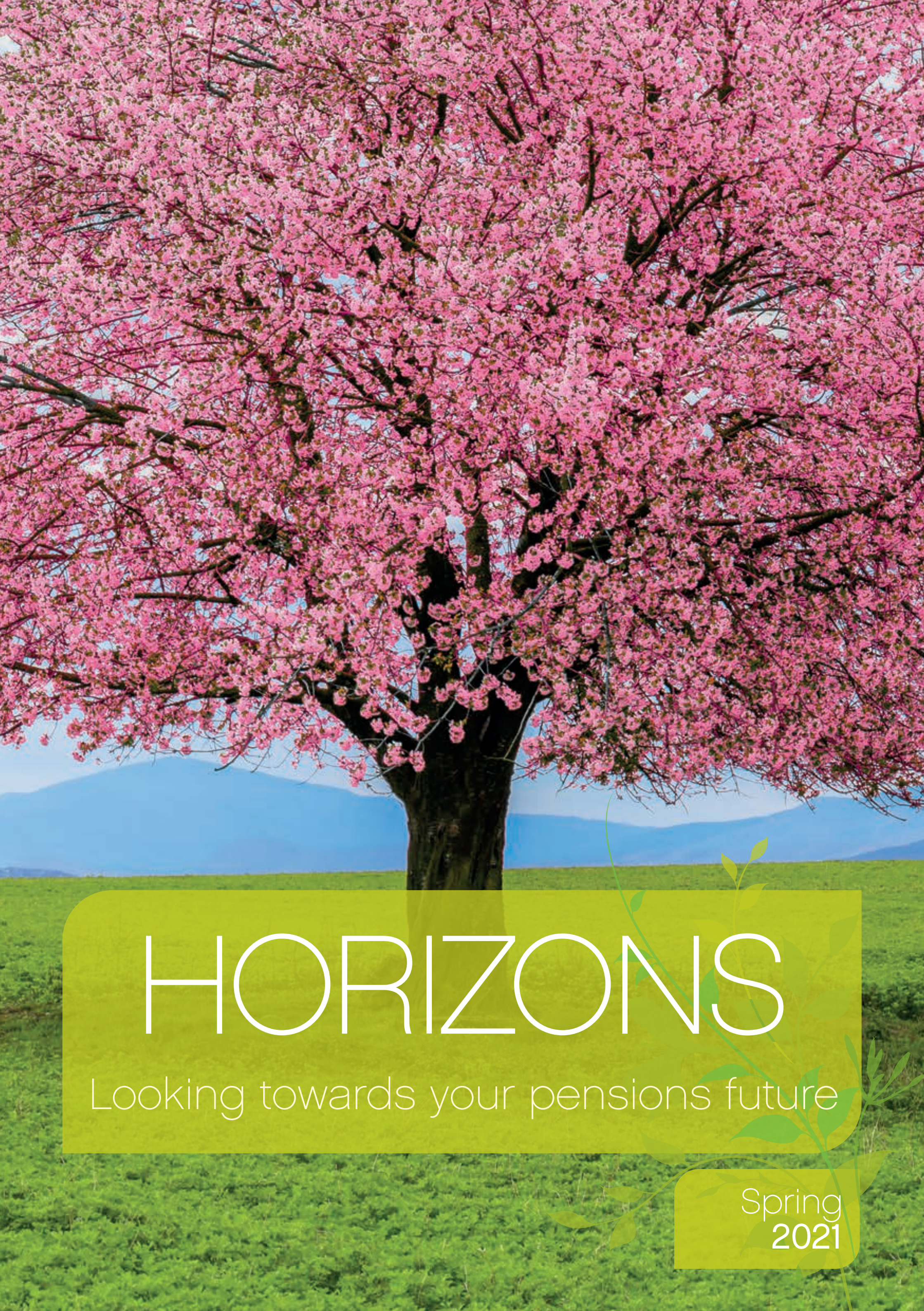


HORIZONS

Looking towards your pensions future

Spring
2021

Welcome

Welcome to the spring 2021 edition of Horizons, the newsletter for members of the Northern Foods Pension Scheme (the Scheme).

We hope that you and your loved ones have been keeping safe and healthy during the COVID-19 pandemic. With each new lockdown it felt as if 'normal life' slipped a little further away but, now that so many adults in the UK have received both doses of the COVID-19 vaccine, we hope that a return to pre-pandemic life isn't too far away.

During the pandemic, we have continued to focus on safeguarding your pension. As an initial response, we reviewed several key areas of our operating structure to ensure that business would continue as closely to normal as possible.

Our experienced investment advisers continue to work hard to help the Scheme weather any volatility in the markets caused by the pandemic and maintain the long-term growth we need, alongside the Company's contributions, to address the Scheme's funding shortfall. Find out more on page 10.

We publish Horizons to keep you updated on the Scheme, including its finances and the results of the most recent full actuarial valuation (or 'financial health check') and annual update. We have also included some news articles and information about pensions in general. If there is anything that you would like to see in future editions of Horizons, please let us know. You can find our contact details on the back page.

We hope you enjoy this edition.

Chris Martin
Independent Trustee Services - Chair

Inside this edition...

Spotlight on the Chair

We have recently welcomed a new Chair to the Trustee Board, Chris Martin, who will be leading the team that look after the Scheme on your behalf.

Chris is a professional trustee with over 27 years of experience, and is the founder and Executive Chairman of Independent Trustee Services (ITS). We are very excited to welcome him on board.

Chris said, "I was delighted to be asked to join the Board, to help build on the exceptional work of Roger, the previous Chair, the Trustee Directors and the Pensions Executive team. Since joining in January 2021, I've worked with my new colleagues to start focusing on a longer-term strategy for the Scheme to help bolster member security. I have led similar projects across other schemes, ranging from 1,000 to 65,000 members.

I am incredibly lucky that I get to work with a number of different schemes, trustees and advisers. Seeing the successful outcome of a valuation discussion, through to how this improves the security of members' benefits is incredibly rewarding. I'm genuinely excited getting out of bed each morning!"

Outside work, Chris is a keen but not particularly talented runner who has decided that cycling may be more appropriate as the years catch up with him.

How has COVID-19 affected the Scheme?

The last 15 months have been difficult for all of us and we appreciate you may be concerned about the effect the pandemic has had on the Scheme.

The Trustee has been working continuously to ensure your benefits are protected, as much as possible, from the effects of the pandemic. It has been particularly focusing on:

- the Scheme's investments,
- the strength and performance of the Company,
- the administration of the Scheme and payment of pensions, and
- how the Trustee operated over this period.

Because of the Scheme's diversified investment strategy, we weathered the initial market volatility in March 2020 very well. Since then markets have generally responded positively, although we are likely to continue to experience some further volatility as we move forward. The Trustee remains in regular contact with the Scheme's investment advisers and, together, we make every effort to protect the Scheme's investments.

While the Scheme's financials for the period ending 31 March 2021 won't be published until later this year, you can take a look at the Scheme's accounts for the year ended 31 March 2020 on the following page.

The financials

The Scheme's accounts

The following summarises some of the key figures from the Scheme's accounts for the year ended 31 March 2020.

Membership

As at 31 March 2020, there were 14,755 members in the Scheme. You can see the change in membership from 2019 to 2020 below.

2019 Deferred members 7,770

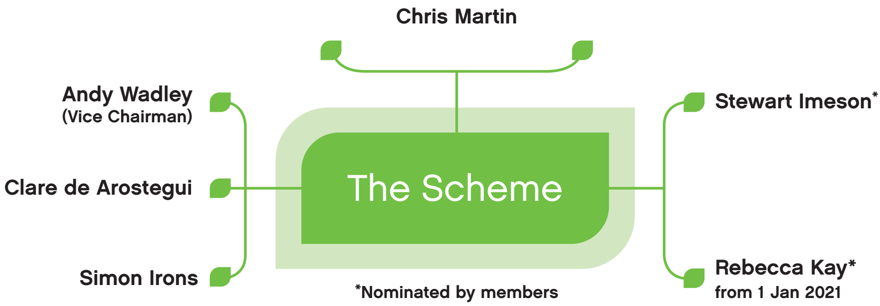
2020 Deferred members 7,379

2019 Pensioners 7,285

2020 Pensioners 7,376

Looking after the Scheme

The Scheme is run by Northern Foods Trustees Limited. The Trustee Board is made up of six Trustee Directors – four appointed by the Company and two nominated by members. The current Trustee Directors are:



Trustee Board updates

Since our last update, the Trustee and Company agreed to reduce the size of the Trustee Board from nine directors to six. Following the sale of Fox's Biscuits, we felt that a slightly slimmer Board would help to make us more agile. In other changes, we also welcomed Rebecca Kay, a Member-Nominated Trustee to the Board – we look forward to working with Rebecca over the coming years.

Roger Boyes stood down as Chair on 31 December 2020 after 15 years at the helm, and the Trustee would like to record its thanks to Roger for his highly valued service to the Scheme.

Zoe Eyre left the Board following the sale of Fox's Biscuits, and Matthew Gribbin and Geoff Pearson stood down as Member-Nominated Trustee Directors from 31 December 2020. The Trustee is very grateful to them for the valuable contributions each made to the running of the Trustee Board.

Executive Team updates

The Executive Team, along with the Scheme's advisers, are responsible for the day-to-day running of the Scheme.

Chrissie Hills retired from the Executive Team on 31 March 2021, and our thanks go to Chrissie for her highly valued help in all areas of the Trustee's work over many years.

We welcome Paul Smith of Paragon Pensions to the team as the new Scheme Secretary. He will work with Peter Croskin, Phil Bradish and Tony Dix who are the other members of the Executive Team.

Investments

Investment update as at 31 March 2020

Over the 12 months to 31 March 2020, the two key elements of the Trustee's investment strategy have continued to work well. These are:

- **Diversifying the Scheme's investments over a wide range of managers to reduce the investment risk.** The benefit of this strategy has been clear for many years, but this was especially noticeable during the first three months of 2020 when equities and other markets had a volatile reaction to the pandemic. Many pension schemes lost significant ground over this period but the good news for the Scheme was that the funding level remained stable.

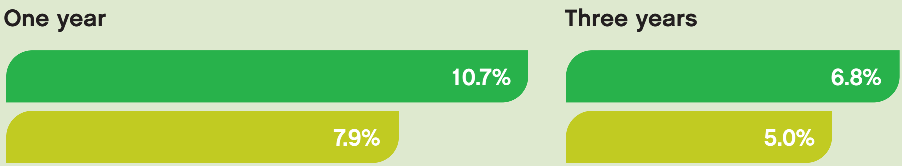
- **Reducing the interest rate and inflation risks on the Scheme by using liability-matching investments.** Again, the Trustee's policy managed to help keep the funding level stable despite the difficult market conditions.

With these two key risks under control, the Scheme's investments continued to perform well, not only protecting the Scheme against volatile market conditions, but also continuing to gain ground against the Scheme's benchmark. You can see the returns compared with the benchmark below.

What is a benchmark?

A benchmark is a standard point of reference against which returns can be compared.

The chart below shows a comparison over one and three years to 31 March 2020:



Since 1 October 2015, the benchmark has been the return of the Scheme's liabilities.

Key Fund return Benchmark return

The Scheme's investment managers

The Scheme uses a wide range of investment managers (47 managers covering 52 investment funds), which helps to reduce investment risk. This happens because better-performing managers can compensate for any risk posed by those performing less well.

The Scheme investments

The Trustee's objective with the Scheme investments is to make sure that there is enough money in the Scheme (its assets) to cover the expected cost of providing all future benefits to members (the Scheme's liabilities). Currently there are not enough assets to cover the liabilities, so the Scheme has a shortfall.

A recovery plan to bring the Scheme back into surplus is currently in place. This was agreed as part of the 31 March 2019 valuation.

The investment strategy allows for the dynamic de-risking of investments to a low-risk position as the funding of the Scheme improves. The plan for this is based on agreed targets (known as triggers), which have been set right through to 31 March 2034. When those targets are reached, the Scheme de-risks assets.

This has worked well over the last few years and, on 31 March 2018, the Scheme's funding level was around 5% higher than expected and had reached 'trigger 1' of the Trustee's investment strategy. As a result, in June 2018, the Trustee agreed to de-risk the Scheme by selling around 10% of the return-seeking assets and transferring this money into liability-matching assets. Following this, the split in investments was then 60% return seeking and 40% liability matching.

The second de-risking trigger was hit in October 2019 and the Scheme then de-risked further by transferring another 10% into the liability-matching portfolio, giving a 50%/50% split between return-seeking and liability-matching assets.

At the time of writing, the long-term objectives of the Scheme are under review and this may involve further de-risking. We will update you later this year.

Your questions answered:

Why does the Scheme invest in assets that are 'risky'?

There is a relationship between risk and return, and for Trustees to optimise the return on the Scheme's assets, to benefit all members, there has to be investment in some assets that carry more risk.

What does 'de-risking' mean and why does the Scheme need to do this?

The process of de-risking is the movement of assets from those that are return seeking (such as investments in stocks and shares) to those that are liability matching (known as gilts). Gilts match the Scheme's liabilities more closely than return-seeking assets and are therefore more secure. Our current investment strategy is to move most of the Scheme's assets into more secure investments by 2034, when the current recovery period ends.

What spread of investments does the Scheme hold now?

After the second de-risking was complete, the spread of assets moved to the new target shown below:

Asset class	Previous target (%)	New target (%)
Equities	6.6	5.0
Hedge Funds	8.4	7.1
Alternative Betas	10.3	8.0
Alternative Credit	8.1	6.2
Opportunistic Private Markets (OPM)	7.5	7.5
Core Private Markets	2.0	0.0
Secure Income Assets (SIAs)	10.0	10.0
Investment Grade Credit	5.1	4.6
Cash	1.6	1.6
Liability Matching Assets	40.4	50.0
Total	100%	100%

Actuarial report

Every three years, the Scheme's Actuary (a qualified and independent professional) carries out a full actuarial valuation to assess the financial security of the Scheme. In the years between the actuarial valuations, the Actuary produces an approximate update of the funding position in the annual actuarial report.

What is an actuarial valuation?

An actuarial valuation is a financial health check for the Scheme. It compares the money the Scheme has (assets) to the expected cost of providing all current and future benefits to members (liabilities).

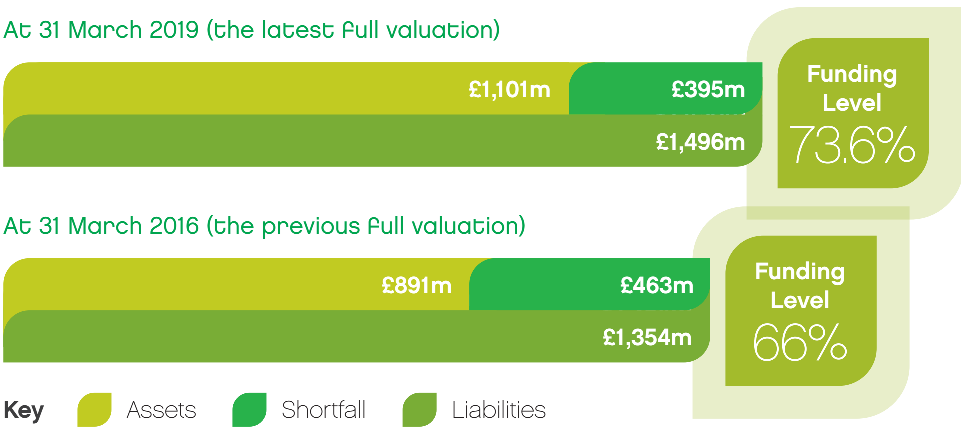
How is the Scheme's financial health measured?

The actuarial valuation measures the value of the Scheme's assets against its liabilities. If the liabilities are higher than the assets, the Scheme has a shortfall. If the assets are higher than the liabilities, the Scheme has a surplus.

What was the funding position at 31 March 2016?

The previous full actuarial valuation as at 31 March 2016 showed that the Scheme had a shortfall of £463 million. This meant that the Scheme needed additional funding to be able to provide members' expected benefits in the future.

The results of the latest full actuarial valuation as at 31 March 2019 are detailed below and shows an improvement in the funding level. Find out more on page 11.



What is the recovery plan?

In December 2020, following completion of the valuation as at 31 March 2019, the Trustee Board and the Company agreed a recovery plan to address the shortfall mentioned on page 10. Under the updated recovery plan, the Company will pay:

- £20m a year from 1 April 2019 to 31 March 2022
- £25m a year from 1 April 2022 to 31 March 2025
- £31.6m a year from 1 April 2025 to 31 March 2034

If the assumptions used in the actuarial valuation are correct, these contributions together with investment returns will remove the deficit by 31 March 2034.

In addition, the Company will also pay:

- £1.5 million each year to cover the costs of administering the Scheme.
- The Pension Protection Fund and other levies collected by The Pensions Regulator.
- Additional contributions following the disposal of businesses from Northern Foods Limited. Any payments will count as early payments of future deficit contributions replacing the last outstanding contributions first. Following the sale of Fox's Biscuits in December 2020, an additional payment of £63.1 million was made to the Scheme that has helped to strengthen the funding position.
- Additional contributions relating to improved business performance, linked to the earnings of Boparan Holdings Limited. Any payments will count as early payments of future deficit contributions replacing the last outstanding contributions first.

Annual actuarial update

Since the valuation was completed, the annual actuarial update as at 31 March 2020 has been finalised, and the figures are detailed below:

At 31 March 2020

As at 31 March 2021, the shortfall is estimated to be £317 million, with a funding level of 79.3%.

How has the funding position changed since the last full actuarial valuation?

The 31 March 2016 actuarial valuation showed the Scheme had a shortfall of £463 million. The 31 March 2019 valuation revealed a shortfall of £395 million. This improvement in funding level is due to positive investment returns on the Scheme's growth assets and deficit contributions paid by the Company under the previous recovery plan.

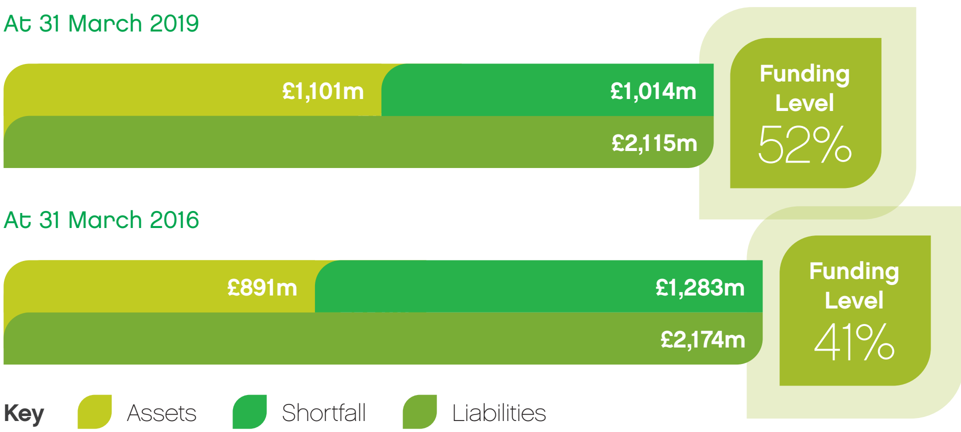
If the Scheme were to wind up, would there be enough money to provide members' full benefits?

The Trustee Board is legally obliged to let you know what the Scheme's funding position would be if the Scheme were to wind up (close), and members' benefits had to be paid by an insurance company. **The Trustee has no intention to wind up the Scheme.**

The estimated liabilities here are higher than under the actuarial valuation. The main reasons for this are:

- **Insurers will generally tend to hold assets that are less risky than other assets, which provide lower investment returns than are expected to be achieved on the Scheme's assets.**
- **Insurers typically hold larger margins, for example by assuming that members will live longer than is assumed in calculating liabilities for the actuarial valuation.**
- **Insurers need to cover costs, including administering the benefits, and make a profit.**
- **Allowance for the cost of winding up the Scheme.**

If the Scheme were to wind up, the estimated figures are:



If the Scheme were unable to cover the cost of providing members' benefits either itself or through an insurer, then the Scheme may go into the Pension Protection Fund (PPF). The PPF supports defined benefit schemes that are unable to provide a minimum level of benefits to their members. If the Scheme were to go into the PPF, the Scheme's members may not receive their full benefits.

Why is the funding position different for wind up?

The estimated liabilities based on the Scheme winding up are much higher than those based on the Scheme continuing. This is because the assumptions for the calculations are different. The basis used to calculate how much it would cost for members' benefits to be provided by an insurer, if the Scheme were to wind up, is very conservative.

When is the next valuation due?

The next full actuarial valuation is due as at 31 March 2022.

Jargon buster

Liabilities are the estimated costs of providing the benefits earned to date by deferred members who have left benefits in the Scheme, and pensions in payment.

Assets are the funds built up from monies invested, together with returns on the Scheme's investments.

Ongoing basis uses assumptions agreed between the Trustee Board and the Company and assumes that the Scheme will continue.

Solvency basis estimates the amount needed to fully secure all earned benefits from an insurance company if Northern Foods decided to wind up (close) the Scheme.

Pensions updates

The Money and Pensions Service (MaPS)

The Money and Pensions Service (MaPS) brings together three independent financial guidance bodies: The Money Advice Service, The Pensions Advisory Service, and Pension Wise.

MaPS works closely with the Department for Work and Pensions and HM Treasury to provide financial and debt advice. Its aim is to help everyone make the most of their money and pensions.

MaPS has been set up to:

- help people make the most of their money and pensions,
- ensure people can easily access the information they need to make the right financial decisions for them throughout their lives, and
- increase awareness of financial wellbeing.

Can MaPS help you improve your financial outlook?

Find out by visiting **moneyandpensionsservice.org.uk**

Pension scams

Pension scams have become increasingly common – especially during the coronavirus outbreak. To help combat this rise, The Pensions Regulator has been asking trustees, providers and administrators of pensions schemes to take a pledge to protect the members they represent from pension scams.

Here at Northern Foods, we are pledging to tackle scammers in any way that we can. This is why we will continue warning you regularly about the risks of transferring your pension out of the Scheme and provide you with the tools you need to protect your hard-earned savings.

For more information about protecting your pension, visit **fca.org.uk/scamsmart**

Sam's story

Sam, an experienced investor, was looking forward to her retirement. She had always been interested in bolstering her pension, and so when Sam received an unexpected phone call one day that described an exciting opportunity, she got excited. The caller told her that, if she moved some cash from her pension fund to an account with new investments, she'd be guaranteed high returns. With large returns, Sam could enjoy regular holidays abroad, as well as a very comfortable retirement income.

The caller pressured Sam into making a quick decision, as the account would close to new investors soon. She managed to find time to do some quick research. The company seemed to be reputable – it had a very convincing website that even had the Financial Conduct Authority (FCA) logo on its homepage. When the caller got back in touch, she agreed to transfer thousands of pounds into their account to invest and Sam was told that she should receive a lump-sum payment in the next few months.

Months passed, and no money appeared. Sam tried to call the number the caller had given her, but the line had been disconnected and no other contact information was available on the company's website. Sam's thousands were completely gone.

To ensure what happened to Sam doesn't happen to you, follow these four simple steps, and remember – if a deal sounds too good to be true, it probably is:

1. Reject any and all unexpected offers.
2. Double check who you're dealing with – always ask for ID if someone's at your door, and remember to carefully research the company anyone claims to be working for.
3. Don't feel rushed or pressured into making any decisions.
4. Seek information or impartial advice before making any changes to your funds or investments by visiting **unbiased.co.uk**

You can find more information on the FCA website at **fca.org.uk**

Where can I get more information about my pension?

If you have any questions, please contact the administration team.

Northern Foods Pension Scheme
Capita Employee Solutions
PO Box 555
Stead House
Darlington
DL1 9YT

0114 229 7851

nfpensions@capita.co.uk

Remember to let the administration team know if you change address – otherwise important correspondence about your pension might not reach you. We may also be unable to pay your pension if your address does not match the one on our records.