HORIZONS

Looking to your pensions future

Summer
2019

Welcome

Welcome to the Summer 2019 edition of Horizons, the newsletter for members of the Northern Foods Pension Scheme (the Scheme).

Horizons helps to keep you up to date with the Scheme, including its finances and the results of the most recent actuarial valuation (or 'financial health check').

In this issue, we've also included some news articles which we hope you will find interesting. If there is anything that you would like to see in future editions, please let us know. You can find contact details on the back page.

Roger Boyes
Chairman of the Trustee Board

Inside this edition...

Interview with the Chairman

Roger Boyes has been on the Trustee Board for 13 years and has more than 20 years' experience with other high-profile trustee boards. He is also Chair of the Investment Committee.

Can you tell us something about yourself?

I am a trained accountant, having held posts as Finance Director in the banking sector, retiring from the Halifax Group in 2001. I am currently a Trustee of one other pension fund in addition to the Scheme. I was approached by the Chairman of Northern Foods (the Company) in 2006 to join the Scheme as an Independent Trustee Director, using my professional knowledge and experience of other pension schemes. The Scheme is a large one in comparison with the size of the Company, holding over a billion pounds worth of assets.

What does your role as Chairman involve?

It's about making sure scheme governance is of the highest standard and bringing together a Board of Directors with the skills to ensure that members' interests are protected. Ultimately, the Board oversees the running of the Scheme and the payment of benefits, but the Chairman also has to ensure that issues facing the Scheme are properly brought to the attention of the Board, and that decisions reached are in the interests of members.

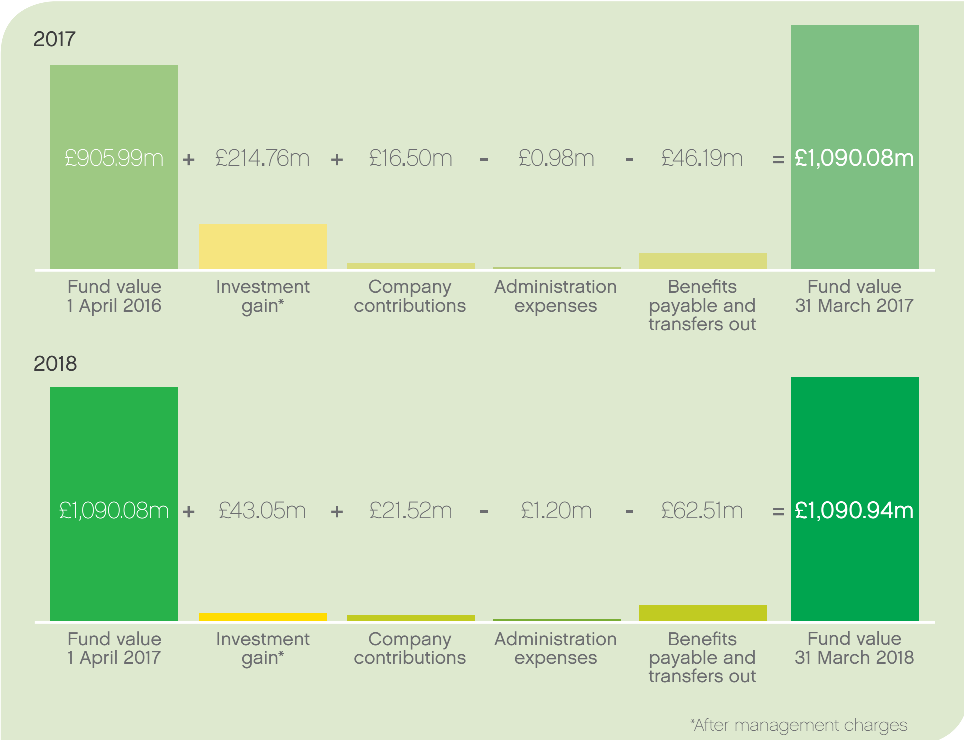
What do you see as the main challenge facing the Trust?

Currently, the Scheme is not fully funded and relies on continuing contributions from the Company to meet all pension obligations in full. The challenge is to identify how the funding shortfall can be resolved in a measured and balanced way that is fair to all stakeholders. This will require us putting an appropriate long-term strategy in place as part of the 2019 actuarial valuation.

The financials

The Scheme's accounts

The following summarises some of the key figures from the Scheme's accounts for the years ended 31 March 2017 and 31 March 2018.



Membership

As at 31 March 2018, there were 16,412 members in the Scheme. You can see the change in membership over the last year below.

2017 Deferred members

8,529

2018 Deferred members

8,172

2017 Pensioners

9,571

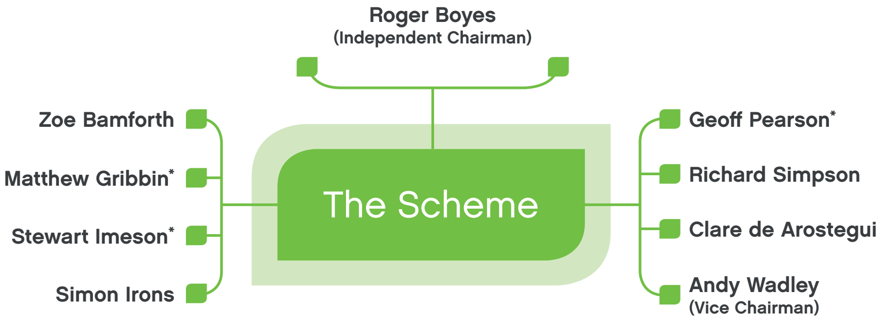
2018 Pensioners†

8,240

†The number of pensioners reduced over the year due to the triviality exercise, where some pensioners exchanged smaller pensions for a cash lump sum.

Looking after the Scheme

The Scheme is run by Northern Foods Trustees Limited. The Trustee Board is made up of nine Trustee Directors – six appointed by the Company and three appointed by members. The current Trustee Directors are as follows:



*Nominated by members

Member-Nominated Director (MND) updates

In November 2018, the Trustee wrote to members asking for nominations for a new MND to replace Andy Wadley, who was appointed a Company-Nominated Director on 1 January 2019. The selection process was completed in March 2019 and the Trustee is pleased to confirm that Stewart Imeson has been selected as an MND. He will serve until 31 December 2024.

Investments

Investment update as at 31 March 2018

The Scheme's current investment strategy has two key elements:

- It diversifies the investments over a wide range of managers to reduce the investment risk.
- It reduces the interest rate and inflation risks on the Scheme, through the use of liability-matching investments.

The Scheme's investments continue to perform well against the benchmark.

What is a benchmark?

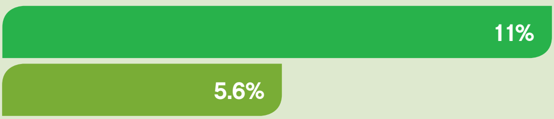
A benchmark is a standard point of reference against which returns can be compared.

The chart below shows a comparison over one and three years to 31 March 2018:

One year **Three years**

The benchmark changed with effect from 1 October 2015. Before this date it was the London Interbank Offered Rate (LIBOR), and since this date it has been the return of the Scheme's liabilities. The one-year figures fully reflect the new basis.

Three years to 30 September 2018



The chart above shows the Fund performance over the three years to 30 September 2018 measured purely on the revised benchmark basis.

Key Fund return Benchmark return Increase in Scheme liabilities

The Scheme's investment managers

The Scheme uses a wide range of investment managers (52 managers, covering 57 investment funds), which helps to reduce investment risk. This is because the better-performing funds can compensate for those funds not performing as well.

The Scheme investments

The Trustee's objective with the Scheme investments is to make sure that there is enough money in the Scheme (assets) to cover the expected cost of providing all future benefits to members (liabilities). At the moment, there are not enough assets to cover the liabilities, so the Scheme also has a recovery plan in place. This was agreed after the 31 March 2016 valuation. The investment strategy allows for the dynamic de-risking of investments to a low-risk position as the funding of the Scheme improves. A dynamic de-risking strategy provides the Scheme with a framework to help define a target end point and a roadmap to get there. The plan for this is based on agreed targets (also known as triggers), which have been set right through to 31 March 2034. The Scheme de-risks assets as and when those triggers are reached.

The first trigger

From an investment perspective, the great news was that as at 31 March 2018, the Scheme's funding level was around 5% higher than that expected and had reached the first trigger of the Trustee's investment strategy. At 30 May 2018, the Scheme's Actuary advised the Trustee that the funding level was estimated to be 73.9%. The first trigger for de-risking had been set at 73.5%. As a result, 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.

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. The 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 de-risking was complete, the spread of assets had moved to the new target shown in the table below:

Asset class	Original target (%)	New target (%)
Equities	9.7	7.6
Hedge Funds	12.0	8.4
Alternative Betas	12.7	10.3
Alternative Credit	10.2	8.1
Opportunistic Private Markets (OPM)	10.3	7.5
Core Private Markets	3.5	2.0
Secure Income Assets (SIAs)	4.0	10.0
Investment Grade Credit	6.0	5.1
Cash	1.6	1.6
Liability Matching Assets	30.0	39.4
Total	100%	100%

Annual 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.

The results of the Annual Actuarial Report at 31 March 2018 are shown on the following pages.

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 future benefits to members (liabilities).

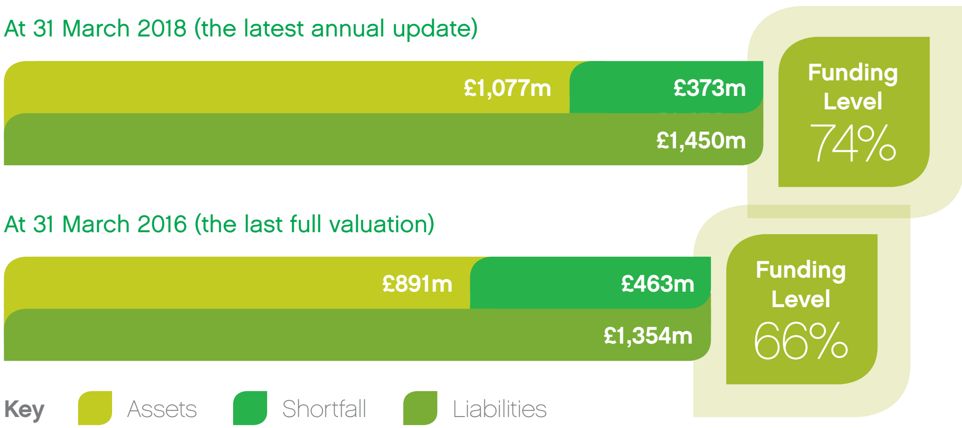
How is the Scheme's financial health measured?

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

What was the funding position at 31 March 2016?

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

The annual update as at 31 March 2018 is also detailed below and shows an improvement in the funding level. You can read more on page 12.



What is the recovery plan?

The Trustee Board and the Company have agreed a recovery plan to address the shortfall mentioned on page 10. Under the recovery plan, the Company will pay:

- £20m a year from 1 April 2017 to 31 March 2022
- £25m a year from 1 April 2022 to 31 March 2030
- £39m a year from 1 April 2030 to 31 March 2034

If Boparan Holdings Limited pays a dividend or other distribution to shareholders, it will pay the following contributions to the Scheme:

- £1 for each £5 of dividend payment or distribution paid up to £25m; plus
- £1 for each £10 of dividend payment or distribution paid between £25m and £50m

These additional contributions will be treated as early payments of the shortfall contributions set out above, beginning with the contribution due between 2030 and 2034.

The Company will also pay the Pension Protection Fund, other levies and £1.5 million a year to cover the costs of administering the Scheme.

These contributions, together with assumed investment returns, should correct the shortfall by 31 March 2034.

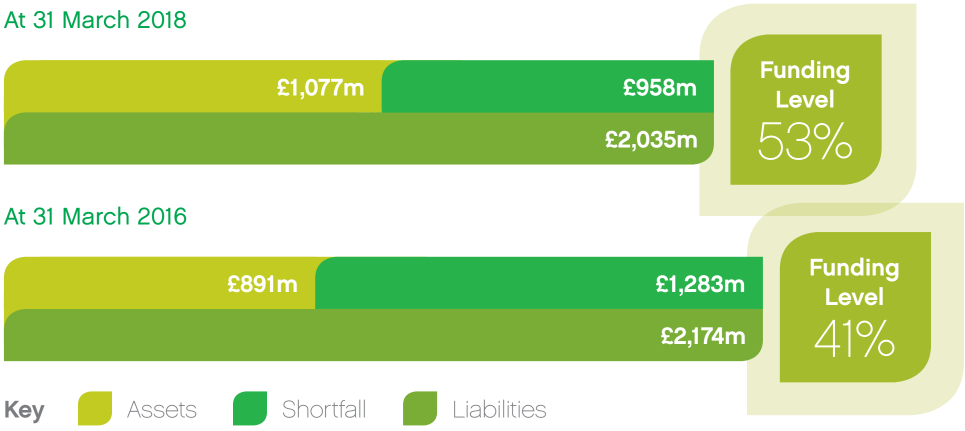
How has the funding position changed since the last full actuarial valuation?

The 31 March 2016 actuarial valuation showed the Scheme had a shortfall of £463 million. Since then the 2018 annual update revealed a shortfall of £373 million. This improvement in funding level is due to positive investment returns on the Scheme's growth assets, which are designed to grow over time, and deficit contributions paid by the Company.

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

The Trustee Board is legally obliged to tell members what the Scheme's funding position would be if the Scheme were to wind up (close) and members' benefits were to be paid by an insurance company. There is no intention to wind up the Scheme.

If the Scheme had wound up as at 31 March 2018, without the Company paying for the liabilities, it is unlikely that the Scheme's assets would be sufficient to provide members' benefits in full. However, the solvency funding level has increased since 31 March 2016 due to good investment returns and contributions paid by the Company over the period. This is shown below:



If the Scheme were unable to cover the cost of providing members' benefits 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 at 31 March 2019.

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

Pension tax allowances – Lifetime Allowance (LTA)

The LTA restricts the total amount of pension savings that you can build up over your lifetime without paying a tax charge. The LTA increased from £1.03 million to £1.055 million for the 2019/20 tax year.

If you think you might exceed the LTA, you should contact an independent financial adviser to discuss your options. Visit **www.unbiased.co.uk** to find an independent financial adviser in your area.

State Pension update

The State Pension Age (SPA) for women increased to age 65 in November 2018, in line with the current age for men. Further increases are expected for both genders, the next occurring in October 2020 with an increase to age 66 and to 67 between 2026 and 2028. However, if you reached SPA before 6 April 2019, you'll be eligible to get the State Pension under the old rules which were active before this date. In light of these increases, it's worth thinking about whether you will have enough saved up to cover those years when you might not be receiving your State Pension.

To find out your SPA, visit the Government website at **www.gov.uk/state-pension-age**

What can I do?

You can find out how much State Pension you could receive at
www.gov.uk/check-state-pension

Pensions cold-calling and pension scams

The ban on pensions cold-calling came into force on 9 January 2019. This means that companies can no longer make unsolicited marketing calls about pension schemes. However, you should still be on your guard. Any company that breaks the rules could face a hefty fine.

If you're thinking about transferring your pension savings, be aware that scammers might want to get their hands on your money.

Scammers can be financially knowledgeable, seem trustworthy and may even have websites that look credible. Their offer might sound too good to be true with promises of high or guaranteed returns.

If you're contacted, you can check who you're dealing with before changing your pension arrangements. Confirm that the person or company is registered with the Financial Conduct Authority (FCA) at **www.fca.org.uk**

It's important to remember that you can't access your pension before you are 55 without incurring a large tax charge.

Read Sally's story

Sally was looking to help fund her daughter through university. When a company contacted her out of the blue offering to help her access her pension early, it seemed like perfect timing.

Sally decided to check whether the company was legitimate as she'd heard so much in the news about pension scams. She contacted the Financial Conduct Authority (FCA) to make sure the firm she was dealing with was authorised. When she found out that the company wasn't registered, she started to become suspicious.

The company contacted Sally again, but she wasn't going to be pressurised. She got in touch with the Pensions Advisory Service who told her that people are only able to access their pensions early under special circumstances e.g. ill health.

The Pensions Advisory Service investigated the company and found out that it was operating without authorisation from the FCA. Sally had been vigilant, didn't lose her pension savings and avoided a 55% tax charge from the Government for withdrawing her savings before she was 55.

You can read more about pension scams at **www.fca.org.uk/scamsmart** or visit **www.thepensionsregulator.gov.uk**

Where can I get more information?

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 might not reach you.

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