

# Kingfisher Pension Scheme

Actuarial valuation as at 31 March 2019

Scheme funding report

August 2019

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For and on behalf of Hymans Robertson LLP



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## Scheme funding report


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5 August 2019

# 1 The results of the valuation

I carried out an actuarial valuation of the Kingfisher Pension Scheme ('the Scheme') as at 31 March 2019 ('the valuation date') and this is my report on the results of the valuation. This is a scheme funding report and details the financial position of the final salary section of the Scheme. The value of funds held in respect of the money purchase section and members' additional voluntary contributions (AVC's) have been excluded from the assets and liabilities.

## Funding objectives

The Trustee is required to adopt a 'statutory funding objective'. The statutory funding objective is that the Scheme must have 'sufficient and appropriate' assets to meet the expected cost of providing members' past service benefits which we refer to as 'technical provisions'<sup>1</sup>.

In addition to the statutory funding objective, the Kingfisher Pension Trustee Limited ('the Trustee') and Kingfisher plc ('the Sponsor') have a secondary funding objective (2FO) which is to reach full funding on a gilts basis<sup>2</sup> by 2030. This is intended to be a proxy for the level of funding at which the Scheme will have sufficient assets for the Trustee to have the option to transfer assets and liabilities to an insurer.

The 'statement of funding principles' sets out the Trustee's policy for meeting the statutory funding and the secondary funding objective.

## Summary of results

The Scheme's funding position as at 31 March 2019 on the technical provisions and 2FO basis are shown below alongside the position at the last valuation for comparison.

Technical provisions	Previous valuation 31 March 2016	This valuation 31 March 2019
<b>Assets (excluding AVC's &amp; money purchase funds)</b> <i>See Appendix B3 and the Trustee's Report and Accounts as at the valuation date for further details</i>	<b>£2,931m</b>	<b>£3,573m</b>
<b>Technical provisions liabilities</b> <i>An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee (see appendix A and B)</i>	<b>£2,968m</b>	<b>£3,416m</b>
Employed deferred liabilities	£510m	£449m
Deferred liabilities	£1,299m	£1,601m
Pensioner liabilities	£1,159m	£1,366m
<b>Surplus/(deficit)</b> <i>Technical provisions less assets</i>	<b>(£37m)</b>	<b>£157m</b>
<b>Funding level</b> <i>Assets divided by technical provisions</i>	<b>99%</b>	<b>105%</b>

<sup>1</sup> The phrase used in the legislation to refer to the expected cost of providing members' past service benefits.

<sup>2</sup> The liabilities are calculated using a discount rate derived with reference to fixed interest gilt yields with no allowance for asset outperformance.

2FO	Previous valuation 31 March 2016	This valuation 31 March 2019
<b>Assets (excluding AVC's &amp; money purchase funds)</b> <i>See Appendix B3 and the Trustee's Report and Accounts as at the valuation date for further details</i>	£2,931m	£3,573m
<b>2FO liabilities</b> <i>An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee (see appendix A and B)</i>	£3,577m	£3,812m
Employed deferred liabilities	£679m	£527m
Deferred liabilities	£1,739m	£1,918m
Pensioner liabilities	£1,159m	£1,366m
<b>Surplus/(deficit)</b> <i>2FO liabilities less assets</i>	(£646m)	(£239m)
<b>Funding level</b> <i>Assets divided by technical provisions</i>	82%	94%

The technical provisions deficit of £37m at the last valuation has been eliminated and the Scheme has a surplus of £157m at this valuation. As a result, the Scheme is fully funded on a technical provisions basis.

The 2FO deficit of £646m at the last valuation has reduced to £239m at this valuation.

Whilst gilt yield falls have increased the value placed on the liabilities, the funding position in both cases has benefited from:

- contributions paid since the last valuation;
- performance of Scheme assets (mainly from the LDI arrangement in place to match the change in value of the liabilities); and
- changes to assumed future life expectancies.

Changes since the previous valuation are covered in more detail in section 3.

### Contributions

Following discussions between the Trustee and the Sponsor, the following contributions have been agreed towards improving the 2FO funding position:

- 1 August 2019 to 31 March 2020: contributions such that a total of £27m, including contributions received from the Scheme's special purpose vehicle (SPV), is paid in respect of the year 1 April 2019 to 31 March 2020.
- From 1 April 2020: £27m per annum which includes the contributions received from the Scheme's SPV.

Note that the above contribution amounts include £2m per annum in respect of life insurance premiums and money purchase incapacity costs. General scheme expenses are also met from the contributions.

No inflationary increases will apply to the level of total contributions. The Sponsor will also meet the cost of future PPF levies in respect of the Scheme.

Further details of the contributions can be found in the schedule of contributions.

## 2 What would happen if the Scheme was wound up?

The results in the previous section of the report were prepared on the assumption that the Scheme will continue to operate with the financial backing of the Sponsor. If the Sponsor were no longer able to support the Scheme, it may then be necessary to 'wind up' the pension scheme. This would involve selling the Scheme's investments and using the proceeds to buy annuities from an insurance company. The insurance company would then be responsible for paying pensions to members and their dependants. I have, therefore, estimated the cost of securing members' benefits in this way, had the Scheme wound up on the valuation date.

### Summary of results

Solvency	Previous valuation 31 March 2016	This valuation 31 March 2019
<b>Assets</b> <i>See Appendix B3 and the Trustee's Report and Accounts as at the valuation date for further details</i>	£2,803m	£3,498m
<b>Solvency liabilities</b> <i>Estimated cost of buying annuities from an insurance company</i>	£3,952m	£4,456m
<b>Expenses</b> <i>Expenses of winding up the Scheme</i>	£184m	£46m
<b>Surplus/(deficit)</b> <i>Solvency liabilities less assets</i>	(£1,333m)	(£1,004m)
<b>Funding level</b> <i>Assets divided by technical provisions</i>	68%	78%

On a wind-up, further funds may be recovered from the Sponsor under section 75 of the Pension Act 1995 and the employer debt regulations. The impact of any such recovery has been ignored in this assessment. If the assets on a wind-up are insufficient to secure the benefits in full, then a statutory priority order applies.


- Benefits corresponding to those covered by the PPF would be met first (either by the PPF or, if there were sufficient funds, by securing these benefits with an insurance company).
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

### Why are the solvency liabilities different to the technical provisions and 2FO liabilities?

The financial assumptions used to estimate the solvency liabilities differ from those used to calculate the technical provisions and 2FO (see Appendix A). This is because they are intended to reflect the assumptions which would be used by an insurer to calculate the cost of the annuities they sell.

The solvency estimate has been calculated using a basis that produces values consistent with our experience of bulk annuity quotations and the general levels of pricing in the market as at the date of valuation. Please note the results are a guide and should not be viewed as a quotation. The true cost of insurance can only be determined by obtaining quotations from providers active in the market and following completion of wind-up.

Annuities for deferred members are currently more expensive than for pensioners. All else being equal, the solvency liabilities are expected to move towards the 2FO liability as members retire.



The demographic assumptions used to determine the solvency liability are broadly the same as for assessing the technical provisions as these are intended to reflect the expected future experience of the Scheme's membership; I would expect an insurer to take account of the Scheme's demographics in a similar way.

### **Why are the solvency assets different to the assets under technical provisions and 2FO?**

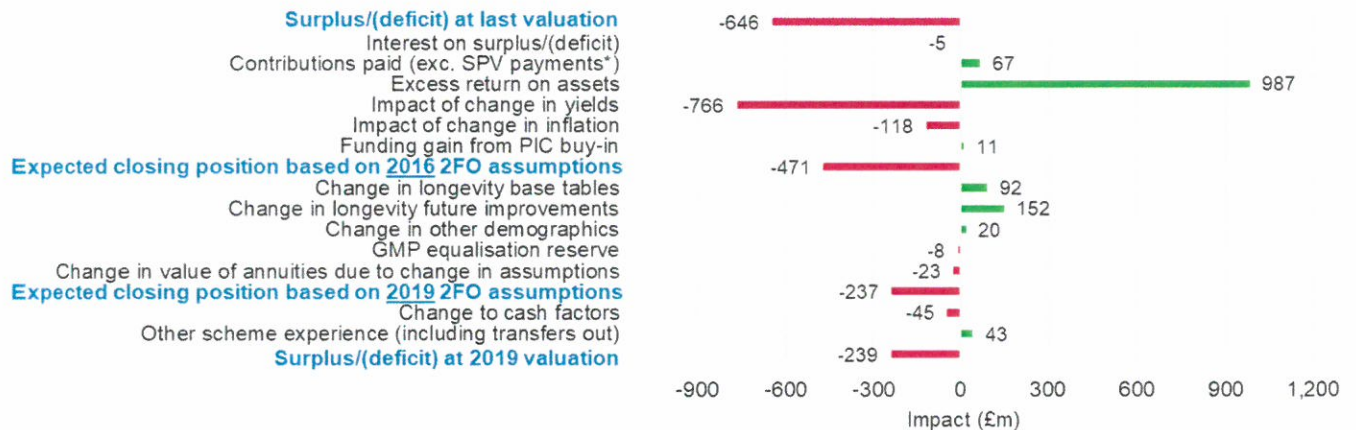
The solvency position illustrates the estimated position if the Scheme were to wind up today. The assets therefore include the estimated 'vacant possession' value of the SPV which represents how much might be recovered from the properties in a sponsor insolvency position. As there are no plans to wind up the Scheme, in practice you would expect the SPV payments to continue to 2030.

In addition, a different value is placed on the buy-in policies due to different assumptions used to calculate the solvency liabilities.

Further details can be found in Appendix B3.

### 3 Changes since the previous valuation

Since the previous actuarial valuation of the Scheme, there have been changes to the Scheme membership, the value of its investments, the economic environment in which the Scheme operates and the valuation assumptions. These changes have affected the Scheme's 2FO funding position as follows:



\*SPV payments are excluded from the contributions paid, as the SPV value is included in the opening and closing deficit positions.

#### Comments

The 2FO deficit has decreased from £646m at the last valuation to £239m at this valuation.

The analysis shows the main factors affecting the funding position since the last valuation have been as follows:

- Strong investment returns, primarily from protection assets as a result of movements in gilt yields.
- Experience from transfers out of the Scheme.
- The impact of changing longevity assumptions.
- Contributions paid to the Scheme.

A similar reconciliation applies to the technical provisions funding position.

## 4 Risk management

In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period since the last actuarial valuation. In this section, I discuss the key risks to the Scheme and the potential implications of the actuarial assumptions not being met in the future.

### Funding, investment and covenant risks

Trustee should understand the risks to their funding plans, particularly those related to funding, investment and the Sponsor covenant.

Risk	How the Trustee manages this risk
<p><i>Sponsor covenant</i></p> <p>The Sponsor may not be able to continue to pay contributions or make good deficits in the future. The impact of this scenario is considered in section 2 of this report.</p>	<p>The Trustee manages this risk by prudently funding the Scheme when the Sponsor can afford to pay, taking into account the strength of the Sponsor covenant when setting assumptions, building sufficient prudent margins into the technical provisions assumptions and the balance between Sponsor contributions and investment risk.</p> <p>The Trustee commissioned a formal covenant review as part of the valuation to get a sufficiently accurate assessment of sponsor support and this was considered when setting the contribution strategy.</p> <p>The Trustee also has the 2FO to be fully funded on a gilts basis. Once met, this would reduce the reliance on the Sponsor.</p>
<p><i>Investment</i></p> <p>If future investment returns are lower than allowed for in the valuation assumptions, assets will not grow in value as expected, and the funding level will fall. This places greater reliance on the Sponsor covenant since the Sponsor would need to help put Scheme funding back on track.</p>	<p>To inform the decision of the appropriate combination of contributions and investment strategy to meet the 2FO, the Trustee commissioned a financial review in conjunction with the valuation. This review involved a stochastic asset and liability modelling exercise to help understand:</p> <ul style="list-style-type: none"> <li>• the risks to the overall strategy for meeting objectives;</li> <li>• the chance of these risks materialising; and</li> <li>• how bad things could look if they don't go to plan.</li> </ul> <p>Together with an understanding of Sponsor support, this understanding has helped to underpin the agreed contributions and investment strategy, and ongoing risk monitoring.</p> <p>The Trustee also manages the risk by receiving regular updates on the performance of the Scheme's investments.</p> <p>The Scheme's investment strategy also provides protection against movements in interest and inflation rates.</p>



Risk	How the Trustee manages this risk
<p><i>Funding</i></p> <p>Over time, the funding position will depend on the extent to which future experience matches the assumptions made. In particular, if life expectancy improves at a faster pace than allowed for in the valuation assumptions, then pensions will need to be paid for longer, so the liabilities will increase, and the funding level will fall.</p>	<p>The Trustee has adopted Scheme specific mortality base tables derived using Hymans Robertson's Club Vita data bank which allows the Trustee to use the best available information when setting longevity assumptions. The Trustee receives annual updates on longevity from Club Vita.</p> <p>By incorporating an allowance for future longevity improvements in the actuarial assumptions the Trustee can lessen the future adverse impact of such improvements.</p> <p>The Trustee has undertaken two pensioner buy-ins; a medically underwritten buy-in covering 149 members at the valuation, and a second buy-in covering a further 398 members at the valuation. Both buy-in policies offer protection against adverse longevity experience for this group of members.</p>
<p><i>Legislative</i></p> <p>Legislation may be introduced that increases the level of pensions payable to members. This will reduce the funding level of the Scheme.</p>	<p>The Trustee manages this risk by monitoring legislative changes in conjunction with the Scheme's lawyers.</p>
<p><i>Member options</i></p> <p>If fewer members than assumed exercise options on terms that are favourable to the Scheme, then the funding level will fall.</p>	<p>The Trustee manages this risk by using prudent assumptions in the technical provisions and by reviewing the option terms offered to members.</p>
<p><i>Inflation/deflation</i></p> <p>Generally, if inflation turns out to be higher/lower than anticipated, pensions will be higher/lower than expected and this will lead to a funding strain/surplus. If inflation is negative, then under current legislation, pensions in payment cannot be reduced. This could lead to a funding strain because the income from any index-linked bonds held by the Scheme would fall.</p>	<p>The Trustee manages inflation risk by hedging inflation via the Scheme's LDI portfolio and reviewing this regularly. They also allow for caps and floors on pension increases in calculating the liabilities.</p>

### Other risks

There are a range of further risks which the Trustee keep under review.

There is also an increasing body of evidence demonstrating that resource and environment ('R&E') issues pose risks and opportunities to the companies that sponsor pension schemes, to investment portfolios and to the wider economy (with implications for funding assumptions). R&E risks include factors such as rising and/or volatile energy prices, resource shortages, property damage (e.g. flooding, storms) and air, water and land pollution (e.g. clean-up costs, health effects, reputational damage).

These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Scheme, I have not explicitly incorporated such risks in these valuation results. I understand the Trustee has taken steps to reduce the Scheme's exposure to climate risk and is continuing work in this area. The Trustee may wish to seek further training and advice on these risks (e.g. from Hymans Robertson regarding future investment markets and/or longevity, or from a covenant adviser regarding the sponsoring employer).

### Sensitivity of liabilities to key assumptions

Scenario	Funding position surplus/(deficit) £m	Comments
Base case	157	This is the technical provisions funding position.
0.25% p.a. decrease in pre-retirement discount rate	118	The Trustee should have regard to the Sponsor's ability and willingness to support the funding and investment risks within the Scheme. If the risks being run appear to be too great, then the Trustee could target reaching a lower risk position by reducing the assumed investment returns within the discount rate.
0.25% p.a. decrease in post-retirement discount rate	28	As for the pre-retirement discount, the post retirement discount rate could also be reduced if the level of risk within the Scheme appears to be too high.
0.25% p.a. increase in future inflation	49	For illustrative purposes I have shown the position if inflation-linked benefit increases linked to RPI or CPI grow at a faster rate. The Scheme has hedged broadly 90% of its 2FO inflation exposure. However, the funding position shown makes no allowance for changes in asset values as the disclosed technical provisions position must use the market value of assets. In practice your hedging assets would be expected to increase in value, by broadly £121m, in this scenario.
Broadly a 1-year increase in life expectancy at retirement age	39	The valuation results are sensitive to changes in future life expectancy. If longevity improves in the future at a faster pace than allowed for in the valuation assumptions, then the funding position will deteriorate.

### Longer-term projection

If the actuarial assumptions were borne out over the period from the date of this valuation to the next, then, provided Sponsor contributions are paid at the rates shown in Section 1 of this report, the funding level would be expected to improve; with the Scheme continuing to be in surplus on a technical provisions basis, and the solvency funding level expected to have increased to around 81%.

## Appendix A: Methodology and assumptions

### A1. Methodology

Using the actuarial assumptions set by the Trustee I have estimated the payments which will be made from the Scheme throughout the future lifetimes of deferred pensioners, pensioners and their dependants. I then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line with the assumed discount rate. This is the technical provisions. I compare these technical provisions with the value of the assets. The ratio of the asset value to the technical provisions is known as the 'funding level'. If the funding level is more than 100% there is a 'surplus'; if it is less than 100% there is a 'deficit'.

It is a requirement of the legislation that an 'accrued benefits funding method' must be used for valuing the technical provisions.

The 2FO is valued in the same way as technical provisions with the exception of the pre-retirement discount rate which has no margin above the gilt curve.

### A2. Assumptions

The Trustee and Kingfisher Pension Scheme are responsible for setting the funding assumptions for the actuarial valuation as at 31 March 2019. The assumptions adopted as at 31 March 2019 are set out in the statement of funding principles dated August 2019.

The Trustee takes account of the most up-to-date longevity research and analysis in setting longevity assumptions.



	Technical provisions 31 March 2016	Technical provisions 31 March 2019	2FO 31 March 2019
<b>Key financial assumptions</b>			
<b>RPI increases</b>	Market implied gilt yield curve	Market implied gilt yield curve	Market implied gilt yield curve
<b>CPI increases</b>	RPI curve less 1.0% p.a.	RPI curve less 1.0% p.a.	RPI curve less 1.0% p.a.
<b>Pension increases</b>	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor
<b>Pre retirement discount rate</b>	Market implied gilt yield curve plus 3.0% p.a.	Market implied gilt yield curve plus 2.0% p.a.	Market implied gilt yield curve
<b>Post retirement discount rate</b>	Market implied gilt yield curve	Market implied gilt yield curve	Market implied gilt yield curve

		Technical provisions 31 March 2016	Technical provisions 31 March 2019	2FO 31 March 2019
<b>Key demographic assumptions</b>				
<b>Longevity base tables</b>	2015 VITA tables	VITA tables (latest version at time of writing was 2018)		
<b>Longevity future improvements</b>	CMI 2013 model calibrated to Club Vita experience with a long-term rate of improvement of 1.5% p.a. for males and females assuming "peaked" short-term improvements	The VITA tables for female pensioners and their dependants have been adjusted to reflect heavier mortality than expected which has been observed in practice. The VITA tables for current female pensioners and current male dependants have therefore been multiplied by 113% and 106% respectively.		
<b>Early retirement</b>	Age related allowance for retirements for employed deferred members whilst they remain employed: 14.8% at age 55, phasing to 100% at age 65.	CMI 2018 model with a long-term rate of improvement of 1.5% assuming "peaked" short-term improvements, a smoothing parameter of $S_k = 7.0$ and A parameters of +0.5% for males and +0.25% for females, assuming long term rates taper to 0% p.a. over the age range 90 to 120 for non-pensioner and 85 to 110 for pensioners		
<b>Late retirement</b>	No allowance is made for late retirement because the terms are cost neutral. Members above normal retirement age are assumed to retire immediately.	All other members are assumed to retire at the earliest age they can do so unreduced and without consent.		
<b>Ill health retirements</b>	An allowance for ill health retirements for employed deferred members whilst they remain employed: 0.1% at age 40, phasing to 1.7% at age 60 for males / 1.0% at age 55 tapering to 0 at age 60 for females. No allowance is made after these ages.			
<b>Withdrawals</b>	Age related allowance for withdrawals from service: 18% at age 20, phasing to 4.5% at age 55 tapering to 0 at age 60. No allowance is made after age 59.			
<b>Cash commutation</b>	Money purchase linked members assumed to exchange 10% of their pension for a cash lump sum at retirement. All other members are assumed to exchange 25% of their pension for a cash lump sum at retirement			
<b>Transfers out</b>	No allowance			
<b>Expenses</b>	No allowance in liabilities, allowance built in to contribution plans			
<b>GMP equalisation</b>	An estimate of 0.2% of liabilities has been allowed for to reflect the expected impact of GMP equalisation (assuming Method C2).			



### A3. Solvency assumptions

With the exception of the following changes, I have used the same demographic and financial assumptions as for assessing the technical provisions:

- I have used a discount rate based on swap market curves -0.25% p.a. pre and post retirement for deferred members and a discount rate based on swap market curve +0.4% p.a. for pensioners.
- Inflation has been set in line with implied inflation from gilt market curves.
- I have assumed that future CPI inflation is 0.7% p.a. less than future RPI inflation. The gap is smaller than used for technical provisions because there is no deep and liquid market for CPI linked assets that insurers could use to hedge CPI in their annuity book and so they need to hold additional reserves for CPI risk.
- I have used the same longevity base tables as for assessing the technical provisions as these are intended to reflect the expected future experience of the Scheme's membership; I would expect an insurer to take account of the Scheme's demographics in a similar way. Future improvements have been assumed as the default settings in the CMI 2016 model with a long-term rate of improvement of 1.5 % p.a. for both men and women and a smoothing parameter of  $Sk=8$ .
- Within the liabilities I have allowed for insurer expenses in line with our understanding for transactions of this size.
- No allowance has been made for members commuting pensions for a cash lump sum on retirement.
- Discretionary benefits have been ignored.



## Appendix B: Data – benefits, membership and assets

### B.1 Benefits

The Scheme benefits that I have taken into account for the valuation are set out in the Scheme's trust deed and rules dated 29 June 2012 and the associated summary document.

The Scheme rules provide for discretionary benefits to be awarded at the discretion of the Sponsor. Whilst, on occasion, discretionary benefits have been awarded in the past this is not considered to be established practice so no allowance is made in the technical provisions for future discretionary benefits, with the exception of early retirement terms for employed deferred members. The Sponsor has directed that employed deferred members are given preferential early retirement terms. Allowance for this discretion is made in calculating the expected cost of the benefits payable from the Scheme.

In October 2018, the High Court ruled that occupational pension schemes are required to equalise male and female benefits for the effect of unequal Guaranteed Minimum Pensions (GMPs). A loading of 0.2% has been added to the liabilities to allow for the estimated impact of GMP equalisation.

### B.2 Membership

The membership data as at the valuation date is summarised below:

Status	31 March 2016			31 March 2019		
	Number	Pensions	Average age	Number	Pensions	Average age
Employed deferred	3,072	£17m p.a.	48.5	1,903	£11m p.a.	51.4
Deferred	17,024	£46m p.a.	49.9	14,918	£42m p.a.	52.2
Pensioner	15,425	£52m p.a.	66.9	15,627	£57m p.a.	67.2
<b>Total</b>	<b>35,521</b>			<b>32,448</b>		

The Scheme membership has changed since the previous valuation, as members have left the Scheme, retired and died. Pensioner numbers include the members covered by both buy-in contracts.

The pensions shown in the table above are as at the valuation date for pensioner members and deferred pensioners. Average ages in the table are weighted by liability.

The data has been provided by the Trustee via the scheme administrator. I have relied on the accuracy of this information provided. I have no reason to doubt that



the membership data provided is materially complete and correct. I am aware the Scheme's pension data is currently being reviewed in relation to a GMP reconciliation exercise. No allowance has been made in the liability for the impact of any potential changes to members' benefit records following this review. Nevertheless, I am satisfied there is no material uncertainty in the membership data.



### B.3 Assets

The Scheme's assets include additional voluntary contributions (AVCs) paid by members and money purchase funds in relation to the money purchase section of the Scheme. At retirement, these funds are used to buy benefits for members on a money-purchase basis, with no possibility of profit or loss for the Scheme. In my valuation I have excluded these assets and the corresponding liability. The market value of assets at the valuation date (excluding insured money purchase and AVCs) are based on the audited accounts as at 31 March 2019, with the exception of the annuity policy value which was re-calculated on the final demographic assumptions for the purpose of the valuation.

The asset value of the annuity policies is taken to be the liabilities of the insured members under each basis, therefore the asset differs when calculated on the solvency basis compared to the technical provisions or 2FO basis due to the different assumptions.

The Trustee's investment strategy as at the valuation date was as follows:

Asset class	Allocation as at 31 March 2019 (£m)	Allocation as at 31 March 2019 (%)
Invested assets including cash:		
- Equities	185	5%
- Alternatives	127	4%
- Illiquid assets	71	2%
- Emerging market debt and currency	17	0%
- Multi-asset credit	307	9%
- Absolute return and corporate bonds	539	15%
- Liability-driven investment (LDI)	1,585	44%
- Cash and liquid assets	99	3%
Special Purpose Vehicle (SPV)	181 <sup>3</sup>	5%
Annuity policies	458 <sup>4</sup>	13%
<b>Total</b>	<b>3,573<sup>5</sup></b>	<b>100%</b>

Full details of the Trustee's investment strategy are contained in the Scheme's Statement of Investment Principles.

<sup>3</sup> £108m on the solvency basis. This is the estimated 'vacant possession' value of the SPV which represents how much might be recoverable from the properties in a sponsor insolvency position.

<sup>4</sup> £456m on the solvency basis due to the difference in assumptions, as per comment above.

<sup>5</sup> £3,498m on the solvency basis



## Appendix C: Technical provisions certificate

My certification of the calculation of the technical provisions is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions. That certificate is appended to the contribution schedule.

**Actuarial certification of the calculation of technical provisions as required by regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005**

Name of scheme: Kingfisher Pension Scheme

### Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2019 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated August 2019.

Signature

Date

05 August 2019

Name

Crawford Taylor

Qualification

Fellow of the Institute and Faculty of Actuaries

Name of Employer

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## Appendix D: Reliances and limitations

### Purpose of the valuation

This valuation has been carried out to comply with the statutory requirements of Part 3 of the Pensions Act 2004, which requires trustees to periodically obtain an actuarial valuation, defined as “a written report, prepared and signed by the actuary, valuing the scheme’s assets and calculating its technical provisions”.

### Addressee

This report is addressed to the Trustee of the Scheme who commissioned the work and is provided solely for their purposes in the management of the Scheme and in particular to fulfil their statutory obligations and requirements of the Scheme governing documents. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. The Trustee is obliged to pass a copy of the report to the sponsor within 7 days. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustee unless we have expressly accepted such liability in writing.

### Compliance

This report complies with the requirements of the following Technical Actuarial Standards (TASs): TAS 100 and TAS 300.

The following communication is also relevant to this report:

- The ‘Actuarial valuation as at 31 March 2016 compliance report’ dated July 2016;
- My advice on assumptions report dated 18 December 2018;
- My advice on assumptions update dated 15 May 2019;
- My valuation updated dated 16 May 2019;
- My paper ‘Preliminary results in respect of the actuarial valuation as at 31 March 2019’ dated 24 June 2019;
- The current statement of funding principles dated August 2019; and
- My paper ‘2019 valuation – strategic analysis’ dated 24 June 2019.

### Resource & environment risks

The weight given to resource & environment (R&E) issues should depend on a scheme’s circumstances, including its funding position and maturity, its investment strategy and its sponsor’s industry sector. These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically



relevant to the Scheme, I have not explicitly incorporated such risks in these valuation results. The Trustee may wish to seek direct advice on these risks (e.g. from Hymans Robertson regarding future investment markets and/or longevity, or from a covenant adviser regarding the sponsoring employer).

**Covenant risk**

I have not advised on factors particular to the Sponsor, or the Sponsor's industry. I am not, in my opinion, best qualified to advise the Trustee on these sponsor-related matters. The Trustees commissioned a formal covenant review as part of the valuation to get an assessment of Sponsor support and the advice provided in relation to the valuation is based on the outcome this review.

**Material judgements**

There are no other material judgements made to the valuation.