Statement of Funding Principles

STONEPORT PENSIONS

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1. Introduction

This statement of funding principles was prepared by the Trustees of the Scheme on 30 September to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, Rob Wallace of XPS Pensions Group plc ("XPS"). It supersedes the statement of funding principles dated 28 January 2019.

The Trustees have also had the benefit of advice from Paul Hamilton of Barnett Waddingham LLP ("BW") who the Trustees have agreed to appoint as the Scheme Actuary with effect from 1 October 2020.

Capitalised terms used in this statement of funding principles which first appear in "inverted commas" are as defined in the Scheme's Trust Deed & Rules ("TD&R").

This statement of funding principles also sets out how the Trustees have complied with Rule 3 of the TD&R ("Actuarial valuations and investigations, and Employers' contributions").

This statement of funding principles has been agreed by the Principal Employer of the Scheme, Stoneport Pensions Alliance Limited, on behalf of and after consultation with the "Employers" which participate in the Scheme. At the date of this document, Punter Southall Services Limited is the only participating Employer in the Scheme.

2. Statutory funding objective

The statutory funding objective is that the Scheme must have sufficient and appropriate assets to cover its technical provisions. This statement of funding principles sets out the Trustees' policy for securing that this objective is met.

The Trustees will set the technical provisions having regard to the long-term objective of the Scheme.

3. Long-term objective

The Trustees' long-term objective is for the Scheme to be fully funded on a low-risk basis by 31 December 2045 and for the strategic asset allocation of the Scheme at that date to be 100% in the "Matching Fund".

4. Funding Target

Rule 3 of the TD&R provides for each Employer to agree a "Funding and Investment Plan" which targets full funding for its share of the Scheme's obligations on assumptions appropriate to assess the cost of buy-out basis by the "Target Date", which is 31 December 2045 or such later date as the Trustees and the Principal Employer shall agree.

5. Method

The actuarial method used to calculate the technical provisions is the projected unit method.

The technical provisions will have regard for the long-term objective.

The "Funding Target" will incorporate the projected benefits payable between the effective date of the valuation and the Target Date on the funding basis and an estimate of the cost of securing the projected benefits still to be paid on the Target Date with an insurance company and the cost of winding-up the Scheme. Assets will be projected forward with best estimate returns.

The buy-out premium will be estimated having regard to the projected size and maturity of the Scheme on the Target Date. In setting the discount rate underlying the estimate of the buy-out premium, the Trustees may take account of the market expectation of the future change in yields by having regard to forward gilt curves at the effective date of the valuation.

6. Assumptions

Taken together, the assumptions adopted for the technical provisions at a particular date will be prudent and consistent with the long-term objective.

An explanation of the framework adopted by the Trustees to set the assumptions used to calculate the technical provisions, the long-term objective and the Funding Target is set out below. A full list of the assumptions that have been used to calculate the technical provisions, the long-term objective and the Funding Target can be found in the Appendix.

6.1. Discount rate

The discount rates used to calculate the capital value of projected future benefit cashflows (and, where applicable, the projected buy-out premium) will have regard to an estimate, at the effective date of the valuation, of the investment returns expected to be achieved on a notional portfolio of assets supporting the Scheme's liabilities.

In setting the discount rates, the Trustees will take into account their objective assessment of the covenant afforded to the Scheme as a whole and the aggregate level of risk present in the investment strategy of the Scheme.

The Trustees acknowledge that future investment returns are not guaranteed and that it may be necessary to request additional contributions from the Employers if investment performance is worse than expected.

The discount rates used will be net of investment management expenses and all other ongoing costs associated with the operation of the Scheme, including administration costs and the protection levy payable to the Pension Protection Fund ("PPF").

6.2. Retail Prices Index ("RPI") inflation

RPI inflation will be set having regard to the market expectation of future RPI at the effective date of the valuation over the projected term of the Scheme's cashflows. The Trustees do not expect to make any allowance for the inflation risk premium as to do so could constrain or otherwise influence the investment decision regarding whether and to what extent inflation risk should be hedged.

6.3. Consumer Prices Index ("CPI") inflation

CPI inflation will be set relative to RPI inflation or any reliable market expectation of future CPI at the effective date of the valuation over the projected term of the Scheme's cashflows.

6.4. Benefit indexation

Benefits will be projected in line with the relevant inflation index, subject to any caps and collars that exist.

6.5. GMP equalisation

The technical provisions, the long-term objective and the Funding Target all make an approximate allowance for the cost of adjusting Scheme benefits to allow for the inequalities that exist in respect of any Guaranteed Minimum Pensions. The Trustees will review the allowance at future valuations until the full GMP equalisation exercise has been completed.

6.6. Demographic assumptions

In setting demographic assumptions, the Trustees will have regard to the characteristics of the Scheme's membership and to the historic experience of the Scheme, as well as related statistics applicable to other pension schemes and relevant statistics regarding the general population as a whole.

The views of the Trustees about how the demographics of the Scheme may change in future, having regard to observable trends and relevant external factors may also be taken into account.

When this statement of funding principles was prepared, the Scheme was too small for its historic experience to be taken into account in setting the demographic assumptions. The demographic assumptions adopted have therefore been set having regard to the characteristics of the Scheme's membership, related statistics applicable to other pension schemes and relevant statistics regarding the general population as a whole.

In particular, the base mortality assumption was set based on a mortality study carried out by the Scheme Actuary on behalf of the Trustees in 2015. The mortality study used the postcodes and pension sizes of the Scheme's membership to derive appropriate adjustments to the S2PA base tables, which are based on the experience of self-administered pension schemes in the UK between 2004 and 2011.

The Trustees will adopt a consistent approach to setting the demographic assumptions as outlined above for the next valuation of the Scheme, which falls due on 31 December 2022, but reflecting the size of the Scheme and the characteristics of its members at that time.

It is anticipated that new segregated sections of the Scheme will be created for new Employers that participate in the Scheme between now and the "Centralisation Date". The Trustees will be required to carry out a valuation for those newly created sections with an effective date of not more than 12 months after their inception. The Trustees will adopt a consistent approach to setting the demographic assumptions as outlined above for any such valuations. In particular, the Trustees will make no allowance for the historic experience of the section's membership. However, the Trustees will take into account the results of any reliable analysis undertaken for that section's membership which supports a particular adjustment to the base mortality assumption.

The Trustees will adopt a more forensic approach to setting the demographic assumptions and the mortality assumption in particular when the Centralisation Date valuation of the Scheme is carried out with an effective date of 31 December 2022. The 2022 valuation will be used to fairly allocate a share of the Scheme's aggregate liabilities to each of the Employers.

The Trustees will therefore take into account all available information in setting the demographic assumptions for the 2022 valuation. In particular, the base mortality assumption will be based on a mortality study carried out by the Scheme Actuary on behalf of the Trustees. The mortality study will use the postcodes and pension sizes of each section's membership and the Scheme as a whole to derive appropriate loadings to apply the base tables.

After the Scheme has been centralised, the Trustees will have regard to the historic experience of the Scheme in setting demographic assumptions for future valuations.

6.7. Expenses

Investment management costs are assumed to be met out of future investment income.

All other ongoing expenses and levies, including administration costs and the levy payable to the PPF, will be met from the Scheme. The technical provisions, the long-term objective and the Funding Target all make an allowance for the estimated amount of these ongoing expenses over the lifetime of the Scheme via an explicit deduction from the relevant discount rate assumptions.

In addition, a reserve for the estimated expenses associated with securing a buy-out of the residual liabilities of the Scheme on 31 December 2045 is included in the Funding Target. The reserve will include an allowance for the expenses that will be incurred by the Trustees in executing the buy-out and winding-up the empty Scheme, as well as the expenses of the insurer which are incorporated in the buy-out premium.

7. Discretionary benefits

There are no provisions under the rules of the Scheme for the payment of any discretionary benefits or for making increases to benefits that are not guaranteed under the rules of the Scheme.

The Trustees will consider whether and to what extent to allow for any discretions introduced for new segregated sections. However, it is noted that any such discretions will be removed at the point the Scheme becomes centralised.

8. Recovery period

The Trustees and the Principal Employer have agreed that any shortfall in assets identified at the valuation relative to the technical provisions should be eliminated by the payment of additional contributions over an agreed recovery period.

The assumptions to be used in the calculations of the recovery plan may differ from those used to calculate the technical provisions. In particular, the Trustees and the Employers may agree to allow for some additional asset outperformance (where applicable) above the discount rate.

The Trustees will agree with each Employer a separate Funding and Investment Plan to reach the Funding Target of achieving full funding on a buy-out basis by 31 December 2045.

9. Frequency of valuations

The Scheme's previous valuation under Part 3 of the Pensions Act 2004 was carried out as at 31 December 2017. In the normal course of events, subsequent valuations are expected to be obtained every three years after that. However, this valuation was carried out as at 31 December 2019. Additional valuations will be required for any new segregated sections created more than 12 months prior to the proposed Centralisation Date of 31 December 2022. These will be carried out with an effective date of 31 December 2021. The intention is that a valuation will also be completed with an effective date of 31 December 2022 for the whole Scheme covering all segregated sections for the purpose of "Centralisation".

In the intervening years between valuations, the Scheme Actuary will prepare an interim actuarial report on the estimated financial position of the Scheme relative to the statutory funding objective, the long-term objective and the Funding Target.

The Trustees may obtain an earlier full valuation if they believe that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for the current level of contributions. However, the Trustees will consult the Principal Employer before doing so.

10. Payments to the Employers

Rule 15 of the Trust Deed and Rules dated 25 September 2020 provides for the payment of a surplus to the Employers if an actuary certifies to the Trustees that there is an actuarial surplus and subject to compliance with the requirements of Section 37 of the Pensions Act 1995.

Payments to the Employers may also be made:

- following a buy-out before the Target Date in accordance with Rule 14.6(c); or

- as part of the wind-up of the Scheme in accordance with Rule 14.4(d) of the Trust Deed & Rules;

if assets remain once all the benefits have been discharged and subject to the power the Trustees have, with the consent of the Principal Employer, to augment benefits.

11. Contributions to the Scheme by other parties

No party may contribute to the Scheme other than the Employers.

12. Cash equivalent transfer values ("CETVs")

At or after each valuation the Trustees will ask the Scheme Actuary to advise them of the extent to which the assets are sufficient to provide CETVs for all members without adversely affecting the security of the benefits of other beneficiaries. Where coverage is less than 100%, the Trustees will consider reducing CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent and taking into account other material considerations such as the strength of the covenant afforded to the Scheme by the Employers.

If at any other time, after obtaining advice from the Scheme Actuary, the Trustees are of the opinion that the payment of CETVs at a previously agreed level may materially worsen the security of the benefits of other beneficiaries, the Trustees will consider commissioning an insufficiency report from the Scheme Actuary and will decide whether and to what extent CETVs should be reduced.

The insufficiency report may also take into consideration to what extent and in what way the liabilities should be divided having regard to different priorities on winding up, with the highest priority being given to the benefits that would apply were the Scheme to enter the PPF.

Appendix: Method and assumptions for determining the technical provisions, the long-term objective and the Funding Target

The Trustees have adopted the following method and assumptions in preparing this statement of funding principles. The long-term funding objective and the Funding Target use the same assumptions as the technical provisions unless otherwise stated.

Financial assumptions

The financial assumptions vary depending on the timing of each of the Scheme's projected benefit cashflows, i.e. they are "term dependent".

Discount rate

Projected benefit cashflows will be discounted with reference to the Bank of England nominal gilt yield curve (the "gilt curve"). The Bank of England curve will be extended by assuming that the forward rate for all durations over 40 years is equal to the forward rate in year 40.

The Trustees have set the discount rates having regard to the Scheme's current investment strategy as set out in the Statement of Investment Principles under which:

- 50% of the assets are invested in the Matching Fund, which targets a long-term return which is broadly equivalent to that which would be achieved on a portfolio that an "Authorised Insurer" might reasonably be expected to hold to back a book of immediate and deferred annuities; and

- 50% of the assets are invested in the Investment Fund, which targets a long-term return of 2 - 5% per annum in excess of the return on the Matching Fund, after the deduction of all investment management fees.

The Statement of Investment Principles shows how the proposed allocation to the Investment Fund and Matching Fund are expected to evolve in the future so that the allocation to the Matching Fund is 100% by the Target Date.

The assumed prudent discount rate for the assets held in the Investment Fund prior to the Target Date has been set at 2.5% per annum in excess of the yield on gilts and the discount rate for assets held in the Matching Fund has been set at 0.5% per annum in excess of the yield on gilts for the purposes of meeting the Funding Target and complying with the statutory requirements for scheme funding. The phasing of the discount rate from 50% of the assumed Matching Fund return and 50% of the assumed Investment Fund return to 100% of the assumed Matching Fund return is assumed to occur linearly over the period from the valuation date to 31 December 2045. The long term objective assumes that all of the assets are in the Matching Fund at the valuation date.

An explicit deduction of 0.2% per annum will be applied to the discount rates set out above to cover the ongoing costs of operating the Scheme.

The buy-out premium on 31 December 2045 required for the calculation of the Funding Target will be estimated with reference to the implied future nominal gilt yield curve as at 31 December 2045, calculated using the forward rates at the date of the valuation. For pensioners, an addition of 0.2% per annum will be made to the implied nominal gilt curve. For deferred pensioners, 0.8% per annum will be subtracted from the implied nominal gilt curve.

Price inflation (RPI)

The RPI inflation assumption will be taken to be the investment market's expectation for inflation as indicated by the difference between yields on conventional and index-linked gilts as measured by the Bank of England gilt inflation curve (the “gilt RPI curve”). The Bank of England curve will be extended by assuming that the forward rate for all durations over 40 years is equal to the forward rate in year 40.

Price inflation (CPI)

The CPI inflation assumption is derived by deducting 1.0% per annum from the RPI inflation assumption for years up to 2025, reducing linearly to a zero deduction by 2030.

The difference between the long-term assumption for RPI and CPI inflation may vary over time to reflect changing views of long-term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.

The buy-out premium on 31 December 2045 required for the calculation of the Funding Target will be estimated using a CPI inflation assumption equal to the RPI inflation assumption to reflect the Trustees’ current understanding of the pricing of long-term CPI inflation in the bulk annuity market by the insurance industry.

Benefit increases

Inflation-linked pre-retirement pension increase assumptions will be derived with reference to the appropriate inflation index, allowing for the maximum and minimum cumulative annual increase over the period of deferment. Inflation-linked post-retirement pension increase assumptions will be derived with reference to the appropriate inflation index, allowing for the maximum and minimum annual increase and the fact that inflation varies from year to year using the Black Scholes model with an inflation volatility parameter of 1.5% per annum.

The table below provides a summary of the financial assumptions adopted for the purpose of this statement of funding principles, derived based on market conditions as at 31 December 2019:

Assumption (per annum)	**Technical provisions**	**Long-term objective**	**Funding Target**
Discount rate			
Deferred pensioners	2.0%	1.5%	0.1%
Pensioners	2.0%	1.5%	1.1%
Price inflation (RPI)	3.1%	3.1%	
Price inflation (CPI)	2.5%	2.5%	
Pension increases pre-retirement			
CPI inflation (with a cap of 5% or 2.5% applied over the period since retirement)	2.5%	2.5%	
Pension increases post-retirement			
CPI inflation with a maximum of 3.0%	2.1%	2.1%	
RPI inflation with a maximum of 3.0%	2.4%	2.4%	
RPI inflation with a maximum of 5.0%	3.0%	3.0%	

Notes

For the purpose of illustrating the assumptions used, the financial assumptions quoted are single equivalent rates based on the full yield curves. The pension increases are calculated by applying the relevant caps and floors to the single equivalent inflation rates.

Only single equivalent discount rates have been calculated for the Funding Target.

Demographic and other assumptions

The demographic assumptions for the purpose of this statement of funding principles have been set having regard to the size of the Scheme and the available data on the characteristics of its beneficiaries.

Mortality

The base mortality tables adopted are 83% of the SAPS series 2 ("S2PA") tables for males and 91% of the S2PA tables for females.

Future improvements in mortality are assumed to be in line with the Continuous Mortality Investigation's 2019 projection model with the default smoothing parameter and an initial addition to mortality improvement rates of 0.75% and a long-term rate of improvement of 1.75% per annum for males and 1.5% per annum for females.

The buy-out premium on 31 December 2045 required for the calculation of the Funding Target has been estimated using the same mortality assumption as the technical provisions.

Commutation

Members are assumed to take 75% of the maximum cash lump sum permissible under HMRC rules when they retire in exchange for part of their pension. The assumed rate of exchange will be 70% of the cost neutral factors calculated using the assumptions underlying the technical provisions.

The estimate of the buy-out premium at the Target Date required for the calculation of the Funding Target assumes that members retiring in the future do not exchange any of their pension at retirement for a cash lump sum (or equivalently that the pricing basis of the insurer assumes that any exchange is made on cost neutral terms).

Family statistics

The proportion of members assumed to be married at retirement or at the point of their earlier death will be based on the latest ONS population estimates and projections. The assumption adopted will have regard to the provisions in the Trust Deed & Rules for the payment of a pension to a dependant on death and any proxies the Trustees consider reasonable for assessing the future incidence of pensions being paid to the dependants of a non-married member.

For the current valuation, the Trustees have assumed that 70% of members are married at retirement or at the point of their earlier death.

Males are assumed to be 3 years older than females.

The buy-out premium on 31 December 2045 required for the calculation of the Funding Target has been estimated assuming 80% of members are assumed to be married at retirement or at the point of their earlier death.

Retirement

Members are assumed to retire at Normal Retirement Age, i.e. there is no allowance for early retirement (either in normal health or in ill-health) or late retirement. Any deferred pensioners who are over Normal Retirement Age at the valuation date are assumed to retire immediately.

Expenses

An allowance for the expenses of operating the Scheme on an ongoing basis is included in the discount rates.

The estimate of the buy-out premium on 31 December 2045 required for the calculation of the Funding Target allows for a loading of 2% plus a per member fee of £500 for the insurer's expenses. In addition, an allowance for the costs incurred by the Trustees in securing the buy-out and winding-up the Scheme of £1 million has been made.

The table below provides a summary of the demographic and other assumptions adopted for the purpose of this statement of funding principles:

Assumption	Technical provisions and long-term objective	Funding Target (where different)
Mortality base table		
Males	83% of the S2PA tables	
Females	91% of the S2PA tables	
Mortality projection model	CMI 2019 model with an initial addition to mortality improvement rates of 0.75%	
Long-term improvement rate		
Males	1.75% per annum	
Females	1.5% per annum	
Commutation	75% of members are assumed to take the maximum cash lump sum at retirement*	No allowance
Retirement	Members are assumed retire at Normal Retirement Age	
Proportion married	70% at all ages	80% at all ages
Age difference of dependants	Males 3 years older than females	
GMP equalisation	Reserve of £30,000	

Ongoing expenses and levies	Explicit deduction of 0.2% per annum from the discount rate	Not applicable
Insurer expenses	Nil	2% of buy-out premium plus £500 per member
Wind-up expenses	Nil	£1 million

* assuming commutation factors that are 70% of the cost neutral factors calculated using the assumptions underlying the technical provisions