The Scottish & Newcastle Pension Plan

Trustee Review 2013/2014

CAPITA

Scottish & Newcastle
Pension Plan

Message from the Chairman of the Trustee

On behalf of the Trustee, I am pleased to present the 2014 edition of the Trustee Review, the annual newsletter for members of the Scottish & Newcastle Pension Plan.

As usual your newsletter contains information regarding the Plan's finances, as well as a roundup of some of the issues in the pensions news that you need to be aware of, such as the recent budget announcement.

As most of you will be aware we have now finalised the Pension Data Review for pensioners. Most members were contacted last year with the remainder receiving letters throughout 2014. The final batch will be contacted by the end of November. We have also finalised the deferred member review; if you are a deferred pensioner, your personal data review results are attached to this newsletter.

The Company remains committed to the Plan. I am pleased to provide below details of this year's discretionary increase to pensions in payment. This important decision applies to some, but not all, pensioner members of the Plan. If it applies to you, you will be made aware through your personal pension increase letter, which will be issued in November as usual.

Although the Trustee is able to make representation to the Company on behalf of members and did so this year in advance of the final decision, the amount of discretionary increase is solely a decision for the Company.

This year the Company has decided to award a discretionary increase of 1.5%, effective from 1 November 2014. The Trustee has, as required under the Plan Rules, confirmed with their Actuary that the funding plan is able to support such an increase. The Company and the Trustee continue to work together to support the sustainability of the Plan and maintain focus on members' best interests.

This year we welcome a new Trustee to the board. You can find out more about Kelly on page 9. The Trustee would also like to thank Colin Dingwall and Gordon Izatt who resigned as Trustee Directors in 2014. Thanks to them both for their valued contribution over the years.

If you have any questions about any of the topics covered in the newsletter or about the Plan in general, please let us know. Contact details are included on the back page.

Best wishes
Lynn Ruddick
Chairman of the Trustee

Company means Scottish & Newcastle Limited, as Principal Employer of the Scottish & Newcastle Pension Plan. Trustee means Scottish & Newcastle Pension Plan Trustee Limited

Money Matters

People in the Plan

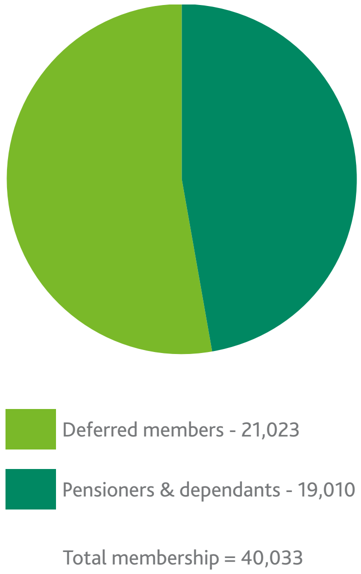
The financial highlights from the annual report and accounts for the year to 31 October 2013 are summarised in this section. If you would like a copy of the full report, please contact the administrator, whose contact details are on the back page.

Income	**(£000s)**
Company special contributions	35,884
Members' contributions	0
Members' voluntary contributions	0
Transfers in	0
Other income	27
Total income	35,911

Outgoings	**(£000s)**
Pensions paid	(107,028)
Retirement lump sums	(8,312)
Death benefits	(724)
Leavers' payments	(2,746)
Administration and other expenses	(4,712)
Total outgoings	(123,522)

Changes in the value of the Plan	**(£000s)**
Plan value at 1 November 2012	2,421,358
Plus – Income	35,911
Plus – Investment income	4,314
Plus – Net returns on investments	255,952
Less – Outgoings	(123,522)
Less – Investment management charges	(2,321)
Plan value at 31 October 2012	**2,591,692**

The pie chart below shows our Plan membership as at 31 October 2013.



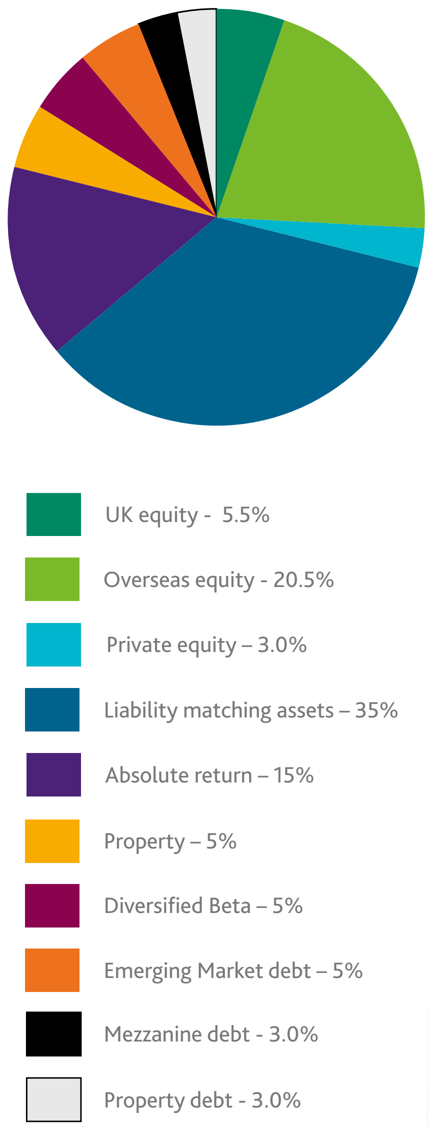
Investment Matters

The Trustee is responsible for running the Plan efficiently and professionally, which can require highly specialised knowledge. Therefore, we appoint professional investment advisers and managers to assist us with respect to topics such as setting the investment objectives of the Plan and managing the investment of the Plan's assets.

The investment managers as at 31 October 2013 were:

- Baillie Gifford (to 2 November 2012)
- BlackRock Advisors (UK) Limited
- Standard Life Investments
- Pacific Investment Management Company LLC (PIMCO)
- BlackRock Financial Management, Inc.
- Bridgewater Associates, Inc.
- Edinburgh Partners (to 2 November 2012)
- Russell Investments Limited
- Mesirow Financial
- NewFinance Capital LLP
- Highbridge Capital Partners (from 3 May 2013)
- M&G (from 6 August 2013)

The Plan's assets were invested over the year in different types of investments. The chart below shows the benchmark asset split at 31 October 2013.



Investment Commentary

During the year to 31 October 2013, the Plan made some changes to the benchmark asset allocation and underlying managers.

In November 2012, the global equity portfolios managed by Baillie Gifford and Edinburgh Partners were terminated and replaced by a new global equity portfolio managed by Russell Investments Limited.

This year we have made a number of small changes. In March 2013, the Plan committed 3% of total Plan assets to a mezzanine debt mandate managed by Highbridge Capital Partners, which is to be funded by on-going drawdowns from the Russell global equity portfolio, the first of which occurred in May 2013.

Also in March 2013, the Plan made a commitment of 1% of total Plan assets to an additional investment with Mesirow, the Mesirow Opportunities Fund, which will be drawn down over time from the existing allocation to the Mesirow Multi-Strategy Fund. This was funded by a transfer of 1% of total Plan assets from the absolute return mandate managed by the Pacific Investment Management Company (PIMCO).

In July 2013, the Plan made a total commitment of 3% of total Plan assets to property debt. This commitment was split between three property debt funds managed by M&G, and was initially funded by drawdowns from the PIMCO corporate bond mandate, the first of which occurred in August 2013.

In October 2013, the Plan fully disinvested from the PIMCO corporate bond mandate. The proceeds (approximately 10% of total Plan assets) were transferred to BlackRock for investment into the existing liability driven investment (LDI) mandate (8% of total Plan assets) and the Diversified Credit Fund (DCF) (2% of total Plan assets). The LDI and DCF mandates will be used to fund the remaining M&G property debt drawdowns.

Your summary funding statement for 2014

Each year we provide information on the financial position of the Plan, helping you to understand more about how your pension is paid for and the state of the Plan's finances.

The purpose of the summary funding statement is to give you a clear view of what the financial figures mean in terms of the Plan's ability to pay all the benefits that have been promised.

Whilst you don't need to take any action at this time, it is still important that you read the statement carefully, so you can understand what the figures mean and how they are used to assess the financial health of the Plan. The details in the statement are for your information only and should help you to keep an annual track of the Plan's financial position.

Measuring the Plan's financial security

As you are aware, the Plan closed to future accrual on 8 July 2011. After this date, no members have built up future pension benefits in the Plan. If you have left the Plan or were an active member up to the closure date, you will have earned benefits during your membership which will be payable on retirement. Retired members are, in general, already receiving a pension from the Plan.

The estimated cost of providing the benefits you and other members have earned to date is known as the Plan's 'liabilities'. The Company pays in contributions which are invested to help provide members' benefits. All contributions and investment income are held in a communal fund and make up the Plan's 'assets'.

To check the Plan's financial security, we compare the value of its liabilities to its assets:

- if the value of the Plan's assets is less than the value of its liabilities, it is said to have a 'shortfall', or 'deficit';
- if the value of the Plan's assets is more than the value of its liabilities there is said to be a 'surplus'.

We carry out an in-depth look at the Plan's finances at least once every three years. The Plan's Actuary, an independent professional, undertakes this 'actuarial valuation'. We also check the financial security of the Plan regularly in between the full actuarial valuations on a more approximate basis, and the actuary provides a certified report once a year.

The previous position

The summary funding statement we issued last year showed that the Plan was estimated to have a shortfall of £570 million at 31 October 2009, the date of the previous formal actuarial valuation, and that this shortfall had fallen to £461 million as at 31 October 2011.

The Plan's current position

The latest formal Actuarial Valuation of the Plan showed that on 31 October 2012:

The value of the Plan's liabilities was:
£2,908 million

The Plan's assets were valued at:
£2,418 million

This means there was a shortfall of:
£490 million

This can also be expressed as a funding level (ratio of assets to liabilities) of
83%

Current Funding Update as at 31 October 2013

Since 31 October 2012 the Plan's financial position has improved. The approximate figures as at 31 October 2013 showed that the shortfall had decreased slightly, from £490 million at 31 October 2012 to £449 million, equivalent to a funding level of 85% and slightly ahead of the position projected when we agreed the funding plan with the Company at the formal valuation.

This is due to the investment return on the Plan's assets being higher than assumed offset slightly by an increase in gilt yields. However, the impact has been largely offset by the effect of an increase in the assumed long-term rate of inflation.

Financial support for the Plan

Following each actuarial valuation, the Actuary estimates the contributions the Company needs to pay to cover the cost of benefits. We then agree a level of contributions for the Plan with the Company and record this in a document called the Schedule of Contributions.

We review and update the Schedule of Contributions at least each time the Plan has an actuarial valuation. Our aim is to have enough money in the Plan to pay pensions now and in the future, but this depends on the Company continuing to support it, as it has committed to do. In the event of a shortfall in funding, the Company would usually need to pay in more money to make up the difference (along with the future expenses of running the Plan).

There has not been any payment to the Company out of Plan funds in the last 12 months.

The Trustee's recovery plan

We have agreed a recovery plan with the Company after the last formal valuation to improve the Plan's finances over a period of time, with the aim of removing the shortfall by 31 October 2022. To do this, the Company agreed to pay £35.8 million into the Plan each year from May 2013. These shortfall recovery contributions may vary in the future depending on movements in the financial position of the Plan. The contributions could potentially increase to a maximum of £61.0 million each year should the Plan's financial position turn out worse than assumed, or fall to a minimum of £21.0 million each year if the financial position turns out better than assumed.

The Plan's funding agreement has been accepted by the Pensions Regulator.

If the Plan had to wind up

If the Plan started to wind up, for example if the Company became insolvent, the Company would be required to pay enough money into it to enable members' benefits to be provided by securing policies with an insurance company.

The amount needed, in addition to the existing assets of the Plan, to make sure that all members' benefits could have been paid in full from the insurance policies, if the Plan had started winding up on 31 October 2012 was estimated to be £1,684 million. This is estimated every three years as part of the actuarial valuation.

If the Plan was wound up and the Company could not afford to pay this full amount, you might not get the full amount of the pension you are entitled to, even if the Plan was fully funded on the approach set out in the Statement of Funding Principles. If the Company became insolvent, the Pension Protection Fund (PPF) might be able to take over the Plan and pay compensation to members, but this compensation may be less than the benefits you are entitled to under the Plan.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk.

Alternatively, you can write to the Pension Protection Fund at:

Pension Protection Fund
Rennaissance
12 Dingwall Road
Croydon
Surrey
CR0 2NA.

The cost of winding up assumes that benefits will be paid for by buying insurance policies. Insurers are obliged to take a very cautious view of the future (including the administration costs of paying the benefits) and need to make a profit. By contrast, under the current funding position, we assume that the Company will continue in business and support the Plan.

The Company has confirmed that it currently has no intention of winding up the Plan; we are just giving you this information to help you understand the security of your benefits.

Sources of further information

If you have any questions about the Plan's funding, please contact us (see the back page for our contact details). If you want to find out more about the Plan you can ask for the following documents:

- **The Statement of Funding Principles**
  explains how we plan to make sure enough money is paid into the Plan to provide the benefits that members have built up;

- **The Statement of Investment Principles**
  explains how we invest the money paid into the Plan;

- **The Schedule of Contributions**
  shows how much money is being paid into the Plan;

- **The Annual Report and Accounts**
  shows the Plan's income and expenditure in the 12 months to 31 October 2013;

- **The Member's Explanatory Booklet**
  explains how the Plan works (you should have been given a copy when you joined, but you can request another copy if needed);

- **The Formal Actuarial Valuation Report as at 31 October 2012**
  contains the details of the Actuary's check of the Plan's financial situation as at 31 October 2012;

- **The Actuarial Report as at 31 October 2013**
  contains the details of the Actuary's check of the Plan's financial situation as at 31 October 2013.

- **The Internal Dispute Resolution Procedure**
  contains details of how disputes between members and the Trustee are dealt with. Note that some disputes may now be dealt with in one stage rather than two where the subject matter has already been considered in similar cases.

Your pension team

Your Trustee Board

The Trustee Board is made up of 9 Directors:

- three independent Directors
- three nominated by members
- three nominated by the Company

The current Trustee Directors are:

Independent

Lynn Ruddick (Chairman)

Dee Mair

Anne Kershaw

Member nominated

Andy Ackerman

Ruth Bromley

Company nominated

Robin Hoytema van Konijnenburg

Anthony McNulty

Kelly Taylor-Welsh (replaces Colin Dingwall)

Trustee changes

Colin Dingwall left on 01 April 2014 and has been replaced by Kelly Taylor-Welsh. We welcome Kelly on to the Trustee Board. You can find out more about Kelly and her role in the Plan below.

Gordon Izatt resigned on 20th August 2014 and the Directors will be seeking a replacement.

Meet Kelly Taylor Welsh – your new Company nominated Trustee

Kelly is a qualified Chartered Accountant and Chartered Tax Adviser who joined Heineken in March 2012. As part of her role as Head of UK Tax, Kelly is also a Director of many of HEINEKEN UK subsidiaries. She has 14 years of accounting and tax experience and has previously worked for Lloyds Banking Group, Halifax Bank of Scotland and Ernst & Young in various roles.

Our advisors

We delegate some of our day to day duties to professional pension experts. Our current advisers are:

Plan actuary:
John Porteous, FFA Mercer Limited

Investment consultants:
Mercer Limited

Auditors:
Ernst & Young LLP

Legal advisers:
CMS Cameron McKenna

Administrators:
Capita

The Pensions Team at Heineken:
Neil Parfrey
Head of Pensions

Janis Ireland
Governance and Operations Manager

Pauline Gordon
De-risking Manager

Pensions News

Budget changes

On 19 March 2014 the Chancellor of the Exchequer announced a number of changes to pensions in this year's Budget. Some of the changes are effective from 27 March 2014 and others are proposed for early 2015 (these proposed changes are currently in consultation and may change during this time).

As the Plan is a defined benefit (DB) pension scheme, we have outlined the main pension and benefits changes that may affect you as a member of the scheme.

Changes happening now

Some changes in the Budget came into immediate effect. The main changes for members of DB pension schemes include:

- Increasing the value of small pensions that can be fully converted to a lump sum from £2,000 to £10,000 for up to three such arrangements.
- Raising the limit on trivial commutation (taking all your pension from one scheme as a single lump sum) from £18,000 to £30,000.

Proposed changes from April 2015

Additional changes were proposed in the Budget to come into effect from April 2015. The Chancellor has recommended that:

- The minimum age that members can access their pension savings increases at the same rate as the State Pension Age, with the minimum age being adjusted so that it is 10 years before a member's State Pension Age. For example, by 2028 when the State Pension Age is 67, the minimum age would be 57.
- Non-retired members of funded DB pension schemes (which includes the Plan) will be allowed to use the new flexible options available under defined contribution (DC) pension schemes, by taking a transfer of the value of their benefits. Anyone wishing to transfer from a DB to a DC scheme will need to have taken independent financial advice before the transfer will be undertaken, unless the value is below the triviality limit of £30,000 mentioned previously.

These changes are not fully confirmed and consultation with the wider pensions industry is taking place on aspects of the detail. See the 'Further Information' section opposite if you want to know more. This means that schemes, sponsors, advisers and other industry groups will have the opportunity to comment on the Government's proposals before they come into effect.

Further information

To find more information about the changes announced in the Budget for both DB and DC pension schemes visit https://www.gov.uk/government/news/budget-2014-support-for-savers-announced. For financial advice you can visit www.moneyadviceservice.org.uk, or you can find an Independent Financial Adviser using the website www.unbiased.co.uk.

Data Review update

The data review is now almost complete for all members, with some 35,000 members having had confirmation of their review results. The remaining members will be communicated to in November.

Pensions News

Go online!

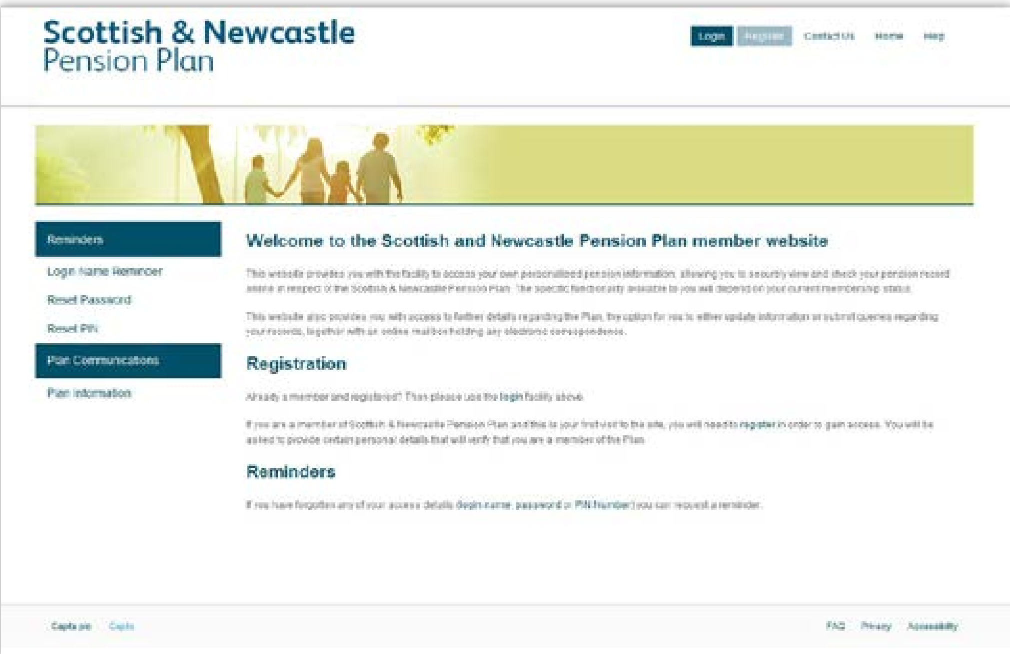
www.hartlinkonline.co.uk/snpensions

We have recently launched a new website for all members of the Plan. The website is a quick and easy way to connect with your benefits. Access to the website enables you to view the data held in your pension records and, if necessary, raise any queries accordingly. It also provides valuable sources of information on the Plan which will be kept up to date for your future reference.

Connect to:

- Check that the personal details held in your pension records are correct
- Get an estimate of how much you may receive from the Plan at retirement if you have not retired
- See how changing your retirement date can affect your estimated retirement benefits
- Update your Expression of Wish form
- Find out more information about the Plan
- Get copies of past payslips and P60's if you are a pensioner.

Remember you will need to type the full web address into your browser not into the Google search bar.



Updating your information

We rely on the data we hold to contact members with information about the Plan.

As a result, it's important that you keep us informed about any changes to your personal circumstances – for example, if you get married or divorced, or move house. If you don't, we may find it difficult to pay your benefits when the time comes, and you may miss out on updates about the Plan. So, if any of your personal details change, please advise the Pension Team directly. Contact details for the Pension Team are shown opposite.

If you move house and you are not a current employee, you can notify us of you new address on the website www.hartlinkonline.co.uk/Snpensions. If you are a current employee, you should continue to notify address changes through your HR Department.

Contact us

By phone:
0845 600 2086

Pensioner Payroll Helpline:
0845 600 3260

By email:
snpensions@capita.co.uk

By post:
Scottish & Newcastle Pension Plan
Capita
Hartshead House
Sheffield
S4 7TL

Please remember to quote your National Insurance number in any correspondence.

Information is also available on the Plan website:
www.hartlinkonline.co.uk/snpensions.