Howden Joinery Pension Plan

Your Autumn Update

November 2021

Welcome to your Autumn Update

Inside this issue, as well as the usual updates on the funding level of the Plan and the annual report and accounts summary, you can find out what the Plan is doing to invest responsibly and how it could affect the Plan in the long-term.

Financial Health Check

The Plan Actuary carries out a formal in-depth financial review every 3 years. In the interim years, the Actuary provides updates known as annual funding updates. The last full valuation was in 2020 and we reported the outcome in the Spring 2021 newsletter. We are now able to share the results of the 2021 annual funding update on page 8 and our long-term goal for the Plan on page 3.

We hope you find this annual review helpful.

Chris Martin
Chair of Howden Joinery Pension Plan

Charlie Nissen

People News

Member Nominated Director (MND) elections

In the last newsletter we announced that there were two vacancies on the Trustee board. We are pleased to say that Charlie Nissen and Tony Cooper agreed to stand again. As there were no other nominations, they have been re-elected and will serve a further 4 years on the Trustee board. We are grateful for their continued support and the experience they bring to the board.

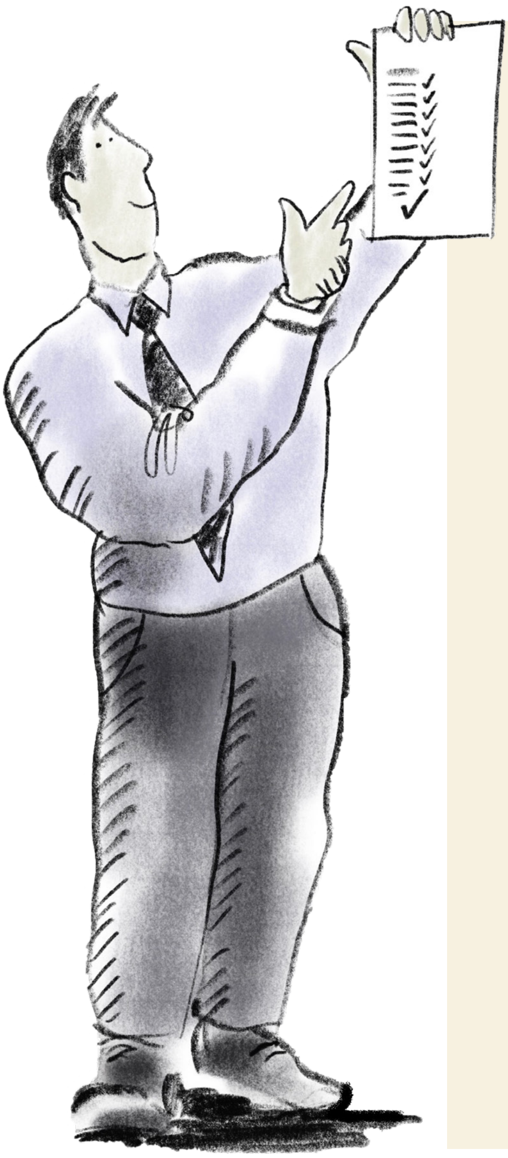
Plan News - the Plan and Trustee Journey

In past newsletters we have updated you on the changes the Trustee has made to our investments as part of our long-term strategy with the primary aim always being to secure our members' benefits.

Following the valuation in 2017 we began a journey to change the structure of the investments - reducing our holdings in equities and setting up a "secure income" portfolio (assets which aim to achieve the return we require with reduced risk and volatility).

In the investment update on page 5 you'll see that the Plan has achieved good, steady investment returns over the last 3 years, as a result of these changes.

We also update you regularly on the funding level in the Plan and as you'll see on page 8 we have now achieved 100% funding on the "Technical Provisions" basis.



So, as the Plan is now fully funded and closed to future accrual, is the Trustee role finished? Far from it! We now embark on the next stage of our journey:

- **The Plan may be fully funded on one measure, but we want to get to a position of "self-sufficiency". This means building up a buffer so that adverse market conditions or changes do not mean that we need to ask the Company for additional contributions. This level of funding brings enhanced security for our members and reduces our reliance on the Company.**
- **As the Plan is now closed, there are no contributions coming in as regular employee and employer contributions have stopped and the additional Deficit contributions from the Company have also currently ceased as we have reached the Technical Provisions funding target. We carefully monitor the income distribution from our investments to ensure we can meet the monthly pensioner payroll and pay retirement lump sums and transfers out (see page 9).**

On the next stage of this journey we will continue to reduce risk where we can and may consider insuring some of the pensions, which will provide additional security for member benefits from the Plan. This is known as a buy-in. We will continue to update you in future newsletters and with information on the website.

Pension News

Beware of scammers!

In the Spring newsletter we set out ways to keep your Plan benefits safe from scammers. The Financial Conduct Authority (FCA) has also provided some guidance. The 4 simple steps to protect yourself and your benefits are:

1. **Reject unexpected offers**
2. **Check who you're dealing with**
3. **Don't be rushed or pressured**
4. **Get impartial information and advice**

You can find a copy of the detailed guidance on the homepage of the Plan website:

https://howdenjoinerypensions.co.uk/howden/

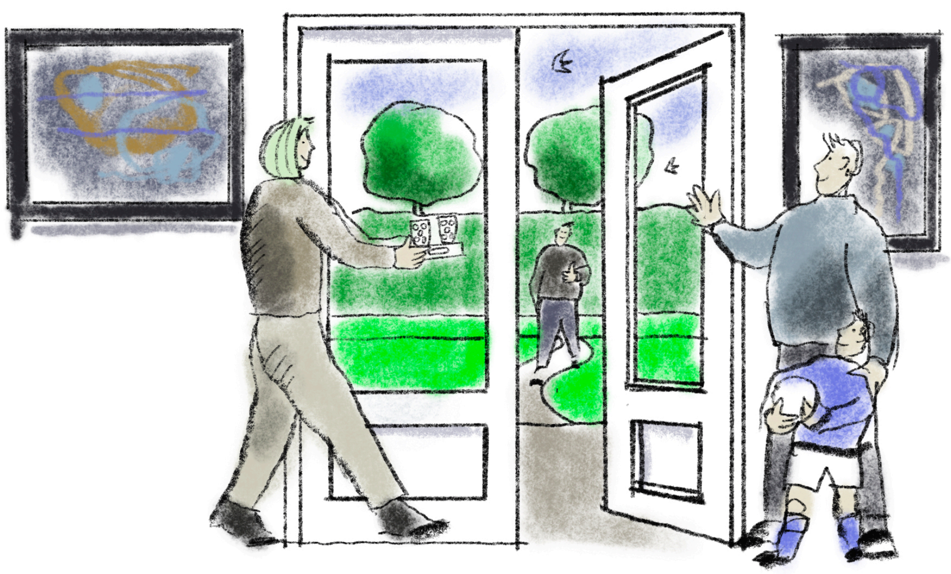
The Trustee has engaged with an Independent Financial Adviser (IFA) firm Wren Sterling who offer preferential rates for members of the Plan. You will still need to pay for advice but Wren Sterling understand the benefits and options offered in our Plan. If you are considering transferring your benefits or would like advice on your retirement you can contact them on **0808 175 0010** or email: **howdens@wrensterling.com**

Increase to the minimum pension age

The minimum age that you can retire from a pension scheme is currently age 55.

The Government has now confirmed that this will go up to age 57 from April 2028. We'll provide an update once the Government has published further information.

If you are currently over age 55 and would like an early retirement quotation of benefits, you can get this by logging on to ePA and going to the 'Quotes' area. If you need help with your login ID or password please contact Willis Towers Watson (details on the last page).



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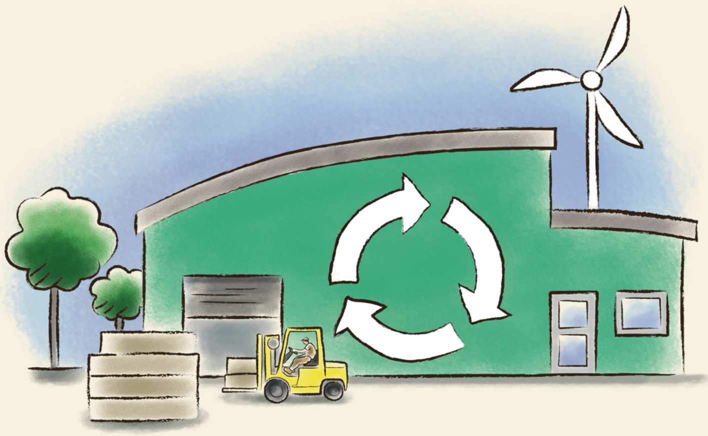
Investment Update

Responsible Investment

Climate change is in the news and the UN climate conference (COP26) takes place in Glasgow in November. What does this have to do with pensions?

As a major financial investor, we have an important role in understanding environmental, social, and corporate governance (ESG) factors (including climate change) in the investment decision-making process. We believe there is an opportunity to generate better than expected returns in the long-term by making decisions with a longer-term outlook, by actively engaging with investment managers to consider ESG factors and by investing in companies that have a positive ESG impact.

We monitor the Plan's investments on a quarterly basis and consider the ESG investment manager views from our advisers. We also meet with the investment managers each year to hear how they engage with the companies the Plan is invested in to drive positive change.



You can read more about how we have engaged with our investment managers in the Implementation Statement which is available on the Plan website.

Investment manager costs

We recognise the importance of monitoring the level of investment costs incurred in the management of the Plan assets and the impact these can have on the value of the assets. To help us we asked a specialist company (ClearGlass) to gather the cost and charges information from all our investment managers over 2020.

Overall, the total investment manager cost to the Plan was 1.158% p.a. of the value of assets. We are satisfied with the performance of our investment managers in meeting our targets on our journey towards self sufficiency. We will continue to monitor costs and will benchmark against other schemes to keep costs at a reasonable level.

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Asset mix

Asset Type	31 March 2021 (%)	Long Term Target (%)
Equities	10.3	10
Secure Income	30.9	30
Absolute Return	22.3	20
Corporate Bonds	15.2	10
Liability Driven Investment (LDI)	20.4	30
Cash	1.2	0

- Equities are stocks and shares in companies around the world.
- Secure Income allocation looks to invest in assets which provide stable, predictable long-term returns to generate cashflow to pay member benefits or invest in other assets.
- Absolute Return strategies are investment approaches which look to generate consistent positive returns even if equity markets are not generating positive returns. These strategies help to protect the Plan assets should equity markets fall significantly.
- Bonds are loans to a company (corporate bonds) or government (Gilts). They are typically considered to be less risky than investing in equities.
- LDI represents assets that are designed to match the Plan's liabilities (i.e. the value of benefits) in the Plan as closely as possible.

How have the Plan assets performed?

Asset returns to March 31 2021	
1 year Plan returns	3.2%
1 year benchmark returns	1.4%
3 year Plan returns	6.0%
3 year benchmark returns	5.9%

The Plan return is shown alongside its benchmark, which is a gauge against which the performance of the asset portfolio can be measured. The overall benchmark is comprised of different benchmarks appropriate to the underlying asset classes. For example, the property fund (within secure income) is measured against a published property fund index.

The Plan has outperformed the benchmark in the last year and over the last three years. The positive returns in the last year were largely from the Absolute Return funds which benefited particularly from strong equity returns.

The Plan's accounts

	£millions
Value of the Plan as at 31 March 2020	£1,436.2
Total money in	+£48.5
Total money out	-£45.6
Net return on investments	+£47.1
Value of the Plan as at 31 March 2021	£1,486.2

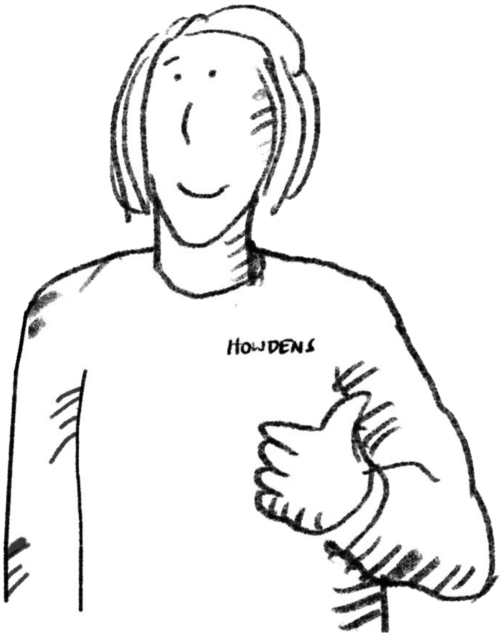
Money out of the Plan includes pensions and lump sums paid to members, transfers to other individual pension arrangements and administration expenses.

If you would like to see a copy of the full Report and Accounts, please contact the pensions team, using the details on the back page.

Our members

At 31 March 2021 there were:

In-service deferreds	1,231
Deferred	5,305
Pensioner & Dependant	4,031
Total members in the Plan	10,567



- In-service deferred members: These were Active members of the Plan who (at 31 March 2021) still paid contributions and were employed by the Company. Since the closure of the Plan members currently employed by the Company are known as In-service deferred members.
- Deferred members: Members who no longer work for the Company and haven't reached their Normal Retirement Dates. Their pension benefits are held by the Plan until retirement.
- Pensioner members: Receive a monthly pension from the Plan. This includes spouses and dependants of deceased members.

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Checking the Plan's financial health: 2021 annual results

The Plan actuary has carried out the annual review of the Plan which is shown in the table below. The Plan assets are all of the funds that the Trustee holds on behalf of the members. The Plan liabilities are all of the benefits that the Plan is paying or will be paying in the future.

Valuation date	Assets	Liabilities	(Shortfalls)/Surplus	Funding level
	Money available in the Plan	Money needed for the Plan to provide benefits - now and in the future	When the value of the assets is (less)/more than the liabilities	The assets as a % of the liabilities
31 March 2020	£1,436.2M	£1,546.0M	£(109.8)M	93%
31 March 2021	£1,486.2M	£1,486.1M	£0.1M	100%

What has changed since the last valuation in 2020?

Since the valuation at 31 March 2020 the Plan's technical provisions funding level has improved and the Plan is broadly in balance at 31 March 2021.

The value placed on the Plan's liabilities has decreased due to the increase in gilt yields over the period and the benefits paid from the Plan. The value of the Plan's assets has increased mainly due to a combination of deficit contributions from the Company and higher than assumed asset returns.

Since the Plan's assets have increased and the Plan's liabilities have decreased, the shortfall on the technical provisions' basis at the valuation date of £109.8M had become a small surplus of £0.1M at 31 March 2021.

The actuary also has to work out the funding level if the Plan doesn't continue (i.e. is wound up) and all the promised benefits have to be provided by an insurance company. This is known as 'buying out'. This kind of funding test (called the "solvency position") sets a higher funding test for the Plan and therefore usually results in a significantly lower funding level than the funding levels worked out if the Plan continues. This is because insurance companies have to invest in lower returning assets than the Plan would, and they have to show they hold enough money to pay out the benefits. This makes buying out benefits expensive. See below and page 9 for more detail on the solvency position and what it means for the Plan.

- Technical provisions are the estimated level of money needed to pay the liabilities as and when they are due.
- Solvency liabilities are the estimated level of money needed to buy insurance policies to provide members' benefits.

Recovery Plan

The Company and the Trustee will continue to maintain the current recovery plan.
As a reminder, within the recovery plan, the Company was paying contributions of £30M p.a. (paid in monthly instalments until 30 June 2023 if required). The recovery plan aims to make sure that the assets are enough to cover the Technical Provisions liabilities by the end of the recovery period. As the Plan is now in surplus on this basis, contributions from the Company have currently ceased, but if the Plan was to go back to having a shortfall, Company contributions would start again until the shortfall has been met.

There have been no payments to the Company out of Plan funds.

What would happen if the Plan was discontinued ('wound up')?

As we've said earlier, the actuary must also look at the Plan's solvency position if it was to be discontinued (wound up). The actuary looked at whether the Plan had enough money at the annual funding update of 31 March 2021 to buy insurance policies to provide members' benefits. Because buying out benefits is expensive, the solvency position is likely to be less than 100% even if a scheme is fully funded on its ongoing basis.

If the Plan wound up as at 31 March 2021, the actuary estimates that the amount the Plan needed to ensure benefits were paid in full was £1,874.8M and the assets were £1,486.2M. On this basis, the Plan's solvency shortfall was £388.6M and the solvency funding level was 79%.

It's important that you know how the Plan is doing - the Company is committed to supporting the Plan and is not thinking of winding it up.

The Pension Protection Fund (PPF) acts as a safety net and provides compensation to pension scheme members where a scheme is wound up because the sponsoring employer becomes insolvent and there's not enough money to cover the cost of securing members' benefits with an insurance company. The PPF does not provide full protection, so in most cases members would see a reduction in their benefits. Currently, the Plan is not fully funded when valued based on the benefits and assumptions used by the PPF and therefore, if the Plan were to enter the PPF, members would only receive the benefits covered by the PPF. In the case that a scheme has more than sufficient assets to cover the benefits provided by the PPF on entry into the PPF, any remaining assets would be used to secure part of the remaining benefits with an insurance company.

The full valuation report is available on request from **pensions@howdens.com**

If you have any questions about the Plan

Get in touch with the Plan Administrators:

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Redhill
Surrey RH1 1YX

01707 607616

howdenjoinerypensions@willistowerswatson.com

Or the pensions team at Howdens
pensions@howdens.com

Clair Hood **020 7535 1114**
Nilam Gardiner **020 7535 1152**

Helpful Information

Finding lost pensions

It's easy to lose touch with previous pension plans when you change jobs, or if former employers change their name. If you need to contact the trustee of another employer's pension scheme, this service can help:

www.gov.uk/find-pension-contact-details

Money Helper

Money Helper is a new service that is open to everyone in the UK. It offers free, clear, unbiased guidance to help you manage your money and pension. There are a number of useful financial planning tools available, including a pension calculator and budget planner. You can also find guidance and support available if your finances have been affected by the COVID-19 pandemic.

http://www.moneyhelper.org.uk/