December 2016 THE PILKINGTON SUPERANNUATION SCHEME

NSG GROUP

Reflections

The main investment event during 2016 has been the 'buy-in' with Pensions Insurance Corporation

says Chairman **Keith Greenfield**

THERE IS NO such thing as a quiet time in pensions and 2016 has proved this to be the case once again.

The main investment event during 2016 has been the 'buy-in' with Pensions Insurance Corporation but this was by no means the only activity. The buy-in represented a further securing of members' benefits which, along with the existing longevity insurance and the composition of the asset portfolio, results in the Scheme hedging 85% of its inflation and interest rate risk.

What does this mean? These assets shield the Scheme from the effects of movements in interest and inflation rates, both up and down. For example, in the immediate aftermath of the result of the referendum on membership of the EU in June, whilst the markets were highly volatile, the funding position of PSS remained largely unaffected at between 96%-98.4% funded on the Technical Provisions basis for the month to 23 July 2016. Many schemes, that were not so well hedged, fell prey to another significant increase in their deficits, caused by the volatility in the economic markets following the vote.

This brings me neatly to the Scheme's current funding position. As you may recall from previous news letters we measure this on several different bases. The formal triennial valuation looks at the ongoing or Technical Provisions basis and also the more prudent solvency basis. The press often tend to quote the solvency basis when looking at cases such as BHS or Tata Steel, because this is the largest deficit number and makes headline news. However, in the 'normal course of business' we look at the Technical Provisions basis and when looking to carry out more derisking we look at the valuation on a self sufficiency discount rate, a basis somewhere between the ongoing and solvency bases. At the time of the latest valuation dated 31 December 2015 these two measures were both in deficit – Technical Provision £126m and the self sufficiency rate £268m. By the end of 2015 the position had improved to £94m and £230m respectively. The Trustee keeps these under review with a monthly roll-forward of the position by the Scheme Actuary taking account of changing economic conditions. As I write, these values are still in deficit but now at £50m for the Technical Provisions and £200m on the self sufficiency rate. All the actions we are taking on derisking are trying to lock in any gains achieved over this period.

The Company continues to inject £25m per year in deficit repair contributions. It has contributed over £220m since the 2008 valuation, despite some very difficult trading conditions. In addition to this the Company meets the costs of Scheme administration and the professional fees associated with the PSS. The Company also pays the annual levy to the Pension Protection Fund which for 2016 was £1.19m. The Trustee and the membership should acknowledge this strong and continuing support from the Sponsor. At the present time the cost of each additional years' accrual for our active members has, on average, risen beyond the 24% being contributed and the Company is also covering this cost.

During 2016 the Trustee has awarded a mandate to each of Alpha Real Capital ('ARC') and to Aviva Investors Ltd. ('Aviva').

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COLD CALLERS

Recently newspapers have reported on calls for a ban on pension cold callers to protect vulnerable people against increasingly sophisticated fraudsters. The Pensions Advisory Service is quoted saying that the chances of getting money back after being scammed are 'next to zero'. Annually around 10 million pensioners are being targeted by cold callers following the pension freedoms announced a couple of years ago. It seems that the criminals persuade people to part with life savings for bogus investments then channel the money through layers of overseas companies meaning police and even forensic accountants are struggling to identify the scammers.

Often the scam starts with a cold call offering a free pension review and then the person is persuaded to invest in fictitious businesses. Examples of these businesses are hotels, fine wine, farms etc. The scammers can be very plausible and persuasive and it can be difficult to withstand the promises of the caller. In general if something seems too good to be true then it is in fact too good to be true.

Clearly a ban on cold calls would help – but pensioners are at risk from text messages and letters as well. Pension Wise, Group Pensions Department staff or other government backed bodies would never phone or text to offer a pension review and reputable financial services companies do not usually cold call about pensions. Therefore any cold call is potentially suspicious.

The Pensions Regulator suggests the following steps to protect your pension:

1. Be wary of cold calls and unsolicited texts or emails.
2. Check everything for yourself – don't rely on recommendation.
3. Ensure you have an adviser and that the adviser is on the Financial Conduct Authority ('FCA') approved register. Pension scammers often pose as financial advisers so ensure the registration is correct.
4. Check the FCA's list of known scams – www.fca.or.uk/scamsmart - to see if your offer is a known scam.
5. Steer clear of overseas investment deals – these are often used as fronts for scams.
6. Don't fall for guaranteed returns or professional looking brochures or websites – question everything however credible it looks or sounds.
7. Don't be rushed into a decision – often scammers say there is a time limit or send documents by courier to be signed and returned with the courier. Take your time.
8. If you are aged 50 or over and have a defined contribution pension then talk to Pension Wise – this is there to help you investigate your options.
9. Ask the Pensions Advisory Service for help – you can call them on 0300 123 1047 or visit www.pensionsadvisoryservice.org.uk for free pensions advice and information.
10. Contact your provider and call Action Fraud if you think you have been scammed – if you have already signed something about which you are now uncertain call **Action Fraud** on 0300 123 2040 and contact your pension provider immediately. They may be able to stop a transfer that hasn't taken place yet.

Be aware that scammers are around and be vigilant if you receive an approach by post or telephone or email. Keep in mind these points above. People have lost savings after falling for a scam. Don't be next.

THE TRUSTEE BOARD

The Pilkington Superannuation Scheme is operated and managed on behalf of the membership by a Corporate Trustee – PILKINGTON BROTHERS SUPERANNUATION TRUSTEE LIMITED. This company is represented by its Board of Directors which comprises up to 14 Directors. There are currently 14 Directors with no vacancies.

As at 1 July 2016 the **Directors of the Trustee** were:-

Secretary: Miss J.P. Halligan
Pilkington Brothers Superannuation Trustee Limited,
Group Pensions Department,
NSG European Technical Centre, Hall Lane, Lathom,
Nr. Ormskirk, Lancashire L40 5UF
Tel. (01744) 28882 Fax. (01744) 737336

Note: 'E/ee' denotes the director is directly elected for a fixed term by the PSS members (where the abbreviation is 'E/ee P' by the pensioners)
* denotes the director is in receipt of a PSS pension.

ADVISERS

The Board of the Trustee has appointed the following advisers to support its work in administering and managing the PSS:-

Scheme Actuary:	Jane Curtis (FIA) of Aon Hewitt Limited
Investment Consultant:	Willis Towers Watson Limited
Auditors:	PricewaterhouseCoopers LLP
Lawyers:	Hogan Lovells International LLP
Bankers:	National Westminster Bank plc
Investment Managers:	State Street Global Advisors Limited
	CBRE Global Collective Investors UK Limited
	Henderson Global Investors Limited
	Legal & General Assurance (Pensions Management) Limited
	Insight Investment Management (Global) Limited
	Nephila Capital Limited
	Alpha Real Capital LLP
	Aviva Investors Jersey Unit Trusts Management Limited
	Pension Insurance Corporation plc
Custodian:	JP Morgan Chase Bank

FINANCIAL ADVICE

Don't forget that no-one in Group Pensions Department is authorised or allowed to give financial advice. Please do NOT ask the administrators for advice; for their opinion; or for what they would do if in your circumstances. The law prevents them from replying to you on such matters. Please address your request for advice to an independent financial adviser who is trained and authorised by the Financial Conduct Authority (**"FCA"**) to advise you.

You should be aware that before any transfer of benefits worth more than £30,000 from PSS may be made, the Trustee must have written confirmation from an independent financial adviser that the adviser is properly authorised by the FCA to provide advice in relation to transfers from a defined benefit occupational pension scheme and that he/she has provided advice to the member about the transfer which is being contemplated. For any transfer of benefits under £30,000 the Trustee recommends that you still seek independent financial advice before deciding to transfer. Additional information on transfers may be found at:

http://www.thepensionsregulator.gov.uk/
http://www.pensionsadvisoryservice.org.uk/
https://www.fca.org.uk/consumers/pension-transfer

Thank you.

CETV ADVICE

One area about which the Pensions Administration team receive many telephone calls relates to transfers from PSS. It may be helpful to members to explain what is required before a transfer may be allowed to proceed. These requirements have been introduced to protect members of defined benefit schemes and to reduce the number of victims of pension scams.

When a cash equivalent transfer value ('CETV') is £30,000 or less then whilst it is recommended that proper advice be sought, it is not a requirement.

When a CETV is more than £30,000 then advice must be taken from an independent financial adviser who is authorised by the Financial Conduct Authority ('FCA') to advise about transfers out of defined benefit pension plans.

The administrators will request evidence that 'appropriate' independent advice has been received by the member BEFORE they will carry out the transfer. For this purpose the adviser is required to provide confirmation in writing which indicates the following information:

- that advice has been provided which is specific to the type of transaction proposed by the member;
- that the adviser has the required authorisation under the relevant legislation to provide advice on the transfer of the benefits;
- the FCA firm reference number for the company in which the adviser works; and
- the name of the member who was given the advice and the scheme in which they hold these benefits to which the advice applies.

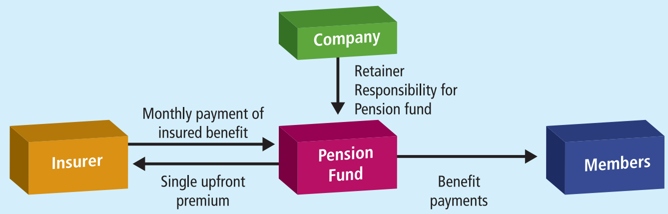
The administrator on behalf of the Trustee must check that the adviser has the correct permission to carry on the specific regulated activity (i.e. to advise on the relevant pension transfer) by checking the Financial Services Register. If the advice is from someone who is not properly authorised then the transfer will not take place.

It should also be noted that the cost of the advice falls to be paid by the member. In addition, whilst the Trustee via the administrator must establish the fact that the advice has been provided by an appropriately authorised adviser, it does not need to know what the advice says.

So, please be patient when you are seeking to transfer – you will be asked for this information and evidence – the administrators are simply doing as they are required – and it is to protect your interests.

BUY-IN

The Chairman writes about the recently completed buy-in but what is a buy-in?



First and foremost it is an investment chosen by the Trustee. The Trustee buys an insurance policy from an insurance company by payment of a single up-front premium. The insurance policy pays an income stream to the Trustee. The income is calculated as the equivalent of the pensions payable to a defined group of members (and their eligible dependants) but the income belongs to the pension scheme and is not attributed to any member. The pensions of this defined group are known as the insured benefits.

This means that a payment equivalent to the insured benefits is made by the insurer to the fund each month for the remainder of the relevant member or dependant's life. The money is used along with other money from the fund to meet the entire pensioner payroll.

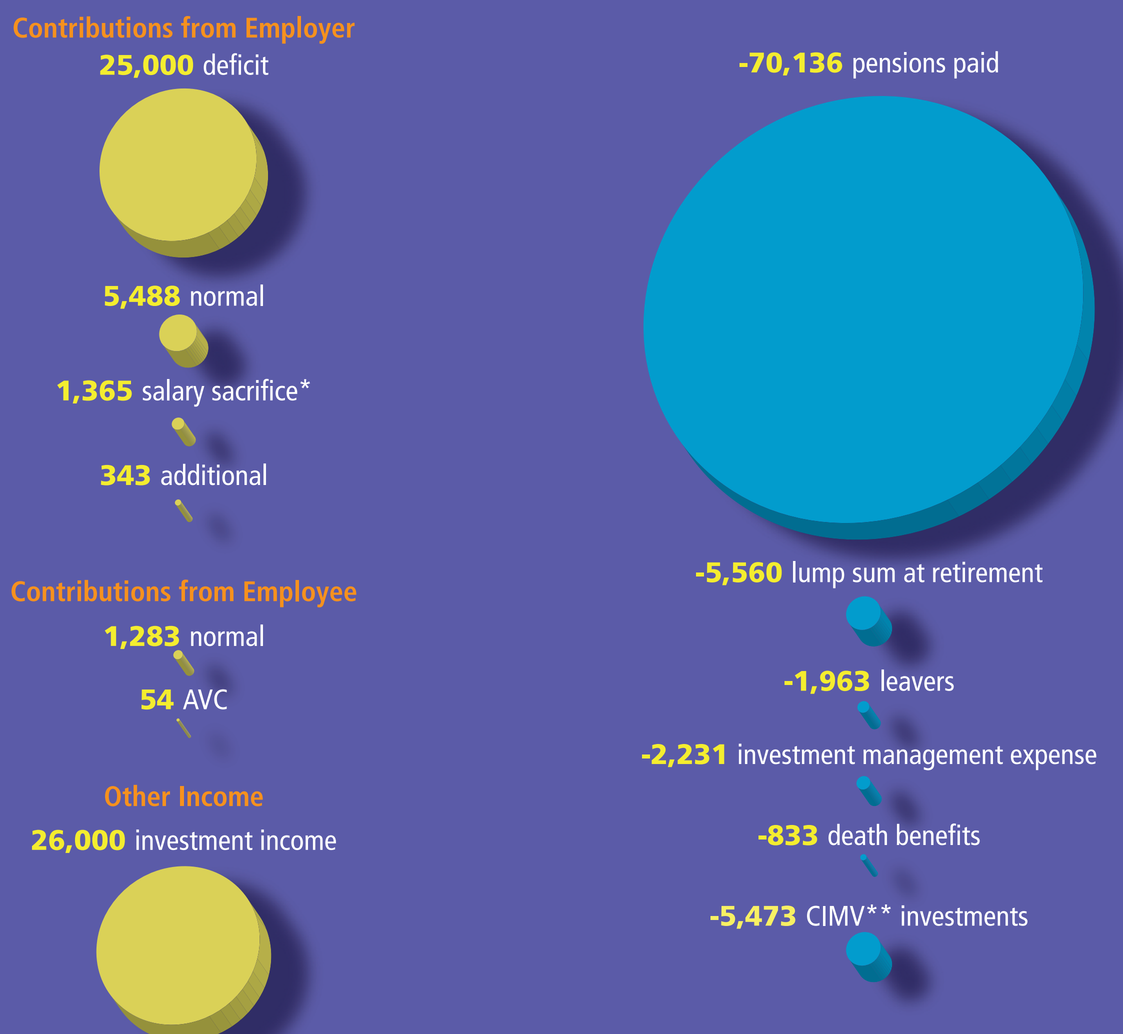
On a monthly basis the changes in the pensioner population who formed the basis for the insured benefits are notified to the insurer – deaths; new dependants; pension increases etc. - and the amount payable by the insurer is adjusted to take account of these changes. The amount payable by the insurer is paid to the Trustee a few days before the pensioner payroll is paid.

Because the liabilities of this defined group of members have been insured under the buy-in, the Trustee has passed the risks associated with this group – longevity and investment – to the insurer so reducing the overall risk associated with the Scheme for the Trustee, the Sponsoring Company and members.

FUND CASH FLOWS

(all figures in £ thousands)

FUND VALUE AT 31/12/14 - 1,644,806



FUND VALUE AT 31/12/15 - 1,617,734

**Contributions paid by salary exchange are shown as employer contributions due to accounting requirements.*
*** Change In Market Value.*

DECLARATION FORM

A gentle reminder that your declaration form needs to be kept up to date. The form is available on **www.superpilk.com**. It provides guidance to the Trustee in the event of your death about where you wish any benefits to be paid. It does not bind the Trustee and sometimes there are new circumstances which have led the Trustee to decide not to follow the declaration. This tends to be where the declaration is out of date. There have been occasions where a declaration was made on joining the pension scheme as a teenager and never altered so that on death some 30 years later with a surviving spouse and children, the old declaration names the parents jointly as beneficiaries.

This is an extreme (though true) example but does reinforce the point that the declaration should be altered and updated to reflect your current circumstances.

OUR LOCATION

Group Pensions Department is located on 2nd floor at Lathom. The full postal address and contact telephone numbers are below. If you have any queries about your pension please contact us at:-

Pilkington Group Pensions Department,
NSG European Technical Centre,
Hall Lane, Lathom,
Nr. Ormskirk, Lancashire, L40 5UF

Tel: 01744 692959 / 692962 / 692596
Fax: 01744 737336
Email: pensions.administration@nsg.com

For queries about healthcare please contact BUPA Helpline on 0845 606 6715

For queries about Income Tax please contact HM Revenue & Customs on 0300 200 3300

Group Pensions Department **cannot** help with queries about BUPA or income tax.

YOUR LOCATION

Please remember to inform Group Pensions Department if you move house. We do our best to keep in touch with the membership and we do carry out tracing exercises for those with whom we have lost contact but it does make sense for the members to tell us of any changes so we can update records and contact you when necessary without delay.

MEMBERSHIP NUMBERS

	31 December 2014	31 December 2015
ACTIVE MEMBERS	1073	986
DEFERRED	3166	3070
PENSIONERS /SPOUSES	10868	10553
TOTAL	**15107**	**14609**

PERSONAL INFORMATION

Pensioners and recent retirees will be aware that the Trustee and Company have asked Group Pensions Department to collect and maintain information about dependants. These details were requested during 2015 and the response was excellent for which many thanks. This is simply a reminder, with several others in Reflections, to 'keep this information up-to-date'. Circumstances change and it would be greatly appreciated if you would advise us of any changes to the information which you have previously provided. Thank you.

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Aviva will invest in its UK commercial real estate and Private Finance Initiative project. This fund concentrates on assets in predominantly 'prime' locations with long leases benefitting from fixed or inflation-linked rental uplifts. This investment has been completed but as yet no funds have been drawn down. The ARC fund seeks to offer long-term high quality inflation-linked income streams by purchasing owner-operated real estate freeholds and collecting ground rents from the tenants.

These funds both form part of the return-seeking part of the portfolio. Currently approximately £13m has been invested into the ARC fund. The investments will be completed gradually as opportunities arise.

The major investment decision which was both taken and executed in 2016 was the buy-in of a portion of pensions which had come into payment since the longevity insurance was completed at the end of 2011. This amounted to approximately £230m of liability. The buy-in which was executed with Pension Insurance Corporation ('PIC') is described in more detail elsewhere in Reflections, but in brief it is the payment of a premium to an insurance company in return for a stream of monthly payments which match very closely the benefits being paid to a group of pensioners. However, and most importantly, this income stream belongs to the Scheme as a whole, as the buy in is an asset of the Scheme, not to the members whose benefits formed the basis for the calculation. These individuals are not in any way at a greater advantage or more secure than the rest of the members. The buy-in does however provide greater security for all members by reducing the Scheme's exposure to longevity risk and investment risk in respect of approximately £230m of the circa £2bn liabilities. This is an example of further de-risking action by the Scheme, a strategy that has been agreed with the Company as the appropriate way forward to afford greater security to the guaranteed benefits of the Scheme.

The exercise last year to gain information about spouses and dependants significantly helped the Trustee to gain an advantageous premium for the buy-in. For this and the ongoing work associated with the GMP reconciliation exercise and the trivial commutation exercise, all of which are in addition to the 'business as usual' administration, I would like to thank the team within Group Pensions Department for their hard work and dedication to getting things right. There is now a full reconciliation of data with PIC to be completed which adds more to the work of the team. All their work is very much appreciated by the Trustee and the membership.

During 2016 the terms of office of two of the Member-Nominated Directors expired; Darren Gilchrist and Kevin McKenna were nominated for a further term and no other nominations were received. Hence I am delighted to report that Darren and Kevin were re-appointed by their fellow Member Nominated Directors without the need for a ballot.

A further change in the Board occurred this year when Peter Thompson of BESTrustees, the independent trustee of the Scheme, retired and was replaced by Rachel Tranter who has been involved with the Scheme for several years. She is now BESTrustees' representative with Rachel Brougham acting as her alternate. Both Rachels are qualified actuaries and have significant experience in the pensions' world. I would like to take this opportunity to thank Peter for his contribution to the Trustee Board and for his time with us.

The Trustee and the Company enjoy a good degree of collaboration in the running of the Scheme. Clearly everything is not agreed without some negotiation, but in general there is a great deal of cooperation. The Group Chief Financial Officer, Mark Lyons, with whom I had developed a good working relationship, left the Company at the end of March 2016. Mark was replaced as CFO by Kenichi Morooka who is based in Tokyo. I have met with Ken and Iain Smith continues to present the full and half-year results to the Trustee Board and I see no reason why the good relations forged so far with the Company will not continue into the future. The Company also continues to provide regular information to the Trustee and its advisers on the financial state of the Company.

It just remains for me to thank my fellow Trustee Directors for their continuing diligence and dedication. The role does involve a significant amount of training and reading in preparation for the meetings and this is undertaken willingly and enthusiastically which makes my role as Chairman so much easier. The successful operation of a pension scheme requires the efforts and collaboration of many people, Trustee Directors, staff and management of Group Pensions Department, advisers and the Company representatives and I thank them all on my own behalf and that of the membership.

Finally may I wish you all a very Happy Christmas and healthy New Year.