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Thorntons Pension Scheme

Pensions Bulletin

December 2022

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A message from your Trustee

Welcome to our latest newsletter for members of the Thorntons Pension Scheme (the "Scheme").

In this edition, we have included information about recent market volacams. You can find out more about preparing for your retirement on page 13, including personal considerations, preparations and working out when is best to retire for you.

This newsletter includes an update about the Scheme's funding position as well as the usual summary of the Scheme's Annual Report and Accounts so that you can see the money coming into and going out of the Scheme over the year, the Scheme's membership and the investment performance.

As always, we hope that you find this edition of your newsletter interesting and informative.

Hetal Kotecha
Representing Independent Trustee Services Limited as the Trustee of the Thorntons Pension Scheme

Contents

Money matters

The Trustee is responsible for running the Scheme efficiently and professionally. We appoint various professional advisers to help us in our day-to-day duties and to give us guidance on the more specialist aspects.

Income & expenditure

Value of the fund at 1 June 2020	**£125,361,458**
Income	
Employer contributions	£4,250,004
Other income	£3,399
Total Income	**£4,253,403**
Expenditure	
Pensions paid	(£2,253,613)
Commutations and lump sums on retirement	(£888,070)
Death benefits (lump sums and refund of contributions)	(£12,555)
Payments to and on account of leavers	(£880,503)
Administrative expenses	(£532,684)
Total expenditure	**(£4,567,425)**
Investment income	£517,78
Investment management fees	(£182,274)
Change in the value of investments	£2,823,400
Net returns on investments	**£3,158,913**
Value of the fund at 31 May 2021	**£128,206,349**

Membership

	1 June 2020	31 May 2021
Pensioners	720	734
Members with preserved benefits	1,125	1,066
Total membership	**1,845**	**1,800**

Investment strategy

The Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee's primary objectives are as follows:

- To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme taking into account the funding level of the Scheme and the strength of covenant of the Employer.
- To pay due regard to the interest of the Employer on the size and incidence of its contribution payments.

The overall investment strategy is determined by the Trustee, based on advice received from our investment advisers, and is set out in the Scheme's Statement of Investment Principles ("SIP") which explains:

- the broad aims and objectives of the Scheme's investment strategy;
- the investment risks to which the Scheme is exposed and how these are managed and mitigated;
- the types of investments (called "asset classes") that the Scheme's assets should be invested in, and how the Scheme's investments are spread across those asset classes;
- how the Trustee aligns investment manager objectives with their own, how investment managers are incentivised and remunerated and how the Trustee assesses the performance of the Scheme's investment managers; and
- the Trustee's view on social and environmental considerations, and corporate governance relating to the Scheme's investments.

A copy of the SIP is available at **www.thorntons.co.uk/legal/thorntons-pension-scheme.html**
A separate document called the Summary of Investment Arrangements ("SIA") includes, amongst other things, the Scheme's detailed investment manager structure. Each year the Trustee sets out in an Implementation Statement how certain areas of the Scheme's principles as set out in the SIP have been acted upon in practice. You can find the Scheme's Implementation Statement at **www.xxxxxxxxxxxxxxxxx.com**

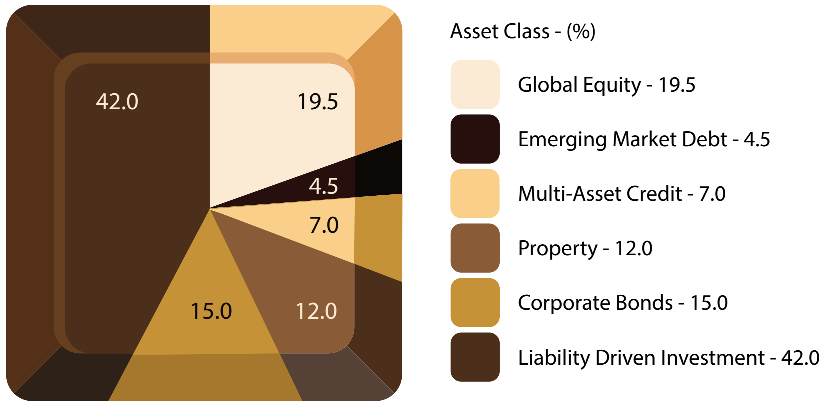
The Trustee employs both passive and active investment management. Passive management aims to deliver a return in line with a benchmark index. Active management involves employing investment managers who aim to outperform a benchmark index (but with a greater risk that they may underperform). The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time.

As at the end of May 2022, the day-to-day management of the main Scheme's assets (excluding AVCs) was delegated to six investment managers as follows:

- BlackRock Investment Management – global low volatility equities, developed and emerging market equities, passive corporate bonds and Liability Driven Investment ("LDI");
- Legal & General Investment Management ("LGIM") – active UK corporate bonds;
- Ninety One UK Limited ("Ninety One") – active emerging market debt;
- Mercer Limited ("Mercer") – active multi-asset credit;
- Hermes Fund Managers ("Hermes") – property; and
- Aviva Investors ("Aviva") – HLV property.

How the Scheme's assets are invested

The pie chart below shows the strategic asset allocation of the Scheme's investments (excluding AVCs) as at 31 May 2022, split by asset class.



Investment performance

The performance of the Scheme's investments to 30 June 2022 is shown in the table below:

Fund/Benchmark	1 Year (%)	3 Years (% per annum)	5 Years (% per annum)
BlackRock UK Equity	1.5	2.4	3.3
Benchmark	1.6	2.4	3.3
BlackRock World ex-UK Equity	-3.2	9.2	9.6
Benchmark	-3.1	9.4	9.8
BlackRock World ex-UK Equity – 95% Hedged	-12.0	7.1	7.4
Benchmark	-11.7	7.8	7.9
BlackRock Low Volatility Equity	6.2	4.9	6.9
Benchmark	6.1	4.6	6.6
BlackRock Emerging Market Equity	-15.3	1.9	3.3
Benchmark	-15.0	2.1	3.6
Ninety One Emerging Market Debt	-15.4	-3.7	-1.0
Benchmark	-13.4	-4.1	-1.1
Mercer Multi-Asset Credit	-8.8	0.3	1.3
Benchmark	-10.1	-0.6	0.7
Hermes Property	22.7	9.2	8.8
Benchmark	22.7	9.1	8.3
Aviva HLV Property	11.9	8.7	8.2
Benchmark	11.8	7.2	7.3
LGIM Sterling Non-Gilts	-21.3	-3.5	-0.3
Benchmark	-22.2	-4.4	-0.9
BlackRock Sterling Non-Gilts	-13.1	-2.1	0.0
Benchmark	-13.1	-2.0	0.0
BlackRock Liability Driven Investment	-36.4	-10.7	-2.7
Benchmark	-36.2	-10.5	-2.4

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream.

Investment markets in 2022

2022 has been a very challenging year to date for investment markets, impacted by the concerns over the cost of living, inflation and the effects of the Russia/Ukraine crisis.

However, as a reminder, your pension benefits in this Scheme are not directly affected by market movements, as you have a "defined benefit" pension. We want to reassure members that during this uncertain time your scheme's funding position remains broadly similar to that shown in the Summary Funding Update. The Scheme holds a balanced mix of investments to seek to maintain the funding position, and these investments are spread out across a range of different markets and sectors. There are also good levels of protection in place from changes in inflation rates and interest rates. We're actively monitoring the situation and you can be assured that looking after the financial health of the Scheme continues to be our top priority.

Impact of the government's "mini-budget"

You have likely seen media reports, highlighting the market reaction to the government's mini-budget, which was announced on 23 September 2022.

Liability Driven Investment (LDI)

Some of this coverage has focussed on the impact of current market conditions on pension schemes; in particular, schemes which use a mechanism known as Liability Driven Investment (LDI), a risk management strategy which aims to invest in a way that results in the value of assets moving in line with changes in the cost of planned future payments from the Scheme, which are determined in large part by long-term interest rates and inflation.

The Scheme does invest in LDI and the Trustee has met with their investment consultants who are working closely with investment managers and others in the industry. The situation is being closely monitored as steps have been taken to help manage the Scheme through the period of market turbulence. As mentioned above the Scheme's funding position remains broadly similar [at the end of October 2022] as it was on 31 May 2022.

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Summary funding update

The Trustee is responsible for ensuring that sufficient contributions are paid into the Scheme to meet the benefits payable under the Rules and to build up a fund to provide for future benefits. The Trustee is advised by the Scheme Actuary who recommends the level of contributions to be paid.

The Scheme Actuary monitors the amount of money in the Scheme relative to the benefits which must be paid out, both now and in the future, and carries out a full assessment (called an Actuarial Valuation) of the Scheme's finances at least once every three years.

The most recent full Actuarial Valuation of the Scheme was carried out as at 31 May 2020. Updated valuations were performed on 31 May 2021 and 31 May 2022. These showed:

Fund/Benchmark	31 May 2020	31 May 2021	31 May 2022
The value of assets was	£125.1 million	£127.9 million	£112.6 million
The value of liabilities was	£160.9 million	£148.5 million	£127.0 million
Funding deficit	£35.8 million	£20.6 million	£14.4 million
Funding level	78%	86%	89%

The improvement in the Scheme's funding position from 2021 to 2022 is primarily due to an increase in gilt yields, which decreased the value placed on the liabilities of the Scheme. This has been offset to some extent by an increase in expectations for long-term inflation and by investment returns on the Scheme's assets during the period being lower than expected. However, you should bear in mind that these updates only show a snapshot of the situation at a particular moment in time; investment markets do fluctuate, particularly when faced by short-term economic uncertainty.

You should remember that pensions are long term in nature and the Trustee sets an investment strategy based on long-term expectations.

The next Scheme Triennial Valuation is due as at 31 May 2023.

Is the shortfall going to be paid off, and if so, how will this be done?

The Company has agreed to make up the shortfall of £35.8 million identified at the 31 May 2020 valuation by paying the following contributions:

- £359,167 per month from 1 June 2020 to 31 August 2021;
- £395,833 per month from 1 September 2021 to 30 June 2028

Our aim is for the shortfall to be paid off by 30 June 2028.

To calculate the amount of the shortfall, assumptions have to be made about what will happen in the future, for example, the rate at which the Scheme's assets will grow. If the assumptions do not all turn out to be exactly in line with what happens in future, it may be necessary to change the level of contributions to the Scheme or the period over which the shortfall is paid off.

We are required to tell you whether The Pensions Regulator has used its legal powers to make directions as to any of:

- The level of benefits available from the Scheme going forward
- The method or assumptions used to calculate the liabilities or the length and structure of the recovery plan
- The contributions that should be paid under the schedule of contributions

The Regulator has not used its powers in relation to the Scheme and therefore the Scheme is not subject to any directions.

Is there enough money in the Scheme to provide my full benefits if the Scheme is wound-up?

The Actuarial Valuation at 31 May 2020 showed that the estimated funding level of the Scheme, assuming all benefits were bought out with an insurer, was 56%. This means that the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound-up at that date.

The fact that we have shown the solvency position does not mean that the Company is thinking of winding up the Scheme. It is just another piece of information we are required by law to provide and which we hope will help you understand the financial security of your benefits. The contributions paid by the Company since 31 May 2020 and movements in investment markets will have improved the estimated funding position shown above.

Is my pension guaranteed?

The aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company, Thorntons Limited, carrying on in business and continuing to pay contributions to the Scheme.

In the 2021 Summary Funding Statement we informed you that to help secure the financial position of the Scheme, Ferrero Trading Lux S.A (Thorntons Limited's parent company) had previously agreed that if Thorntons Limited becomes insolvent or is unable to pay the contributions due, it would step in and pay those amounts instead, depending on the circumstances, up to a value of £40 million; and that as part of the 2020 valuation agreement, the Trustee was working with Ferrero Trading Lux S.A to agree:

Cash Equivalent Transfer Values (CETV)

Following improvements in the funding level of the Scheme together with the changes to the guarantee provided by Ferrero Trading Lux S.A explained above, the Scheme is now in a position where it can provide CETV quotations and pay CETVs in full. Prior to this, CETVs had been reduced to take account of the Scheme's funding position.

The Trustee must stress that the decision to remove the reduction applied to CETVs can be withdrawn without prior notice to members.

If you are a deferred member, currently not in receipt of payment of your pension under the Scheme and require a CETV please contact the Scheme's pension administrators Mercer using the following contact details:

Craig Lewis
Mercer Limited
1 Whitehall Quay,
Whitehall Road,
Leeds, LS1 4HR, UK

Telephone: **0113 200 1238**

Email: **craig.lewis2@mercer.com**

The Trustee would point out that there are strict legal rules regarding such transfers, and if the Cash Equivalent Transfer Value of your pension is more than £30,000 in total then you will need to take independent financial advice before you are allowed to transfer your benefits. However, the Trustee would recommend that members take independent financial advice if a member's Cash Equivalent Transfer Value is below or above £30,000.

Additional documents available on request

The Statement of Funding Principles

This explains how the Trustee plans to manage the Scheme with the aim of being able to continue to provide the benefits that members have built up.

The Statement of Investment Principles

This explains how the Trustee invests the money paid into the Scheme.

The Schedule of Contributions

This shows how much money is being paid into the Scheme by the Company and the contributing members and includes a certificate from the Actuary showing that it is sufficient to meet the requirements set out by law.

The Annual Report and Accounts of the Thorntons Pension Scheme

This shows the Scheme's income and expenditure in 2019.

The Formal Actuarial Valuation Report as 31 May 2017

This contains the details of the Actuary's check of the Scheme's situation as at 31 May 2017.

The Actuarial Report as at 31 May 2019

This contains the details of the Actuary's check of the Scheme's situation as at 31 May 2019.

The Thorntons Pension Scheme Information Booklet

This is the members' handbook for the Scheme.

Pensions update

Protect yourself from pension scams

Losing retirement savings to a fraudster can ruin people's lives, both financially and emotionally.

Scammers try to persuade savers to transfer their entire pension pot, or to release funds from it, by making attractive-sounding promises they have no intention of keeping. Anyone can be the victim of a pension scam, no matter how financially savvy they think they are.

During the first five months of 2021, more than £2.2 million was lost to pension scammers, according to Action Fraud*. The average loss per person was nearly £51,000 – more than double the figure for the previous year. Many people believe that scammer tactics have become more sophisticated and harder to spot since the pandemic.

And the true scale of the crime is likely to be much larger, as some victims are reluctant to report that they have been scammed, while others don't realise until years later.

Flip the context

The Financial Conduct Authority (FCA) is urging those saving for their retirement to 'flip the context' when approached with pension offers online, by imagining the same offer in person, in an everyday, offline setting like an afternoon in the pub or a trip to the shops.

Recent research from the FCA shows pension holders were nine times more likely to accept 'advice' from someone online than from a stranger they met in person**. The research also revealed that pension holders were five times more likely to be interested in a 'free pension review' from a stranger online than from someone in their local pub.

How to protect yourself

Step 1 – Reject unexpected offers

If you get a cold call about your pension, the safest thing to do is to hang up – **it's illegal and probably a scam.** Report pension cold calls to the Information Commissioner's Office (ICO).

If you get unsolicited offers via email or text, you should simply ignore them. An offer out of the blue to review your pension for free, from a company you have not dealt with before, is probably a scam.

Don't be talked into making any decisions by someone you know, even a friend or family member. They could be getting scammed. Check everything yourself.

Step 2 – Check who you're dealing with

Clone firms, which are fake firms pretending to be real, are on the rise. Modern technology unfortunately makes it easy for scammers to make it look like they are a real firm, so it's crucial that you make sure you are dealing with the right people.

Don't click links in emails, or call telephone numbers from unsolicited emails, texts or letters. Always check the firm is registered with the Financial Conduct Authority (FCA) at register.fca.org.uk or by calling the FCA helpline on **0800 111 6768**.

Step 3 – Don't be rushed or pressured

Take your time to make all the checks you need. Be wary of promised returns that sound too good to be true, and don't be rushed or pressured into making a decision. For example, no legitimate firm will offer to courier forms to you to sign.

Step 4 – Get impartial help or advice

You should seriously consider seeking financial guidance or advice before changing your pension arrangements.

MoneyHelper is a service that offers impartial help on all aspects of money, including benefits, savings and pension choices. It is backed by the government and free to use. If you're over 50 and have a defined contribution pension, MoneyHelper's Pension Wise offers pre-booked appointments to talk through your retirement options. For more information visit www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise

You can also use a financial adviser to help you make the best decision for your own personal circumstances. If you do opt for an adviser, make sure they are regulated by the FCA. Never take investment advice from the company that contacted you, as this may be part of the scam.

Emergency hotline

If you think that you may be a victim of a scam, or that you may have been targeted by scammers;

You can dial **159** and you will be connected to your bank's fraud department. This service lets you check quickly and easily if an offer is genuine.

You can find out more about this service, including which banks are involved, at **stopscamsuk.org.uk/159**

Useful resources

The FCA's ScamSmart website **www.fca.org.uk/scamsmart** has quizzes and resources to help you spot a scam and a warning list of companies to watch out for. You can also report any suspected scams on the site.

More information is also available from The Pensions Regulator on **www.thepensionsregulator.gov.uk/pension-scams**

***Source:** www.fca.org.uk/news/press-releases/scammers-target-pension-pots

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Things everyone should know about retirement planning (but few do)

When approaching retirement, one of the hardest decisions can be how to take your retirement benefits. There are so many choices: take your benefits from the Scheme, transfer your benefits out of the Scheme, buy an annuity that increases/doesn't increase/with dependants' benefits/without dependants' benefits, take it all as cash, invest in an income drawdown arrangement… the list goes on.

The changing 'pension landscape' puts the responsibility on you

In the past, one company pension was all a person needed to retire comfortably.

Today, it's down to you to create the kind of pension plan that will meet (and grow with) your needs. Hitting that target will be far easier once you work out how much you're aiming for.

Start by thinking about how much you'll need

Keep in mind that your State Pension is unlikely to be enough to live on. To find out how much your Basic State Pension will contribute to your overall retirement plan, you can ask for a statement of your likely State benefits **www.gov.uk/contact-pension-service**

If you want a comfortable retirement, you'll need to set yourself a target. What's the minimum you'll need? You won't have to travel to work (and you'll get a free bus pass) but you'll still have regular outgoings, like your household utilities.

Don't forget inflation - the rising costs of goods and services over time could eat away at the spending power of your savings. Your retirement plan needs to take this into account.

Next, work out how much you have

You've looked at your State Pension, but what other pension plans do you have already? Think beyond your current employer - check the benefits packages of any former jobs you've held.

Add in your long-term savings and investments and you'll begin to get an idea of what your monthly retirement income will be.

Some of the pension types you may have already

State Pensions are provided by the UK government, how much you'll receive depends on your age and how much you've contributed.

Personal Pensions are schemes you can set up with a provider of your choice and arrange to pay a set amount into each month.

Workplace Pensions are arranged by your employer. DB pensions build up based on your salary and your years of membership (like the Thorntons Pension Scheme).

Think about *when* you want to retire

The idea of retiring early is attractive. However, fewer years of service has knock-on effects that are likely to reduce the amount of pension you'll receive, since:

1. Your Plan will have less time to grow

2. You're likely to spend more time in retirement (so you'll receive a lower annual pension)

Is working longer practical for you?

Some retirees choose to work past the State Pension Age for extra income. Before you make this part of your plan, you'll need to make sure it's suitable for your line of work.

Weigh up your situation and take action

Is there a gap between your ideal and current situation? Do you plan to take on some part-time work to boost your retirement fund?

Furthermore, are there any gaps in your employment record that may affect how much pension you're due? Ensure that you've nominated your spouse or family members to receive your pension should you die.

Just by considering some of the questions in this article it's easy to see how much you need to consider. On the upside, taking some time to consider these issues will create the perfect starting point for you to plan your retirement.

And remember, it's never too early to start!

Market volatility, rising inflation and your pension (for DB members)

Unlike money held in a bank account, financial markets can go through sudden, short-term changes upwards or downwards. This is known as volatility.

You may have seen in the news that the rate of inflation has reached its highest level for 30 years. The Bank of England has moved to control inflation by increasing its base rates – it predicts this will bring inflation below the target within three years. However, in reality, there is a wide range of views on the potential outcome.

Various factors can affect financial markets. For example, in recent months, issues like the conflict in Ukraine, the state of the global economy, rising prices of goods and services, and the continuing impact of Covid-19 have all contributed to market volatility and rising inflation.

Whilst the Trustee is conscious of the impact of changes in financial markets on the Scheme's funding position, it is important to remember that pension schemes are long-term arrangements. Our view is that there is no need to overreact to short-term fluctuations where these are not expected to significantly affect the security of members' benefits.

As you can see from the enclosed Summary Funding Statement, the Scheme is in a negative financial position with the assets currently lower than the liabilities. Over time, the Trustee has worked to reduce risk in the Scheme. The investment strategy has been selected so that any change in the value of members' benefits is broadly matched by movements in the assets held, which significantly reduces exposure to financial market fluctuations.

If you are concerned about the potential impact of market volatility and rising inflation on your pension, we would like to reassure you that the Scheme is being carefully managed to minimise risks. The Trustee regularly reviews the funding and investment arrangements, to respond to market conditions and wider economic factors.

If you are a pensioner whose pensionable service accrued after 5 April 1997, this part of your pension will increase each year in line with an inflation index. However, there is a cap on the annual increase of 5%, which means your pension increase will be limited to this cap during periods of high inflation. Any pension accrued before 6 April 1997 does not increase in payment.

The Trustee and its professional advisers

Listed below are the Trustee's professional advisers.

If you have any questions about the Scheme, your benefits or anything we have covered in this newsletter, or if you wish to inform us of any changes to your details and/or update your Expression of Wish form, please don't hesitate to get in touch with Mercer, your Scheme administrator, at the following address:

Craig Lewis
Mercer Limited,1 Whitehall Quay, Whitehall Road,
Leeds, LS1 4HR, UK

Telephone: **0113 200 1238**
Email: **craig.lewis2@mercer.com**

The Trustee

Independent Trustee Services Limited (ITS)
4th Floor, Cannon Place, 78 Cannon Street, London, EC4N 6HL

The Trustee is responsible for the smooth running of the Scheme, ensuring that it is managed in line with its governing documents and pension law. We also have a responsibility to protect the interests of all Scheme members, including pensioners and those deferred members that still have benefits in the Scheme.

itslimited.co.uk/independent-trustee-services-its-limited/

Professional advisers

To help us, we delegate some of our day-to-day duties and take advice from professional pension experts. Our current advisers are:

Actuary

Kath Taylor, FIA, (reappointed 22 June 2022, resigned 18 March 2021) Mercer Limited

Kathryn Taylorson, FIA (appointed 18 March 2021, resigned 22 June 2022)
Mercer Limited

Auditor

BDO LLP

Investment managers

BlackRock Advisors (UK) Limited

Legal & General Assurance (Pensions Management) Limited

Hermes Investment Management Limited

Aviva Investors Pensions Limited

Investec Asset Management Limited

Mercer Limited

Additional Voluntary Contribution (AVC) providers

Utmost Life and Pensions (formerly The Equitable Life Assurance Society)

The Prudential Assurance Company Limited

Legal adviser

Gowling WLG (UK) LLP

Covenant Adviser

Ernst & Young LLP

Scheme administrator and investment consultant

Mercer Limited

More information

If you have any questions about the Scheme, your benefits or anything we've covered in this newsletter, please don't hesitate to get in touch with Paul Sherman, ITS, your Scheme Secretary, at the following address:

Independent Trustee Services Limited
4th Floor Cannon Place
78 Cannon Street
London
EC4N 6HL

@ **paul_sherman@itslimited.org.uk**

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