

Chair's statement

We usually issue our annual newsletter in December, however this year we have brought forward publication so that we can update you on the outcome of the latest formal valuation of the Scheme in a timely fashion.

The **Summary Funding Statement** incorporated in this report provides details of the funding position at 5 April 2018 (the latest triennial valuation) together with an updated position as at 5 April 2019. At 5 April 2018 there had been an improvement in the estimated funding position since 5 April 2017, with the funding level rising from **82%** to **86%** and the deficit reducing from **£30m** to **£21m**. The latest estimated funding position at 5 April 2019 is a funding level of 87%.

Following the conclusion of discussions with the University about the recovery plan (ie how the deficit will be reduced), the Trustee Directors have made some changes to their investment strategy in order to reduce the level of risk, whilst ensuring there is sufficient growth in investment assets to fund future benefit payments. Further details on the investment strategy and investment performance is provided in the section on Investment Matters.

We reported in the last newsletter on the High Court ruling that member benefits related to **Guaranteed Minimum Pensions (GMPs)** should be equalised for men and women. This is a complicated issue and the Trustees are consulting with the University and their advisers on the best way to bring about equalisation, taking into account some further guidance issued by the Department for Work and Pensions. There are still some areas that need clarification, including potential taxation issues. We would emphasise again that this only affects members who accrued benefit between May 1990 and April 1997 and any adjustments to pensions will in the majority of cases only be minor. Note this process will not result in any pensions being reduced.

We have had a period of stability with reference to membership of the Trustee Board and we benefit from the depth of knowledge held by our longstanding member-nominated Trustee Directors. However, Art Ames' current term of appointment as Trustee Director will come to an end in 2020 and although the formal appointment process will not commence until the start of 2020, I would encourage any member interested in knowing more about the role of a trustee to contact the Secretary (see below for contact details).

If you have any comments about this newsletter or any queries in relation to the Scheme then please do contact us.

Penny Green

Chair of the Trustee Board, June 2019

Trustee board

Appointed by the University:

BESTrustees represented by Penny Green (*Chair*)
John Allwood
Ray O'Connell

Nominated by the Members:

Anna Ames
Arthur Ames

For general queries about the Scheme or to obtain formal documents please contact:

Secretary to the Trustee Directors

Anne Shrubshall
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Email: anne.shrubshall@gmail.com

Advisers to the board

Scheme Actuary and Consultant

Jay Harvey (Aon)

Legal Advisers

Burges Salmon LLP

Investment Adviser

Mercer Limited

Investment Managers

BlackRock Investment Management (UK) Ltd

Investment Custodians

Bank of New York Mellon (International) Ltd

Auditor

PricewaterhouseCoopers LLP

Scheme Administrator

BBS Consultants & Actuaries Ltd

If you have any questions about your benefits or wish to notify change of personal details, please contact:

The ERBS Administration Team BBS Consultants & Actuaries Ltd

Canard Court, 23-25 St George's Road, Bristol
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Summary Funding Statement

Every three years the Scheme Actuary (a financial expert who specialises in estimating how pension funds might develop) carries out a formal check on the Scheme's finances, called a 'valuation' and produces less formal 'updates' in the years between formal valuations.

The Trustee reports the results of these financial checks to you in a 'Summary Funding Statement'. This year we are reporting the results of the latest valuation as at 5 April 2018, along with the updated position at 5 April 2019.

Understanding Scheme Funding

The ERBS is set up as a shared fund of money to which contributions are paid by the University (and – prior to closure – by you, the members). Your benefits are paid out of this fund. There is no separate account for you. The Trustee is responsible for agreeing a 'funding plan' with the University, with a view to making sure that there is enough money in the Scheme to pay for pensions now and in future. This amount is known as the 'funding target' (the official name for it in the Regulations is the 'technical provisions').

To work out the funding target, the Scheme Actuary looks at the benefits the Scheme is currently paying and estimates how the cost of the benefits might change in the future. The Actuary uses assumptions (which have been agreed by the Trustee in consultation with the University) in respect of various factors; for example, how long people will live after they retire and how much the cost of living will rise in future.

Then the Actuary looks at the Scheme's assets which are represented by the money the Scheme has built up to date from contribution income and investment returns. The Actuary compares the value of those assets at the valuation date with the funding target. If the assets of the Scheme are worth more than 100% of the funding target, the Scheme has a surplus. If the assets are worth less than 100% of the funding target, the Scheme has a shortfall (or deficit).

How well funded is the Scheme?

The table below shows the results of the latest valuation as at 5 April 2018, together with the results of the previous annual update as at 5 April 2017 for comparison and the more recent update at 5 April 2019.

	Approximate Annual Update	Formal Actuarial Valuation	Approximate Annual Update
	5 April 2017	5 April 2018	5 April 2019
Funding target	£163.1 million	£151.7 million	£159.1 million
Value of Scheme assets	£133.1 million	£130.7 million	£138.1 million
Shortfall	£30.0 million	£21.0 million	£21.0 million
Funding level	82%	86%	87%

Since the date of the last annual update as at 5 April 2017, the Scheme's funding position has improved, with the funding level estimated to have increased from 82% to 86% over the year to 5 April 2018. This improvement is due to a combination of:

- Contributions paid by the University under the terms of the 'recovery plan' agreed following the last formal valuation as at 5 April 2015;
- A slight fall in long-term inflation expectations; and
- Updated life expectancy assumptions which reflect the recent slow-down in the rate of mortality improvements.

Since the date of the formal valuation at 5 April 2018, the funding level and deficit have remained broadly constant. Long-term interest rates have fallen and expectations of long-term inflation increased, leading to an increase in the funding target. However, contributions paid by the University over the year and positive returns on the Scheme's investments resulted in the assets increasing by a similar amount, leaving the funding position broadly unchanged.

Removing the shortfall

As part of the last formal valuation as at 5 April 2015 we agreed a recovery plan with the University that was designed to bring the Scheme to a fully funded position by 31 July 2029.

The latest valuation revealed that the funding position had improved by more than was anticipated at this point. Despite this, the University agreed to continue to pay contributions at the rate agreed under the previous recovery plan (currently around £1.54 million a year, with the amount increasing each year in line with inflation plus 0.5%) plus further additional contributions totalling £1.5 million over the period to 30 June 2019.

In addition, the University will continue to meet the expenses of running the Scheme, and an allowance of around £385,000 a year (also increasing as described above) was agreed for these purposes.

These contributions, together with anticipated investment returns on the Scheme's assets, are expected to remove the shortfall above by 31 December 2027, around 19 months sooner than anticipated at the previous valuation.

If the Scheme came to an end

The Scheme's funding level is worked out in two ways.

- On an 'ongoing' basis (as shown above), which assumes that the Scheme will continue into the future.
- On a 'full solvency' basis, which shows the position if the Scheme had started to 'wind up' at the date of the valuation. If this happened, all members' benefits would have to be secured at once by buying insurance policies. This would be more expensive than paying the benefits gradually over time so the full solvency position is generally lower than the ongoing position, even for fully funded pension schemes.

At 5 April 2018, the Scheme's full solvency funding level was 61% with an estimated shortfall of £83.5 million. This represents an improvement of around 6% and £7.5 million respectively compared to the position at the previous formal valuation as at 5 April 2015.

Please note that we are legally required to report the full solvency position as part of this funding statement. The University has no current plans to end the Scheme.

We must also tell you if there have been any payments to the University out of Scheme funds in the last 12 months. There have not been.

The Pensions Regulator and other useful information

The Pensions Regulator is the UK watchdog of workplace pension schemes. It has the authority to change the way occupational pension schemes are run though it has not needed to use its powers in this way for our Scheme. You can find out more about the Regulator online at thepensionsregulator.gov.uk

By law, no-one involved in your Scheme can give you advice about your pension arrangements. If you are thinking of making any changes to your pension arrangements at any time, you

should obtain as much information as you can and think about obtaining independent financial advice. You can find an adviser in your area by searching the Money Advice Service directory at directory.moneyadviceservice.org.uk/en

Before you appoint anyone, you should check that the adviser is suitably qualified and authorised. You can do this online at register.fca.org.uk or by phoning the Financial Conduct Authority helpline on 0800 111 6768.

Annual Report and Accounts

As Trustee Directors, it is our responsibility to keep accurate financial records for the Scheme and to produce an Annual Report and Accounts. The financial information below is an extract from the draft statutory accounts for the year to 5 April 2019, which are in the process of being audited by PricewaterhouseCoopers.

They will be approved at the Trustee Board meeting in October and will then be available on the ERBS website exeter.ac.uk/pensions/erbsscheme

Membership

During the year to 5 April 2019, the number of members in the Scheme decreased by 35 (1%) from 3,349 to 3,314.

Membership at the end of the year was split as follows:



Pension scams

The pension cold-calling ban came into effect on 9 January 2019. Unsolicited calls about your pension are now illegal and companies that break the rules can face fines of up to £500,000. But this doesn't mean the risk is entirely gone.

Pension scammers will do whatever it takes to get their hands on your savings. Learn how to spot the signs and check who you're dealing with on the ScamSmart website fca.org.uk/scamsmart/how-avoidpension-scams to give yourself the biggest protection against fraudsters.

Financial guidance made easier

The three government-sponsored independent financial guidance providers have merged to bring together pension and money guidance, and debt advice all in one place.

The new body, called the **Money and Pensions Service**, will replace the **Money Advice Service**, the **Pensions Advisory Service** and **Pension Wise**. It will deliver free and impartial financial guidance and a more streamlined service for information. The new service will launch later this year.

Financial summary

Fund at the start of the year £'000
130,722

Income for the year

Contributions received	2,649
Other income	1
Total income	2,650

Expenditure for the year

Benefits payable – Pensions	4,059
Benefits payable – Lump sums	546
Payments for leavers	140
Administrative expenses	431
Total expenditure	5,176

Net withdrawals from dealings with members
(income less expenditure) (2,526)

Returns on investments

Investment income	17
Change in market value of investments	10,045
Investment management fees	(167)
Net returns on investments	9,895

Net increase in the fund during the year 7,369

Fund at the end of the year **138,091**

Note that the accounts as set out above cover the year to 5 April 2019 but investment performance is measured on a quarterly basis and therefore the review against performance targets on the next page covers the 12 months to 31 March 2019.

Investment matters

The Trustee is responsible for determining the Scheme's investment strategy (in consultation with the University). The Trustee Directors reviewed their investment strategy in tandem with the 2018 actuarial valuation and decided that the level of risk associated with investing in equities should be reduced. The investment portfolio previously comprised 40% global equities and 60% bonds. This was revised in December 2018 to an allocation of 30% equities/70% bonds and a further reduction in equities was made in March 2019. The current target allocation is 20% equities and 80% bonds.

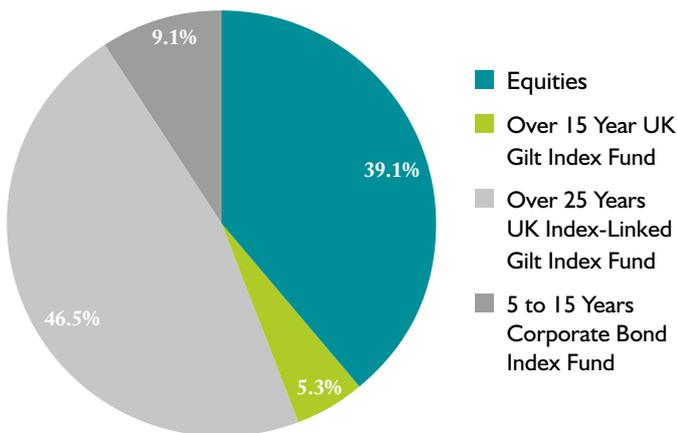
At 5 April 2019 £27m was held in equities and £110m in the bond portfolio, broadly in line with the target.

Although the equity portfolio gives an appropriate level of global diversification and protection against currency risk, the Trustees are currently considering whether any further changes should be made.

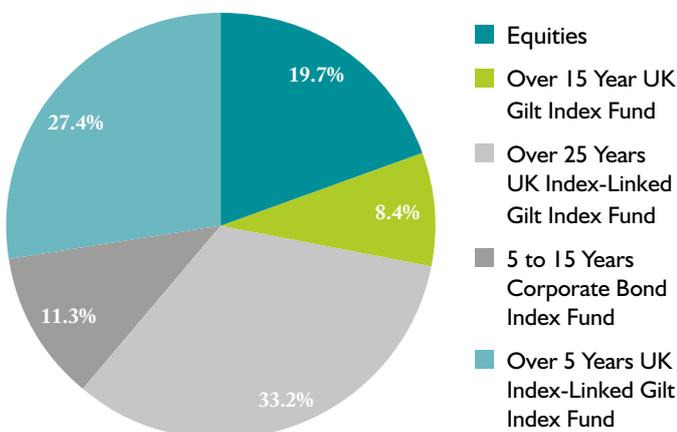
The impact of interest and inflation rate movements which increase the Scheme liabilities has been further mitigated by increasing the level of investment in index-linked gilts, fixed interest gilts and corporate bonds.

The charts below show how the allocations have changed over the last 12 months.

Investment portfolio 5 April 2018



Investment portfolio 5 April 2019



Investment performance

At the end of the financial year to 5 April 2019, the Scheme's investment asset portfolio stood at a total of £137m compared with £128m at the same date last year, an increase of 7.1%. £1m was withdrawn in August 2018 to supplement cash flow for funding benefit payments.

The target included in the Scheme's recovery plan for full funding is to achieve a return of 1% per annum higher than an investment in gilts.

Portfolio returns were 6.7% for the 12 months to 31 March 2018, compared to the benchmark (ie combined target indices) return of 5.98%. The table below shows how the different parts of the portfolio have been performing:

Return Period	Equities Per annum	Bonds/gilts Per annum
Over the last 12 months	+6.53%	+4.63%
Over the last 3 years	+13.27%	+8.75%
Over the last 5 years	+9.46%	+9.43%

Responsible investment

As a pension fund representing over 3,000 members, the ERBS Trustee's primary aim is to provide a secure pension for members in their retirement. To this end we are bound by a legal duty to act in the best financial interests of the Scheme.

The Trustee believes that environmental, social, and corporate governance (ESG) factors have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee increasingly considers how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis.

Further information about the Trustee Directors' investment strategy is set out in the Statement of Investment Principles (SIP), a copy of which can be obtained from the Secretary (contact details on first page).