Keeping you in touch

Your pension newsletter

Bringing you the latest information about **the Crest Nicholson Group Pension & Life Assurance Scheme** – alongside wider pension and financial news

Welcome to the 2019 issue. The big news this year is the result of the Scheme's valuation – the latest figures are included in this newsletter.

We were encouraged to see that at the valuation date – 31 January 2018 – the Scheme had just gone into 'surplus' – that is, it held more assets than needed to pay the benefits due. It is not unusual in the current economic climate for 'defined benefit' schemes like ours to have a funding shortfall. Indeed, our January 2019 update showed that this was once again the case for our Scheme, although it was at 97% of its funding target – significantly above the level at our previous update.

As part of the valuation, we agreed a new 'schedule of contributions' with Crest Nicholson. In line with our longer-term funding goal to make the Scheme financially self-sufficient, we exchanged our security over land owned by the company for a further period of contributions (you can read more about this on page 4).

It is always worth noting that the Scheme is a long-term arrangement, and these figures capture the situation at specific moments in time. As conditions change, Scheme funding continually changes, and we use this funding information to make decisions about the Scheme's future investments well in advance.

As you will read in our investment report inside, we aim to keep the Scheme's investments 'diverse', so that if any particular region or type of investment performs poorly, it should not have a material impact on the rest of the assets. We believe we are fully prepared to make any necessary changes as investment conditions change and the financial position of the Scheme develops.

Elsewhere in the newsletter, you can find our usual Company update as well as some further information on how to protect yourself against pension scams. Please contact Stephanie Fleming, the Assistant Secretary to the Trustee, if you have any questions about this issue's contents – contact details are on page 8.

Finally, I would like to thank Tim Illston on his retirement as a Trustee for his support, clear insight and advice during his time on the Trustee Board and welcome Jane Kola, who we look forward to working with over the coming years.

Best wishes,

Duncan Revolta

Duncan Revolta
Chairman of the Trustees

SUMMARY FUNDING STATEMENT

This statement brings you up to date on the Scheme's funding position.

Background

The Scheme is a 'defined benefit' pension arrangement. This means that your benefits are based on your salary and length of service in the Scheme. The Scheme has a pool of money to pay for these benefits as they become due; it does not hold assets separately for each individual member.

At least once every three years, the Scheme undergoes a thorough financial 'health check' called a valuation. When carrying out the valuation, the Scheme Actuary compares how much money the Scheme has (its 'assets') with how much it needs to be able to pay everyone the benefits they are entitled to (its 'liabilities'). If the Scheme's assets are higher than its liabilities, there is a 'surplus'; if they are lower, there is a 'shortfall' or 'deficit'.

As part of the valuation, the Trustee agrees a funding plan (the Statement of Funding Principles) with the Company, which aims to make sure there is enough money in the Scheme to pay for pensions now and into the future. This is why the Scheme relies on the Company's ongoing support.

In the years between valuations, we receive less formal, yearly updates from the Actuary on the Scheme's progress. These do not go into the same level of detail as a formal valuation, but they provide enough information for us to keep track of any changes in the Scheme's position and consider any action we might need to take.

At a glance

The table below includes:

- a recap of the position at the 31 January 2017 update, which we reported in our previous summary funding statement;
- the results of the latest valuation on 31 January 2018; and
- the estimated position at the 31 January 2019 update.

	Update	Valuation	Update
	31 January 2017	31 January 2018	31 January 2019
Assets (A)	£186.3m	£198.7m	£199.5m
Liabilities (B)	£200.5m	£196.5m	£205.7m
Surplus / (Shortfall) (A-B)	**(£14.2m)**	**£2.2m**	**(£6.2m)**
Funding level (A/B)	93%	101%	97%

How the funding position has changed

The funding position improved over the year to 31 January 2018, due to Company contributions and better than expected investment returns. This was partially offset by changes in financial market conditions increasing the value of the liabilities.

The funding position worsened over the year to 31 January 2019, mainly due to lower than assumed investment returns and changes in financial market conditions. This was partially offset by the contributions paid over the year.

Company support

Following the 2018 valuation, the Company agreed to continue paying contributions of £9m a year until 30 June 2022.

Payment to the Company

We have to tell you whether there has been any payment made to the Company out of the Scheme's assets since the last summary funding statement – this has not been the case.

In certain circumstances, the Pensions Regulator can:

- direct how the Scheme's liabilities must be calculated;
- set the period for removing any funding shortfall; and
- set the level of Company contributions to be paid.

None of these things have happened in the Scheme.

If the Scheme were to end

Even if funding is temporarily below target, benefits will still be paid in full while the Scheme is still running. However, as part of the valuation, the Actuary is required to look at what would happen if the Scheme started to 'wind up' – that is, to close down completely. This does not mean that the Trustee or Company are considering this step.

When pension schemes wind up, benefits may be secured with an insurance company. The cost of securing pensions in this way is considerably more expensive than if the Scheme were to continue with the support of the employer. This is because insurers take a very cautious view of the future and need to make a profit; they will also take into account the future cost of running the Scheme. A scheme that aimed to cover this cost would be likely to have far more money than it actually needs to keep running normally.

If our Scheme had started to wind up on 31 January 2018, the Actuary estimated that it would need £276.8m to secure members' benefits. This was £77.4m more than the value of its assets on that date.

If the Scheme did not have enough assets to secure all benefits, the Company would have to make up the difference. If the Company is not there to pay for any shortfall (for example, it had become insolvent), the Pension Protection Fund ('PPF') might be able to take over the Scheme and pay compensation to members. Further information is available at **www.ppf.co.uk**.

AN UPDATE FROM THE COMPANY

Although the housing industry's fundamentals remain strong, growing market uncertainty (linked to the 'Brexit effect') created a challenging sales environment during 2018, particularly in the southern part of the country where we focus our operations. In addition, the second-hand market has slowed, and the high cost of stamp duty is weighing on many home buyers' decisions to move. This has influenced discretionary purchasers in the south east and is likely to continue until the uncertainty of Brexit has passed. Nonetheless, we remain confident in our market position as a quality housebuilder focused on the southern half of the UK and in our strategy to address these challenging market conditions. Our response to this market environment has been to adopt a revised business strategy moving away from growth and focussing on shareholder returns by prioritising cash flow and dividends, maximising value in our portfolio and improving operational efficiency.

Our performance during 2018 demonstrates our underlying resilience.

- We increased turnover compared to 2017.
- We delivered 3,020 new homes in 2018 (3% higher than in 2017), achieving an average selling price of £393,000 on open market sales. We also secured significant contributions to volumes from the Private Rented Sector.
- We ended the year with 19,291 plots in our short-term land pipeline and a clear strategic priority to unlock that value through the increased use of partnerships.
- Our operating margin, although adversely impacted, remains at 16.7% (2017: 20.3%), reflecting the strong margins in our land pipeline.
- Our people work hard every day to put customers at the heart of what they do and we were pleased to see our overall customer satisfaction score rise to 89%.

We have also been working on an engagement strategy that keeps health and safety at the forefront of all employees' day-today working lives. This has led to the creation of our new health and safety brand, 'Be Safe', which will be rolled out across the business in 2019.

The Group has made good progress in implementing its strategy in the first half of the 2019 year. Improved forward sales in residential, commercial and land, and increased outlet breadth, provide a good platform as we enter into the second half of 2019. The Company is due to update investors again with more detail of its first half year performance on 11 June 2019.

In addition, the Company welcomes Peter Truscott as Chief Executive who joins the business in September 2019 (replacing Patrick Bergin who left in March 2019), and Duncan Cooper who joins as Group Finance Director in June 2019.

You can find more information including the full Annual Integrated Report on the Company website:

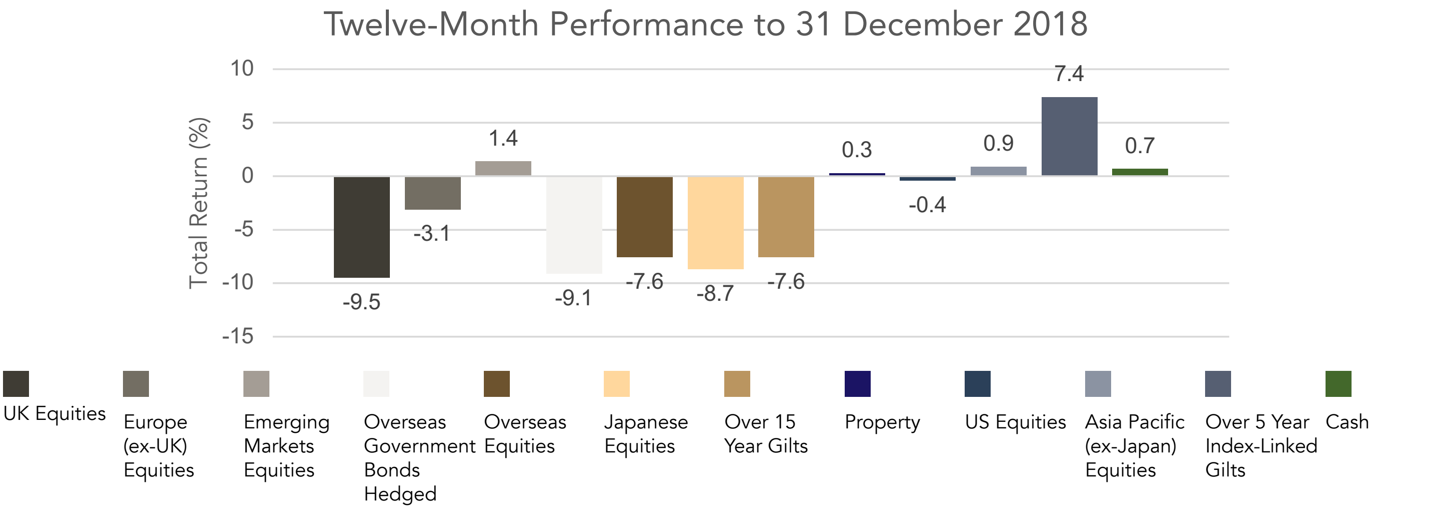
www.crestnicholson.com/investor-relations

INVESTMENT REPORT

It is best practice to revisit all our advisor appointments from time to time – and following our recent review of our investment advisors, we have decided to appoint Lane Clark & Peacock LLP to replace Mercer in this role. We believe that Lane Clark & Peacock will bring a fresh view to our investment strategy as the Scheme starts to mature and we move towards self-sufficiency (see below). We would like to thank Mercer, for their advice over the last ten years that has helped the Scheme reach its current position.

2018 in review

As the chart below shows, 2018 proved to be a difficult year for most asset classes. In particular, **Equities** suffered as expectations for global growth worsened and unclear political prospects left investors concerned about future **Returns**. Overall, **Bonds** were broadly flat over the year as central banks continued to debate increasing **Interest rates** including the **Bank of England**, which increased interest rates by 0.25% to 0.75% in August to manage inflation.



Since the start of 2019, markets have continued to be volatile with equity markets recovering from the falls in December 2018. Bonds have also generally increased in value due to falling global interest rates, as demand for 'safe-haven' assets remains strong.

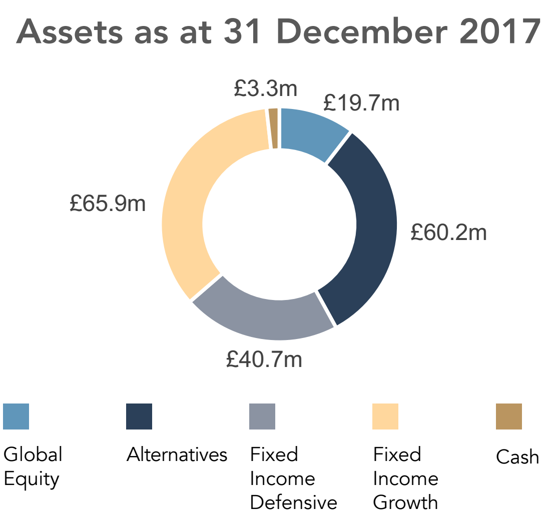
Scheme investments

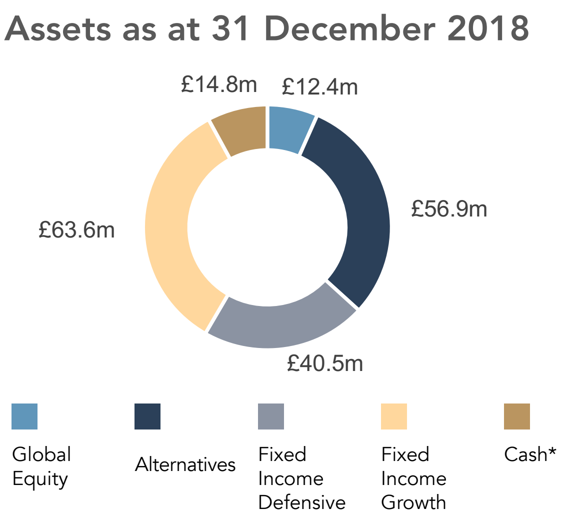
The Scheme's assets returned -2.6% over 2018, 1.9% below its benchmark. This underperformance was largely due to the Scheme's Alternatives managers struggling against their cash benchmarks, in a challenging year for most asset classes. However, it is also important to track performance over the longer term. Since the Scheme's investments were restructured in 2009, the assets have given a return of 7.3% a year, above its benchmark return over the same period of 5.4% a year.

The Scheme continued to reduce its investments in equities and alternatives over the year. Strong equity performance led to some profit for the Scheme, and the Trustees invested the proceeds in the Fixed Income Growth portfolio. As a result, the Trustees appointed a new manager, Ares, into the Fixed Income Growth portfolio. Around £15m is currently held in cash, pending new Fixed Income Growth investments.

As you are aware, there are now only deferred members or pensioners in the Scheme. As the Scheme continues to 'mature' – that is, as the amount paid out in benefits gets larger, while the contributions coming into the Scheme fall – the longer-term aim of our investment strategy is 'self-sufficiency'. This means that the Scheme will reach a position where all the income it requires is available from investment returns, from safe assets (such as low-risk bonds), rather than Company contributions. We will keep you updated on the strategy in future issues.

The spread of the Scheme's assets at the beginning and end of 2018 is shown in the charts below.





**Note that £10m of cash was in transit to fund a mandate with Ares, a Fixed Income Growth manager.*

PENSION BULLETIN

Equal GMPs

A recent High Court ruling has ended years of uncertainty by confirming that schemes need to 'equalise' the Guaranteed Minimum Pensions (or 'GMPs') they pay to men and women where the GMP is earned between 17 May 1990 and 5 April 1997. The court case sets out the options to equalise GMPs for the relevant period and the Trustee is working with its advisors and the Company to decide which one works the best for the Scheme and the membership.

The Government has also published guidance on some of the legal issues which will help the Trustee in equalising GMPs.

We already know that while some members are likely to receive a modest increase to their Scheme pension, most members will not see any change and, no one will be worse off.

In the meantime, you do not need to do anything. Once the Trustee and the Company have decided how to equalise GMPs in this Scheme, we will be in touch with those members affected by the ruling, although this may be some time away.

You will have a GMP if...

... your Scheme pension includes benefits that were built up between 6 April 1978 and 5 April 1997. This is because the Scheme 'contracted out' of the additional State pension arrangements during this period. As a result of being contracted out, the Government allowed members and the Company to pay lower rates of National Insurance contributions. In return, the Government set a minimum level of pension that the Scheme must provide for their members in place of the additional State pension. This is the GMP.

Under current pension law, benefits should be equal for men and women with effect from 17 May 1990 – so there is a seven-year period between May 1990 and April 1997 where this should apply to GMPs. However, it has never been fully resolved how to equalise GMP – until now.

Staying secure

Your Scheme benefits are valuable. Pension scams are a very real and ever-present threat, so we need to work together to help keep your details and benefits safe.

How we protect your details

Like all pension arrangements, we need to hold personal details about our members so we can run the Scheme efficiently and pay benefits correctly. Protecting this information is an important responsibility and we work closely with our advisors to make sure we comply with all legal requirements. In line with General Data Protection Regulations, we are joint 'data controllers' of your details with XPS Pensions and the Scheme Actuary.

Our Member Privacy Notice explains the details we hold about you, how we use it and the safeguards we have put in place to protect your personal information. This is available online: www.crestnicholson.com/pension-scheme.

If you want to see the information the Scheme holds about you, or if you have any questions about how we use and protect it, please contact Stephanie Fleming using the contact details on page 8.

Pension scam victims lost an average of £91,000 each in 2017, according to figures released recently by the Financial Conduct Authority (FCA). Some people have lost much more. Please be careful.

JARGON BUSTER

Alternative
A term used for growth investments to 'diversify' from equities (that is, if equities were to underperform, it need not affect the rest of the Scheme's assets). The Alternatives portfolio is expected to provide performance in excess of the Scheme's liabilities.

Bank of England
The central bank of the United Kingdom which controls money supply, including the interest rate.

Benchmark
A standard against which the performance of an investment manager or assets more generally can be measured.

Bond
A debt investment in which an investor loans money to an entity (corporate or government) that borrows the funds for a defined period of time, usually at a fixed interest rate.

Equities
Stocks and shares in a company.

Emerging Markets
Countries whose economies are progressing towards, but have not yet reached, a mature stage of development (such as that of the UK, the US or Japan). These markets are expected to provide greater returns over the long term, but are associated with a greater potential for economic or political instability. Examples of emerging markets include Brazil, India and China.

Fixed Income Growth
This portfolio is expected to 'diversify' from the Scheme's other holdings and provide less volatile returns than equities. Fixed Income investments are generally bonds (as defined above) or bond-like in nature.

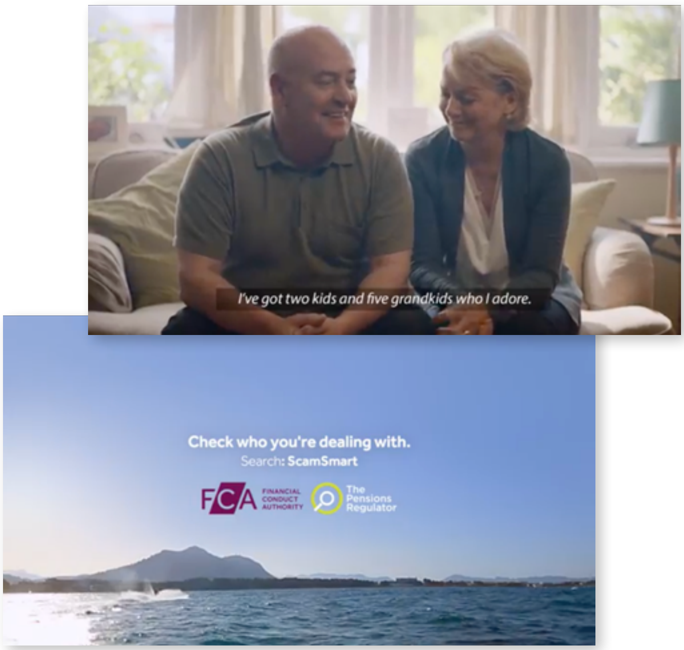
Interest rates
The proportion of a loan that is charged as 'interest' to the borrower. In the case of the interest rate set by the Bank of England, this is often referred to as the base rate, the rate set for lending to other banks. The base rate is used as the benchmark for interest rates generally.

Return
A profit or loss from an investment.

How you can keep yourself safe

No one likes to think they will become a victim of crime. According to a recent survey carried out on the Financial Conduct Authority's behalf, just over half of 45-65 year olds with a pension do not think they are likely be targeted by a pension scam. This could be because they feel too 'savvy' to be taken in, or because they do not think their pension is big enough to be of interest to the scammers.

Please stay alert. Fraudsters are constantly developing new ways to reach savers' money. There are four simple steps you can take, which we summarise below from the FCA's 'ScamSmart' website – please visit the site for the latest information on how to keep your pension safe: www.fca.org.uk/scamsmart.



Images from a recent TV advert warning against the dangers of pension scams. (Advert available to watch on the FCA website.)

Reject unexpected pension offers

Since January this year, it has been illegal for anyone to phone you up out of the blue to talk about your pension (though it remains to be seen whether the fraudsters will comply with the law). The ban on pensions cold-calling does not cover emails and text messages. The message remains the same, though. If someone contacts you unexpectedly, be careful – it's likely to be a scam, or at best, not what it 'says on the tin'.

Check who you're dealing with

If the advisor or firm you are talking to is genuine, they will be authorised by the FCA and their details will be on the FCA's register. You can check the register online at https://register.fca.org.uk/ or you can call the FCA contact centre on 0800 111 6768 and ask them to check for you.

A common scam is for fraudsters to pretend to be a genuine FCA-authorised firm (called a 'clone firm'). To get in touch with them, use the contact details on the FCA Register, not the details the firm gives you.

Don't let anyone rush or pressure you into making any decision about your pension

Your pension benefits are valuable. Carry out all the checks you need to make sure you are talking to an FCA-authorised firm. Be certain that you are making the right decision for your circumstances.

Consider getting impartial information and guidance

If you are thinking about making a change to your pension arrangements, remember that the Pensions Advisory Service can give you free and impartial guidance about your options. Find out more online at www.pensionsadvisoryservice.org.uk, or call them on 0800 011 3797.

The Pensions Advisory Service is now part of a new organisation called the Money and Pensions Service. The Money and Pensions Service was set up on 1 January 2019 to bring together three formerly separate financial guidance bodies – the Money Advice Service, Pensions Advisory Service and Pension Wise. Find out more online at **www.maps.org.uk**.

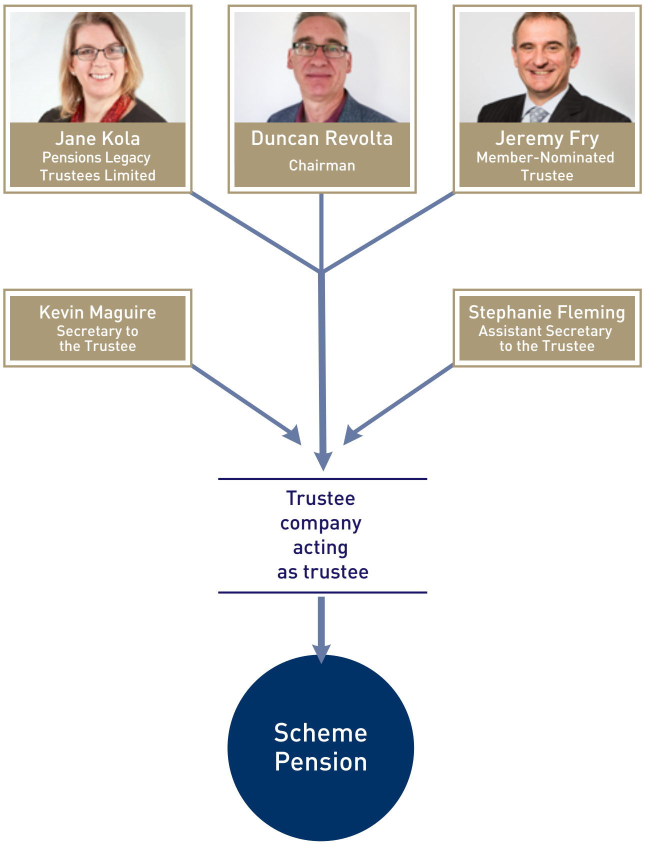
The Money and Pensions Service can give you general guidance, but they cannot tell you what you should do with your savings and benefits. If you need help with any financial decisions, please consider taking independent financial advice.

You can use the search facility at the 'Unbiased' portal (www.unbiased.co.uk) to find an advisor in your area, or follow the guidance on the FCA website. As we have outlined above, please check that any advisor you speak to is properly qualified and authorised – if so, they will be on the FCA's register at https://register.fca.org.uk/.

WHO'S WHO

The Trustee Directors are responsible for managing the Scheme in line with its Rules and current pension law, while safeguarding the best interests of all its members.

The current board



Tim Illston retired as a Trustee Director on 12 March 2019. We would like to thank Tim for his work and commitment to the Scheme over the last nine years.

We would like to welcome his successor, Jane Kola. Jane has worked as a pensions lawyer for over 25 years, and now specialises in advising trustees and employers on all aspects of their workplace pension arrangements. Jane is a partner at ARC Pensions Law LLP ('ARC') as well as a director of its trustee company Pensions Legacy Trustees Limited ('PLTL'). ARC is a specialist pensions law firm which only advises on pensions law issues. Its trustee company PLTL works with schemes which value legal skills on the trustee board. Jane speaks regularly at events on a wide range of pensions issues and is a full member of the Association of Pension Lawyers.

At least one-third of a trustee board must be made up of Directors nominated by members. As there are three of us, we need to ensure that one of us is always a member-nominated Trustee. Jeremy Fry currently occupies this role, following his re-election to the board last year.

Our advisors

As Trustee Directors, we must demonstrate a broad enough knowledge of pensions and investment to run the Scheme properly and take informed decisions about its future. However, in areas where specific expertise is needed, we appoint expert advisors to assist us and carry out certain specialist tasks on our behalf.

Since our last newsletter, we have appointed Lane Clark & Peacock LLP as our Scheme consultants and investment advisors, in place of Mercer Limited.

Scheme Pension

Solicitors
Baker & McKenzie LLP

Auditors
PricewaterhouseCoopers LLP

Bankers
Lloyds Bank plc
Barclays Bank plc

Scheme Actuary
Adam Stanley, XPS Pensions Group

Scheme Administrators
Equiniti Limited

Scheme Consultants
Lane Clark & Peacock LLP

Fund Managers
BlueCrest Capital Management Limited
CQS (UK) LLP
GMO UK Limited
Gilliat Financial Solutions
Insight Investments Funds Management Limited
JO Hambro Capital Management Limited
Kiltearn Partners LLP
Legal & General Assurance (Pensions Management) Limited
M&G Investment management Limited
Mercer Global Investments Management Limited
Ruffer LLP
BlackRock Investment Management (UK) Limited
Ares Management LLC

GETTING IN TOUCH

If you have any questions about your benefits such as pension illustrations or transfer quotes, please contact:

Bernie Hall, Senior Pension Administrator

Equiniti
27 Kings Road
Reading
Berkshire
RG1 3AR

0345 2680286

dbadmin.reading@equiniti.com

If you would like to know more about any of the subjects covered in this newsletter or need to let us know about a change to your details, please contact:

Stephanie Fleming,
Assistant Secretary to the Trustee

Crest Nicholson Group
Pension & Life Assurance Scheme
Crest House, Pycroft Road
Chertsey, Surrey
KT16 9GN

01932 580 551

To help keep your details safe, we will ask you to verify your identity when you call. To do this, we will ask you some questions and then check your answers against the information we hold for you in the Scheme's records.