

The Scottish Midland Co-operative Society Limited Pension Plan (“the Plan”)

SUMMARY FUNDING STATEMENT

We recommend you read this statement as it contains important information about your pension.

We are responsible for providing you with a summary funding statement from time to time to let you know about the Plan's financial security and the funding of the Plan. The information in this summary is based on the approximate assessment that was carried out as at 26 January 2019.

A full actuarial valuation is carried out at least every three years. The last full actuarial valuation was carried out with an effective date of 28 January 2017 and a summary funding statement was issued to you following its completion. In the years where a full valuation is not carried out, we are required to obtain an approximate assessment of the Plan's funding. If you have any questions about the contents of this statement then please contact us at the address below.

Trustee of the Scottish Midland Co-operative Society Limited Pension Plan

Gavin Robertson
Secretary to the Trustee
Scottish Midland Co-operative Society Limited
Hillwood House
2 Harvest Drive
Newbridge
Edinburgh
EH28 8QJ

Or contact by email to:
GavinRobertson@scotmid.co.uk

HOW IS MY PENSION PAID FOR?

Your benefit entitlement under the Plan is calculated using a formula based on your

earnings and length of active membership of the Plan. This calculation is carried out at your retirement or earlier date of leaving service and you are advised of the amount of your benefit at that time. Your pension does not come from a pot of money held in your name but comes from a larger pool of money put aside with the aim of meeting all of the Plan's future pension payments.

All contributions and investment income are held in this common fund and make up the Plan's assets. The Trustee's policy is to invest in a wide range of assets.

At 26 January 2019, the Plan's assets were invested as follow:

Insured pension policies	32.7%
Growth assets (including equities and Global Absolute Return Strategies Fund)	56.3%
Liability Driven Investment Strategies	7.3%
Cash and other assets	3.7%

Further details of our investment strategy are given in the statement of investment principles, which is available on request.

The previous paragraph does not relate to any part of your benefits that are provided on a “money purchase” or “defined contribution” basis such as those provided from additional voluntary contributions. Any such benefits are dependent on the value of the “pot of money” allocated to you at your retirement and are equal to the pension that this money can buy at that time.

HOW WELL FUNDED IS THE PLAN?

The latest approximate assessment of the Plan showed that on 26 January 2019 the funding position was as follows:

Assets	£65,858,000
Amount needed to provide benefits earned to date (technical provisions)	£88,278,000
Shortfall	£22,420,000
Funding level	75%

In addition, the Trustee and Society have an asset backed funding arrangement in place which generates £969,000 per annum in proceeds to the Plan (until 28 January 2032) and provides additional security to the Plan from the asset underlying the arrangement.

It should be noted that these figures have been calculated using the actuarial assumptions derived from the funding plan (statement of funding principles) agreed at the last full actuarial valuation. There is no requirement to update this funding plan between full valuations. Significant changes in circumstances might mean that, were a full actuarial valuation to be carried out now, different actuarial assumptions would be used that would show a significantly different position.

CHANGE IN FUNDING POSITION

The main factors which have contributed to the change in funding level from 77% as at 28 January 2017 to 75% as at 27 January 2019 are the changes in market conditions causing the value of the technical provisions to increase. This has been offset somewhat by contributions paid by the Society.

HOW WILL THE SHORTFALL BE MET?

The last full actuarial valuation showed a shortfall of £19,236,000 and we have agreed a recovery plan with the Society which aims to eliminate this shortfall by 28 January 2032.

This is being achieved through payment of contributions of:

- £750,000 paid on 28 April 2018.
- £312,500 per annum payable quarterly until 28 January 2026

Plus £969,000 per annum in proceeds from the asset backed funding arrangement.

These contributions, coupled with the expectation that investment returns on the Plan's investments will partly remove the shortfall, are expected to clear the deficit in the Plan by 28 January 2032.

A recovery plan is usually only revised following each full actuarial valuation and so this recovery plan will remain in place until the next full actuarial valuation has been completed in spite of the increase in the shortfall. The recovery plan put in place following the next full actuarial valuation will reflect the amount of any shortfall at that time.

We have agreed a funding plan with the Society that aims to make sure there is enough money in the Plan to pay for pensions now and in the future. The amount of money that the Society pays into the Plan may go up or down following regular funding checks by the actuary (known as actuarial valuations), which are carried out at least every three years. Following each full actuarial valuation, we come to an agreement with the Society on future contributions, which allow for making good any shortfall over an agreed timescale. These matters are documented in the statement of funding principles, recovery plan and schedule of contributions. A copy of these documents is available on request.

We have not made any payments to the Society since the last summary funding statement was produced.

Under the provisions of the Pensions Act 2004, the Pensions Regulator has the authority to:

- Change the rate at which members earn benefits.
- Instruct a pension scheme on how to value members' benefits.
- Set a deadline for making good the shortfall.
- Set the future level of contributions.

Such a course of action is rare and has not occurred for this pension scheme.

WHAT WOULD HAPPEN IF THE PLAN STARTED TO WIND UP?

Please be reassured that it is a legal requirement to provide this information and does not imply that the Society has any intention to wind up the Plan..

The valuation as at 28 January 2017 showed that the assets could not have paid for the full benefits of all members to be provided by an insurance company if the Plan had wound up at that date, with the funding level on this basis being 46%. The shortfall on this basis was £76,863,000.

If the Plan were to terminate, the law requires the Society to pay sufficient money to the Trustee so that we can purchase the full benefits built up in the Plan with an insurance company. It may be, however, that the Society would not be able to pay this full amount. If the Society became insolvent, the Pension Protection Fund might be able to take over the Plan and pay compensation to members. Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk.

Alternatively, you can write to the Pension Protection Fund at:

Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA

THE IMPORTANCE OF THE SOCIETY'S SUPPORT

Our objective is to have enough assets to pay pensions now and in the future. However, success of the funding plan relies on the Society continuing to support the Plan because:

- The Society will be paying the future expenses of running the Plan on an annual basis.
- The funding level can fluctuate and where there is a funding shortfall the Society will usually need to put in more money.
- The target funding level may turn out not to be enough so that the Society may need to put in more money.

EXPRESSION OF WISH FORM AND CHANGES OF ADDRESS

We take this opportunity to remind active contributing members of the need to ensure that your "expression of wish form", indicating who you would like lump sum benefits to be paid to in the event of your death, is kept up to date. Please contact us at the address stated below if you want to update this form or if you have changed address.

WHERE CAN I GET MORE INFORMATION?

Please contact us if you have any questions, or would like any more information including a copy of the Plan booklet, trust deed and rules, actuarial valuation, recovery plan, statement of funding principles, schedule of contributions, actuarial report, statement of investment principles or annual report & accounts at the following address:

Gavin Robertson
Secretary to the Trustee
Scottish Midland Co-operative Society Limited
Hillwood House
2 Harvest Drive, Newbridge, EH28 8QJ

Or contact by email to:

GavinRobertson@scotmid.co.uk

Important: If you are thinking of leaving the scheme for any reason you should always consult a professional advisor, such as an independent financial adviser, before taking any action.

August 2019