BRITISH FERMENTATION PRODUCTS LIMITED
RETIREMENT BENEFITS SCHEME – ‘THE SCHEME’

Pension News 2017

Welcome to this latest edition of your Scheme newsletter.
It has been another busy year.

February 2018

In this issue

Welcome to Pension News 2017.

You can find summary figures from the formal Scheme accounts on page 2, including membership numbers and the Scheme’s key incomes and expenses.

The outcome of the EU referendum and the ongoing uncertainty surrounding the nature of ‘Brexit’ continues to affect the financial markets. As Trustees, we continue to carefully monitor the situation with the support of our advisers, and we will make changes to the Scheme’s investments as and when it is deemed appropriate. You can find summary investment figures on page 3.

As Trustees, it is our responsibility to manage the Scheme in line with its Rules and wider pensions law. We have included a full line-up of the Trustees – and our appointed advisers – on page 6.

Away from the Scheme, we have rounded up other pensions news that may affect you – please see pages 4 and 5. In particular, remember to be alert to the threat of pension scams and take action if you think any offer you receive is suspicious.

I hope you find this newsletter helpful. Please get in touch if you have a query about the Scheme or your benefits. The contact details are on page 6.

Steve Carlisle
Chairman of the Trustees

In numbers

The membership

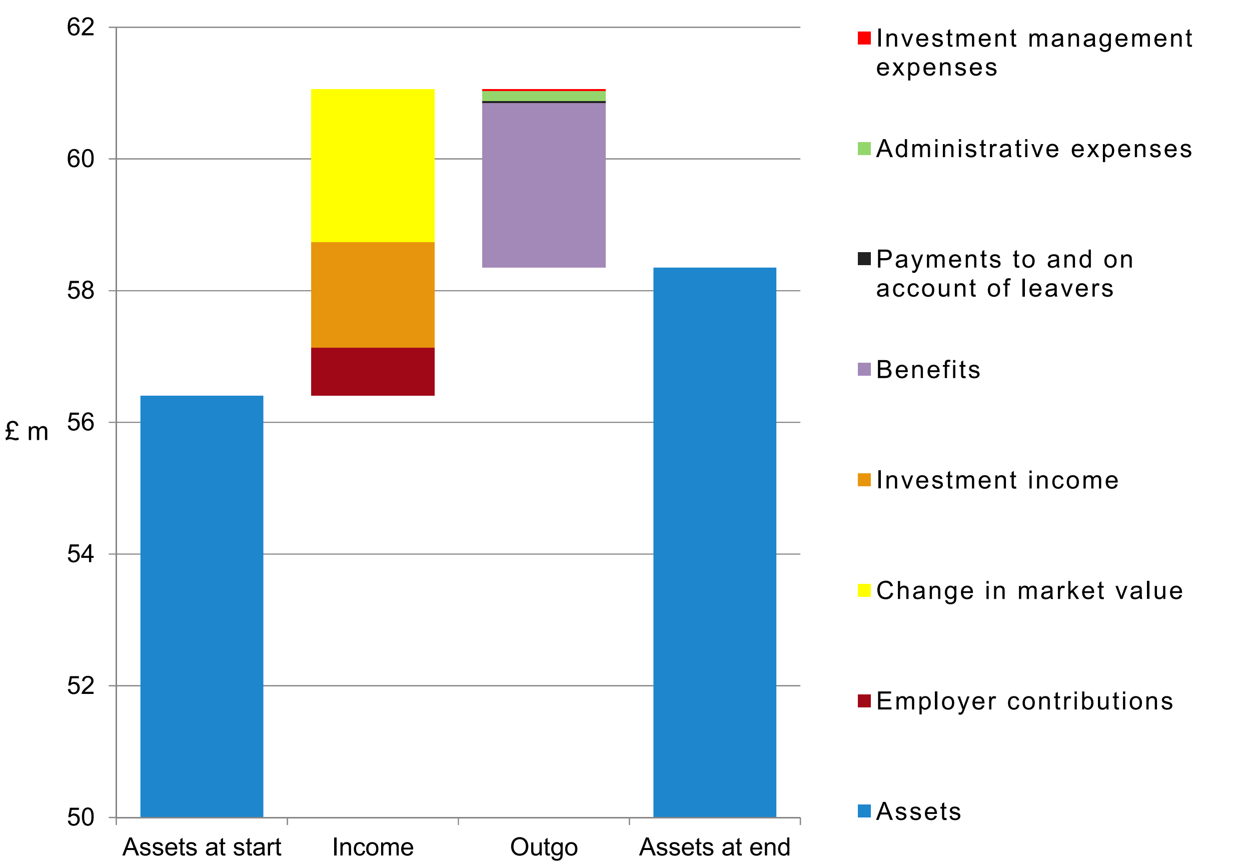
At 31 December 2016 there were 880 members in the Scheme compared with 885 members at the same date last year.

	At 31 December 2015	At 31 December 2016
Deferred members	507	485
Pensioner members	378	395

- Deferred members no longer pay contributions, but they have benefits in the Scheme for when they retire.
- Pensioner members are receiving benefits from the Scheme.

The accounts

The table below shows the income and expenditure in the Scheme for the 12-month period ending 31 December 2016. Our appointed auditors have verified that the figures are accurate. Please get in touch if you would like more detail on the accounts.



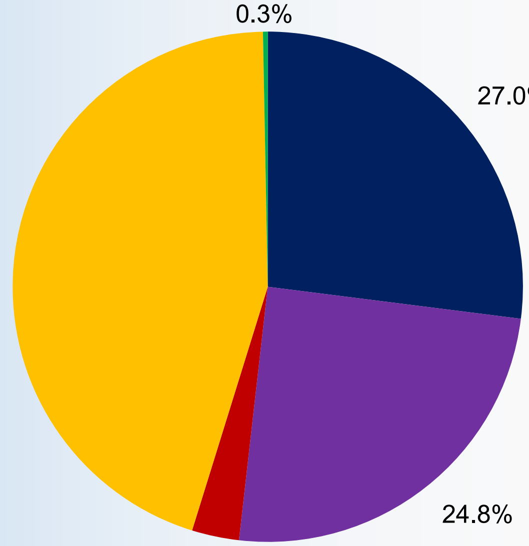
Investment update

As Trustees, it is our responsibility to decide on the overall investment strategy, and to make changes as and when appropriate. We work closely with our investment advisers and we keep a close eye on how the funds are performing.

Asset allocation

At 31 December 2016, the Scheme held assets of £58,349,548 compared with £56,405,152 at the same date last year.

The chart adjacent shows how the Scheme's investments were allocated at 31 December 2016, across asset types.



Performance

The table below shows how the Scheme's investments have performed to 30 June 2017 compared with their agreed benchmarks. Each benchmark is an agreed indicator of how the fund is expected to perform bearing in mind economic and market expectations.

	Over the quarter		Over the year		Over three years (% per year)	
	Performance	Benchmark	Performance	Benchmark	Performance	Benchmark
BlackRock - Aquila Life UK Equity Index Fund	1.4%	1.4%	18.1%	18.1%	7.4%	7.4%
BlackRock - Aquila Life Overseas Equity Fund	3.5%	3.6%	22.4%	22.6%	8.3%	8.5%
BlackRock - Emerging Markets Equity Index Fund	2.3%	2.3%	27.2%	27.4%	10.5%	10.8%
Newton - Real Return Fund	1.0%	1.1%	(1.5%)	4.3%	3.0%	4.4%
Standard Life - Global Absolute Return Strategies	1.2%	1.4%	3.7%	5.5%	2.1%	5.7%
Schroders - UK Property Fund	2.3%	2.3%	7.2%	6.0%	10.8%	9.5%
Total	**1.9%**	**2.0%**	**10.8%**	**12.6%**	**5.9%**	**6.7%**

You can see that performance was good over the year to 30 June 2017, albeit slightly behind benchmark due to the relatively poor performance of the two diversified growth managers, Newton and Standard Life.

Over the three-year period we saw solid positive performance, albeit again dragged down by the two diversified growth managers.

We will continue to monitor performance and make any changes we feel are necessary.

A recap on flexible retirement options

As a reminder, in 2015 the Government introduced more flexible options for taking DC pension savings. Here is a summary. Not all these options may be directly available through the Scheme – the administrators will be able to confirm.

- Buy an annuity. This option was previously available but new types of annuity are being developed. You can take up to 25% of your savings as a tax-free cash sum and buy an annuity with the remainder.
- Take all DC benefits as a single cash sum. The first 25% would be tax-free and the remainder taxed at your marginal rate for the year.
- Take a series of cash sums. The first 25% of each would be tax-free and the rest taxed at your marginal rate in each year.
- Use income drawdown, where you invest your pension savings and take an income of your choice as and when you want to. As with the cash-only options above, you can take up to 25% of your total savings as a tax-free cash sum, or up to the first 25% of each drawdown payment you take.

Pension fraud: do you know the signs?

Pension scams continue to be a serious cause for concern. Research by Citizens Advice suggests over 10 million individuals may have received unsolicited contact about their pension since the DC pension freedoms were introduced in April 2015.

This research also found that over 80% of the people surveyed failed to recognise signs of a possible scam, such as:

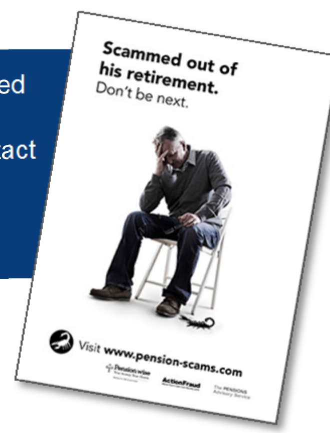
- offers to access your pension before age 55 (the minimum age for taking retirement benefits),
- promises of unrealistically high investment returns (10% or more) if you transfer your benefits out, and
- paperwork delivered to your door by courier.

The Pensions Regulator has released an updated guide, 'Scammed out of his retirement. Don't be next.' which you can download from their website: www.pensionsregulator.gov.uk.

If you are tempted by any pension offer, especially if it is unsolicited, we would urge you to research it thoroughly and preferably discuss it with a reputable independent financial adviser before making any decisions.

If you have already accepted an offer or wish to report a potential scam please contact

Action Fraud on 0300 123 2040



Transferring out

If you want to access the flexible retirement options for your main DB benefits, you will need to transfer out of the Scheme and into a suitable DC arrangement. We strongly recommend that you take independent financial advice before proceeding with a transfer out and if the value of your Scheme benefits is £30,000 or more, you are legally required to take independent financial advice before transferring out. (See 'Taking advice' on page 6.)

In the news

If you exceed the Annual Allowance

The Annual Allowance is the total amount of pension savings you can make each year without incurring a tax charge. For the 2017/18 tax year, this is £40,000. A lower, tapered Annual Allowance has been introduced with effect from 6 April 2016 and applies for anyone with 'adjusted income' of more than £150,000. The lowest tapered Annual Allowance is £10,000.This means more individuals are likely to incur an Annual Allowance tax charge.

Scheme Pays was introduced several years ago to help people meet their Annual Allowance tax charges. It enables an Annual Allowance tax charge to be paid by the individual's pension scheme, with a corresponding reduction in their retirement benefits.

It is mandatory for pension schemes to offer Scheme Pays if:

- the member has exceeded the standard Annual Allowance (currently £40,000) and
- the Annual Allowance tax charge (across all registered pension schemes) is over £2,000.

There is a requirement for pension schemes to issue a Pension Savings Statement to those members who have exceeded the standard Annual Allowance of £40,000 in that scheme. This must be provided by the 6 October following the end of the tax year. Members can also request a Pension Savings Statement.

It is your responsibility to check how close you are to exceeding the Annual Allowance. If you are unsure of your position, please consider talking to an Independent Financial Adviser (see page 6).

Budget summary

The March 2017 Budget did not feature any significant change for pensions. However, there were a few noteworthy announcements.

Reduction to the Money Purchase Annual Allowance

It was announced that, with effect from 6 April 2017, the Money Purchase Annual Allowance (MPAA) would reduce from £10,000 to £4,000.

The MPAA limits the total yearly value of 'defined contribution' pension contributions that benefit from tax relief. It applies when certain trigger events occur:

- when income is received from an income drawdown fund;
- on payment of an Uncrystallised Fund Pension Lump Sum;
- when income is received from a capped drawdown fund of more than the permitted maximum; and
- when flexible drawdown is taken prior to April 2015.

Transfers to Qualifying Recognised Overseas Pension Schemes (QROPS)

Transfers to QROPS requested on or after 9 March 2017 will be taxed at 25% unless, at the point of transfer:

- the individual and the pension savings are in the same country; or
- both are within the European Economic Area; or
- the QROPS is provided by the individual's employer.

Lifetime ISA

This was mentioned in the Budget, but was introduced as a new savings vehicle for the under 40s from April 2017. Young savers can save up to £4,000 a year up to the age of 50 in a Lifetime ISA. The Government will top this up with 25% of the amount saved each year. The money can be used to buy a home or for retirement. Time will tell how the Lifetime ISA affects wider pension saving.

More information

For more general information on pensions and saving for retirement, the following websites are useful resources.

www.pensionsadvisoryservice.org.uk

The Pensions Advisory Service provides independent guidance on all types of pensions.

www.moneyadviceservice.org.uk

The Money Advice Service provides general advice on all money matters including pensions and finding an independent financial adviser.

www.gov.uk

The Government's website features a section 'Working, jobs and pensions', which includes a State Pension Age calculator.

www.pensionwise.gov.uk

The Government's guidance website explains the flexible DC retirement options.

Contact point

Please use any of the methods below to get in touch with the Administration team.

Email: bfp.pensions@aon.co.uk

Phone: 0330 123 4936 (lines are open Monday to Friday, 9am to 5pm)

Write to: British Fermentation Products Limited Retirement Benefits Scheme, Aon Hewitt Scanning Division, PO Box 196, Huddersfield, HD8 1EG

Are your records up to date?

Please remember to let us know if there is a change to your contact details as it is important we are able to get in touch with you about your pension savings.

Similarly, if there is a change in your personal circumstances, for example if you marry, divorce or become a parent, consider updating your Expression of Wishes form. We use this form to help us decide who should receive any benefits that are payable if you die before you retire.

Please use the contact details to request a blank form.

Taking advice

If you would like advice about your retirement plans, we recommend you speak with an independent financial adviser (IFA). You can find an adviser in your area by searching the Money Advice Service directory at

https://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 **https://register.fca.org.uk** or by phoning the Financial Conduct Authority helpline, **0800 111 6768**.

Behind the scenes

As Trustees, we maintain up-to-date knowledge of pensions, investments and finance. We also attend training courses as and when necessary, for example, when pensions legislation changes. We meet regularly throughout the year to discuss how the Scheme is progressing.

The Board is made up of Company-appointed Trustees and member-nominated Trustees.

Company-appointed	Member-nominated
Capital Cranfield Pension Trustees Limited, Chairman,	D Spruce
Represented by SD Carlisle	
C Wisniewski	

We also appoint professionals to support us on areas of particular expertise.

Administrator	Aon Hewitt Limited
Actuary	Simon Corbett, Aon Hewitt Limited
Auditor	Crowe Clark Whitehill LLP
Legal Adviser	Osborne Clarke

Summary Funding Statement

This section summarises the results of the funding update at 1 January 2017. These financial health checks are vital for monitoring the Scheme's progress. We hope the information helps you to understand how the Scheme is developing.

The latest position

The table below shows how the funding position has changed since the valuation at 1 January 2013 and the last funding update at 1 January 2017.

	1 January 2017 Update	1 January 2016 Valuation	1 June 2013 Valuation
The funding level	78%	86%	90%
The funding target	£74.2 million	£63.5 million	£60.3 million
The value of the Scheme's assets	£58.1 million	£54.6 million	£54.5 million
The overall position	Shortfall of £16.1 million	Shortfall of £8.9 million	Shortfall of £5.8 million

The latest update shows that the funding level has deteriorated since the valuation at 1 January 2013.

Reasons for the change

Since the date of the previous actuarial valuation the deficit has increased significantly, and this is despite solid investment performance. This deterioration has been predominantly driven by falls in gilt yields, which increases the liabilities. Although the return on the Scheme's invested assets since the valuation date has been greater than assumed in the technical provisions basis, these gains have been insufficient to offset the negative impact of lower than expected gilt yields.

The next financial check will be based on the Scheme's position at 1 January 2018. We will report on the results once they are complete.

It is important to remember that it is normal for pension scheme funding levels to fluctuate over time. Even when funding is temporarily below target, the Scheme will continue to pay benefits in full as long as it continues.

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Summary Funding Statement

Removing the shortfall

As part of the valuation at 1 January 2016, we agreed with the Company to bring the Scheme to a fully funded position. This is known as a 'recovery plan'. The Company agreed to pay:

- £700,000 by 31 March each year from and including 31 March 2017 to 31 March 2024; plus
- The amount of the PPF levies up to a maximum of £150,000 each year.
- The other expenses of running the Scheme up to a maximum of £150,000 each year.

These contributions and anticipated investment growth are expected to remove the shortfall by 30 November 2024.

The next formal valuation will look at the Scheme's position at 1 January 2019. This will include working out if the recovery plan is on track or if changes need to be agreed.

If the Scheme came to an end

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

- The 'ongoing' basis (shown above), which assumes that the Scheme will continue into the future.
- The 'full solvency' basis, which shows the funding position if the Scheme started to 'wind up' at the date of the valuation. If this happened, all members' benefits would have to be secured without delay by buying insurance policies. This would be more expensive than paying benefits gradually over time so the full solvency position is generally lower than the ongoing position, even for fully funded pension schemes.

At 1 January 2016, the Scheme's full solvency funding level was 50% with a shortfall of £54.6 million.

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

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

The Pensions Regulator

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 **www.thepensionsregulator.gov.uk.**