METHODIST LOCAL PREACHERS MUTUAL AID ASSOCIATION PENSION SCHEME

Report to Members December 2019

I am pleased to introduce this update about the Methodist Local Preachers Mutual Aid Association Pension Scheme, which I hope that you will find informative.

The Trustees of the Scheme are now myself, John Hardy, Graeme Garden, Pauline Brown and Ian Brown. Pauline and Ian were appointed as Member Nominated Trustees with effect from 1st January 2019 and we were pleased to welcome them onto the Trustee Board.

The second page of this letter contains a reminder of the Scheme's financial position at the date of the Actuarial Valuation as at 1 April 2017, which was completed in March last year. The Trustees must undertake an Actuarial Valuation of the Scheme at least every three years and the next Actuarial Valuation will be due as at 1st April 2020. During the latest valuation process, the Trustees and the Employers discussed the Scheme's financial situation and agreed on the appropriate level of contributions that should be paid to the Scheme by LWPT and LWPHomes.

Our investment strategy has been developed to provide the Scheme with a level of protection against future changes in interest rates. However, we have to balance this with the need to generate investment growth to help fund the Scheme and, if the Scheme is to be in a position to benefit from an increase in interest rates, it does need to continue to accept the risk of the Scheme's deficit increasing if interest rates fall even lower. There is more about the Scheme's investments on Page 3.

On Page 4 there is information about the current membership of the Scheme. Our Scheme is a small one but we still find it difficult to maintain contact with all our members. If you change your contact details please do let the Scheme administrators know using one of the methods below.

We would be delighted to hear your comments on the document and its content, or any other feedback you may have. You can contact us through Broadstone, the company which administers the Scheme, by post addressed to Vicky Bell at Broadstone, 11 Europa View, Sheffield Business Park, Sheffield, S9 1XH, by telephone on 0114 256 7741, or by email at mlpmaaps@broadstonecb.co.uk.

With every blessing for Christmas and the New Year

Ros Peedle, Chair of the Trustee Board

Scheme Funding and Finances

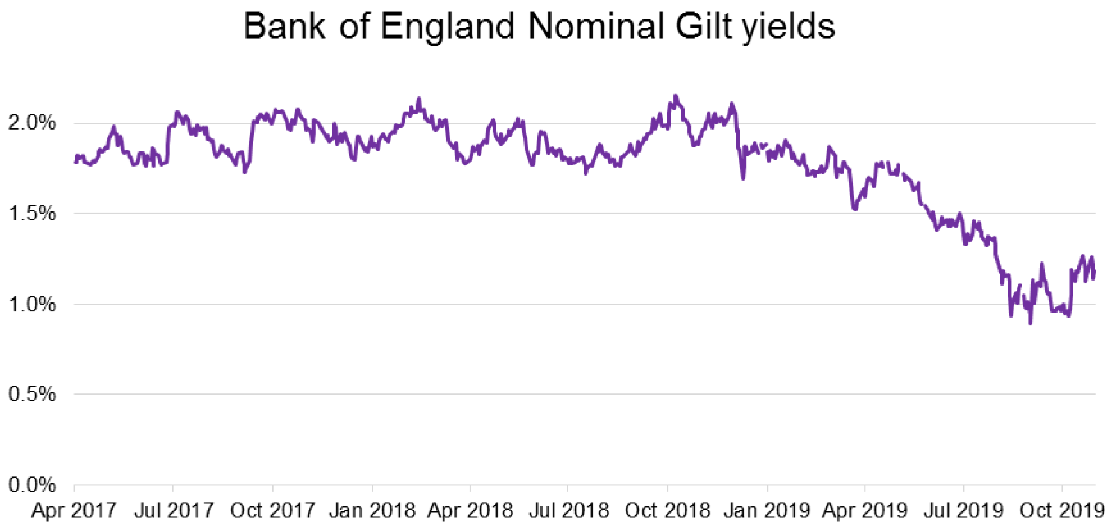
Latest Actuarial Valuation

The most recent funding valuation of the Scheme was carried out at 1 April 2017 and showed that at that date the funding position of the Scheme was as follows:

Assets	£3.79 million
Amount needed to provide benefits	£5.46 million
Funding Deficit	£1.67 million
Funding level	69%

In order to meet the deficit, the employers agreed to pay additional contributions to the Scheme of £132,000 per annum to 31 March 2018, £145,000 per annum from 1 April 2018 increasing at 3% per annum until 1 November 2029, and all expenses, including PPF levies.

Since the valuation on 1st April 2017, government bond yields have fallen somewhat, but with a lot of fluctuation; the chart below shows the movement in the 20 year spot rate for Bank of England Nominal Gilts over the period since the last valuation.



This is important because, in general, lower gilt yields would mean a larger amount is needed to provide the benefits promised to members.

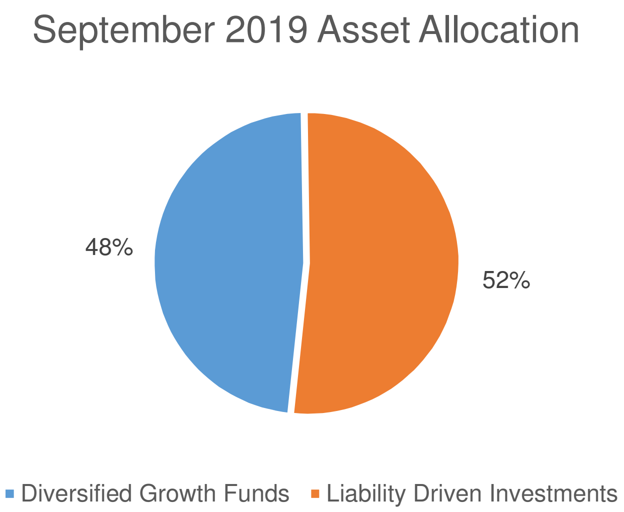
Pension Scheme Funding in General

The Pension Protection Fund (PPF) provides monthly updates of the estimated funding position for all eligible defined benefit schemes.

In April 2014 the schemes in the PPF index had an aggregate deficit of £70 billion and a funding ratio of 94%. At April 2017 the aggregate deficit had increased to £227 billion and the funding ratio had fallen to 87%. By 30 September 2019 the aggregate deficit had fallen to £149 billion and the funding ratio had risen to 92%. As with our scheme, many schemes have seen large fluctuations in funding levels over recent years despite paying additional contributions – the main cause of this has been movements in gilt yields.

Scheme Assets and Investment Strategy

The Scheme's assets are invested in diversified growth funds and liability driven investments. The composition of the portfolio as at the end of September 2019 is shown in the pie chart.



Diversified growth funds invest in a wide range of asset classes including equities, bonds, property, infrastructure and commodities with the aim of providing a positive return in all market conditions. Returns over the longer term are expected to be broadly in line with equities, but with less than half the level of risk and volatility. Diversified growth funds are included in the Scheme's portfolio to provide strong investment returns but in a risk controlled manner.

Liability driven investments are designed specifically to mirror the change in value of the Scheme's future pension liabilities and therefore are held in order to reduce risk for the Scheme. We have increased the holding in these funds over the past year to protect the Scheme's funding level against fluctuating gilt yields.

Market Update – Impact of Recent Events

Despite a turbulent end to 2018, Global Equity returns over the year to 31st October 2019 were 11.9%. The US-China trade war has been the focal point of uncertainty over the year and continues to dominate headlines. China's struggles with monetary policy and global growth have also been well documented. Despite solid economic data, the US Federal Reserve has cut interest rates by 0.5% over the year in anticipation of slowing global growth.

UK equities returned 6.8% over the year to 31st October 2019, despite ongoing uncertainty surrounding Brexit. Brexit has been an ongoing theme over the year, with multiple rejections of former Prime Minister (PM) Theresa May's attempts of a withdrawal deal, followed by her resignation and new PM Boris Johnson's appointment. This has caused fluctuations in UK economic growth, especially within the commercial property and manufacturing sector, where record low Purchasing Managers' Indexes have been reported over the year.

Over the year to 31st October 2019, European equities returned 10.7% amidst various political setbacks including Italy's budget row with the European Union (EU), the waning authority of German Chancellor Angela Merkel and the "gilets jaunes" (yellow vest) protesters in France. The European Central Bank (ECB) slashed interest rates for the first time in three years to -0.4% and re-launched its bond-buying program in attempts to lift consumer sentiment and restore business confidence.

Emerging market equities returned 10.9% over the year to 31st October 2019 despite market volatilities caused by ongoing trade disputes and the backwards and forwards nature of the US-China trade war. Economic data showed that growth in China moderated slightly over the year following trade tensions, however gains were seen in numerous emerging market currencies, including the Korean Won and the South African Rand.

Given the perceived risks and uncertainty ahead it will continue to be important for pension schemes to investigate alternative investments in order to achieve the required performance and stability.

So what impact has this had on the Scheme's assets? The diversified growth funds have provided positive returns over the last year, and the performance of the funds has been significantly more stable and less volatile than investment markets, which is a key benefit of these funds, whilst also outperforming recent gains in equities.

The allocation to liability driven investments has performed as expected, somewhat offsetting the increase in the value of the liabilities which will have been caused by the fall in long term interest rates.

The Trustees are confident that the current asset allocation leaves the Scheme well positioned to weather any future market volatility caused by the ongoing Brexit situation.

Scheme Membership

At 31 October 2019 the Scheme had a total of 88 members, broken down as follows:

Deferred members who have not yet started drawing their benefits	35
Pensioner members in receipt of their benefits	53

Retirement flexibilities

You may have heard about the flexibilities that were introduced for pensions from April 2015 and which we mentioned in our letter to you in previous newsletters. The flexibilities predominantly impact only 'defined contribution' schemes, and not 'defined benefit' or 'final salary' schemes such as our Scheme. To access the new flexibilities, you would need to transfer the value of your benefits from this Scheme to a 'defined contribution' scheme.

All members who have not yet reached their Normal Retirement Date and have not yet started drawing their pension from the Scheme are entitled to transfer their benefits to another pension arrangement (subject to statutory conditions). The Trustees may in certain circumstances allow other members to transfer their benefits out of the Scheme (subject to overriding legislation and any other conditions the Trustees impose).

If you are interested in transferring your benefits to another pension arrangement please contact the administration team at Broadstone using the contact details on page 1. We recommend that you seek independent financial advice from a professional adviser before making any decision. Indeed, you must take independent financial advice before you can transfer benefits out of a defined benefit scheme if the value of your benefits is more than £30,000.

Rules for small pensions

Under certain circumstances, members may be entitled to have their Scheme benefits paid as a one-off cash lump sum at retirement. This is sometimes referred to as a "trivial commutation". The limits on small pension entitlements that can be taken as a cash sum at retirement have been changed. The main limits following the changes are set out below:

1. If your benefits in the Scheme are valued as less than £10,000 (increased from £2,000), you may be entitled to take your benefits as a lump sum. 25% of the cash sum is tax free if you are not already in receipt of your pension and the remainder is taxed at your marginal rate (i.e. the highest rate of income tax that you are subject to). In this instance, the 'value' is the value placed on your pension by the Scheme Actuary.
2. If your total pension savings across all of the registered pension arrangements of which you are a member (excluding the State Scheme) is valued at less than £30,000 (increased from £18,000), you may be entitled to take your entire defined benefit pension savings in the Scheme as a lump sum. Again, 25% of the cash sum is tax free if you are not already in receipt of your pension and the remainder is taxed at your marginal rate (i.e. the highest rate of income tax that you are subject to). In this instance the 'value' is your annual pension at retirement multiplied by 20.

The minimum age at which you are able to take one of these lump sums is reducing from age 60 to age 55 (or earlier if you are in ill-health).

Pension Scams

You may have seen that the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have released a television advert regarding pension scams in view of the increase in popularity of pensioners taking their benefits as a lump sum and the options available with transferring their pension benefits. We would always urge you to read through the Pension Scams documentation from TPR available here https://www.thepensionsregulator.gov.uk/pension-scams or visit the Scam Smart section of the FCA website https://www.fca.org.uk/scamsmart/how-avoid-pension-scams, before taking these options.