

C&J Clark Pension Fund - CJC Section

Actuarial valuation as at 5 April 2023

Scheme funding report

27 February 2024

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For and on behalf of Hymans Robertson LLP



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Scheme funding report

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1 The results of the valuation

I carried out an actuarial valuation of the C&J Clark Pension Fund - CJC Section ('the CJC Section') as at 5 April 2023 ('the valuation date') and this is my report on the results of the valuation. This is a scheme funding report.

Funding objectives

The Trustee is required to adopt a 'statutory funding objective'. The statutory funding objective is that the CJC Section must have 'sufficient and appropriate' assets to meet the expected cost of providing members' past service benefits which we refer to as 'technical provisions'¹.

The 'statement of funding principles' sets out the Trustee's policy for meeting the statutory funding objective.

Summary of results

The CJC Section's funding position as at 5 April 2023 is shown below alongside the position at the last valuation for comparison.

(£m)	Previous valuation 06 April 2020	This valuation 5 April 2023
Assets <i>See the Trustee's Report and Accounts as at the valuation date for further details</i>	1,190	854
Technical provisions liabilities <i>An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee's (see appendix A)</i>	1,269	843
Employed-Deferred liabilities	110	39
Deferred liabilities	287	179
Pensioner liabilities	857	614
Expenses	15	12
Surplus/(deficit)	(79)	10
Funding level <i>Assets divided by Technical Provisions</i>	94%	101%

The technical provisions deficit has decreased from £79m at the last valuation to a surplus of £10m at this valuation.

Changes since the previous valuation are covered in section 3.

¹ The phrase used in the legislation to refer to the expected cost of providing members' past service benefits.

2 What would happen if the scheme was wound up?

The results in the previous section of the report were prepared on the assumption that the CJC Section will continue to operate with the financial backing of the employer. If the employer were no longer able to support the CJC Section, it may then be necessary to 'wind up' the pension scheme. This would involve selling the Fund's investments and using the proceeds to buy annuities from an insurance company. The insurance company would then be responsible for paying pensions to members and their dependants. I have, therefore, estimated the cost of securing members' benefits in this way, had the CJC Section wound up on the valuation date.

Summary of results

£m	Previous valuation 06 April 2020	This valuation 5 April 2023
Assets <i>See the Trustee's Report and Accounts as at the valuation date for further details</i>	1,190	854
Solvency liabilities <i>Estimated cost of buying annuities from an insurance company (excluding expenses)</i>	1,367	887
Expenses <i>Expenses of winding up the fund</i>	15	7
Surplus/(deficit)	(192)	(33)
Funding level <i>Assets divided by solvency liabilities</i>	86%	96%

On a wind-up further funds may be recovered from the employer under section 75 of the Pension Act 1995 and the employer debt regulations and also from the escrow account put in place as part of the Framework Agreement dated 28 February 2023. The impact of any such recovery has been ignored in this assessment. If the assets on a wind-up are insufficient to secure the benefits in full, then a statutory priority order applies.

- Benefits corresponding to those covered by the PPF would be met first (either by the PPF or, if there were sufficient funds, by securing these benefits with an insurance company)
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

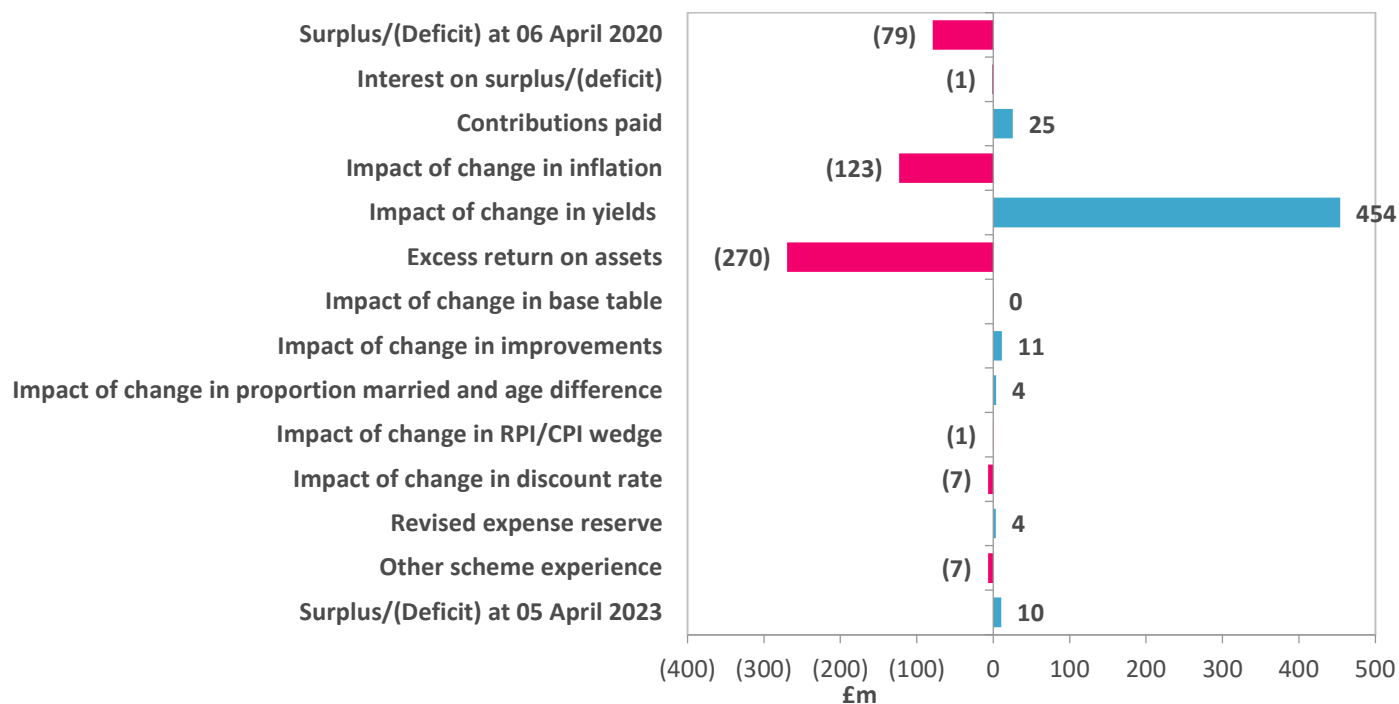
Why are the solvency liabilities different to the technical provisions?

The assumptions used to estimate the solvency liabilities differ from those used to calculate the technical provisions (see Appendix A). This is because they are intended to reflect the assumptions which would be used by an insurer to calculate the cost of the annuities they sell.

The solvency estimate has been calculated using a basis that produces values consistent with our experience of bulk annuity quotations and the general levels of pricing in the market as at the date of valuation. Please note the results are a guide and should not be viewed as a quotation. The true cost of insurance can only be determined by obtaining quotations from providers active in the market and following completion of wind-up.

3 Changes since the previous valuation

Since the previous actuarial valuation of the CJC Section, there have been changes to the CJC Section membership, the value of its investments, the economic environment in which the CJC Section operates and the valuation assumptions. These changes have affected the CJC Section's funding position as follows:



The analysis shows the main factors affecting the funding position since the last valuation have been as follows:

- Changes to market conditions and asset valuations (c£60m reduction in deficit)
- Contributions paid by the Company (c£25m reduction in deficit)
- Changes to the longevity and demographic assumptions to reflect the latest data (c£15m reduction in liabilities)
- A reduction in the discount rate (c£7m increase to liabilities)

4 Risk management

In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period since the last actuarial valuation. In this section I discuss the key risks to the CJC Section and the potential implications of the actuarial assumptions not being met in the future.

Funding, investment and covenant risks

The Trustee's should understand the risks to its funding plans, particularly those related to funding, investment and the employer covenant.

Risk	How the Trustee manage this risk
<i>Employer covenant</i> The employer may not be able to continue to pay contributions or make good deficits in the future. The impact of this scenario is considered in section 2 of this report.	The Trustee manages this risk by setting actuarial assumptions (and therefore the level of assets it believes is required to provide members' benefits) that reflect the strength of the employer covenant and the risks to it. The Trustee commissioned Penfida to undertake an independent covenant review; this concluded that the Company covenant is tending to weak. In addition, the CJC Section benefits from the following covenant enhancements: • A £30m second ranking security until the maturing (or earlier repayment) of the Asset Backed Lending facility on 30 June 2027. • c£16-17m held in escrow to be released to the CJC section on certain events (including the insolvency of the Company)
<i>Investment</i> If future investment returns are lower than allowed for in the valuation assumptions, assets will not grow in value as expected, and the funding level will fall. This places greater reliance on the employer covenant since the employer would need to help put scheme funding back on track.	The Trustee manages this risk by: • investing in assets that are not expected to result in material adverse volatility relative to the movement in the CJC Section's liabilities over time. • taking opportunities to reduce investment risk, when appropriate. • adopting actuarial assumptions that take account of both the expected return on the CJC Section's assets and the potential volatility in that return. • receiving regular updates on the performance of the CJC Section's investments.
<i>Funding</i> Over time, the funding position will depend on the extent to which future experience matches the assumptions made. In particular, if life expectancy improves at a faster pace than allowed for in the valuation assumptions, then	The Trustee has adopted scheme specific mortality base tables derived using Hymans Robertson's Club Vita data bank which allows the Trustee to use the best available information when setting longevity assumptions.

Risk	How the Trustee manage this risk
pensions will need to be paid for longer, so the liabilities will increase and the funding level will fall.	By incorporating an allowance for future longevity improvements in the actuarial assumptions the Trustee can lessen the future adverse impact of such improvements.

Other risks

There are a range of further risks which the Trustee keep under review. These include the development of legislation relating to pensions and the impact of options offered to members.

There is also an increasing body of evidence demonstrating that climate risk, both the direct physical implications and society's transition to a low(er) carbon economy in response to this risk, pose potentially significant and expansive risks and opportunities to the companies that sponsor pension schemes, to investment portfolios and to the wider economy (with implications for funding assumptions). Climate-related risks include factors such as rising and/or volatile energy prices, resource shortages, property damage (e.g. flooding, storms) and air, water and land pollution (e.g. clean-up costs, health effects, reputational damage).

These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the CJC Section, I have not explicitly incorporated such risks in these valuation results. The Trustee may wish to seek direct advice on these risks (e.g. from Hymans Robertson regarding future investment markets and/or longevity, or from a covenant adviser regarding the Company).

Sensitivity of key assumptions

Scenario	Funding position surplus/(deficit)	Comments
Base case	10	This is the technical provisions position.
0.20% p.a. decrease in discount rate	(7)	The Trustee should have regard to the sponsor's ability and willingness to support the funding and investment risks within the Fund. If the risks being run appear to be too great then the Trustee could target reaching a lower risk position by reducing the assumed investment returns within the discount rate.
0.25% p.a. increase in future inflation	(4)	For illustrative purposes I have shown the position if inflation-linked benefit increases linked to RPI or CPI grow at a faster rate. The Fund has hedged a significant proportion of its technical provision's inflation exposure. However, the funding position shown makes no allowance for changes in asset values as the disclosed technical provisions position must use the market value of assets. In practice, in this scenario your hedging assets would be expected to increase in value, mitigating the impact on liabilities shown here.
0.25% p.a. decrease to RPI/CPI 'gap'	7	If CPI increases are greater than assumed then the funding position will deteriorate.

Scenario	Funding position surplus/(deficit)	Comments
Broadly a 1 year increase in life expectancy at retirement age	(15)	The valuation results are sensitive to changes in future life expectancy. If longevity improves in the future at a faster pace than allowed for in the valuation assumptions then the funding position will deteriorate.

Longer-term projection

If the actuarial assumptions are borne out over the period from the date of this valuation to the next, then the solvency funding level is be expected to increase.

Appendix A: Methodology and assumptions

A1. Methodology

Using the actuarial assumptions set by the Trustee I have estimated the payments which will be made from the CJC Section throughout the future lifetimes of employed-deferred members, deferred pensioners, pensioners and their dependants. I then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line with the assumed discount rate. This is the technical provisions. I compare these technical provisions with the value of the assets. The ratio of the asset value to the technical provisions is known as the ‘funding level’. If the funding level is more than 100% there is a ‘surplus’; if it is less than 100% there is a ‘deficit’.

In respect of the members insured under the buy-in contract I have valued both the assets and liabilities consistently with the value as per the 5 April 2023 Trustee Report and Accounts of £214.5m.

It is a requirement of the legislation that an ‘accrued benefits funding method’ must be used for valuing the technical provisions. In their application to technical provisions, such methods vary in only one material respect: the extent to which future pensionable pay growth is anticipated for employee members (noting that the CJC Section has no members for whom benefits are linked to future pensionable pay growth).

A2. Assumptions

The Trustee and the employer are responsible for setting the funding assumptions for the actuarial valuation as at 5 April 2023. The assumptions adopted as at 5 April 2023 are set out in the statement of funding principles dated 27 February 2024.

	Technical provisions 06 April 2020	Technical provisions 5 April 2023
Key financial assumptions		
RPI increases	Market implied gilt yield curve	
CPI increases	RPI inflation curve less 0.75% p.a. pre-retirement and less 0.5% p.a. post-retirement.	RPI less 1% pre-2030, and RPI less 0% post 2030.
Pension increases	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor	

	Technical provisions 06 April 2020	Technical provisions 5 April 2023
Discount rate before and after retirement	Market implied gilt yield curve plus 1% p.a. until April 2024 then tapering to 0.2% p.a. over the period from 5 April 2024 to 5 April 2028.	Market implied gilt yield curve +0.5% p.a. until April 2028 then step change to +0.2% p.a.
Key demographic assumptions		
Longevity base tables (pre-retirement)	2020 VITA base tables as appropriate for normal health retirements	S3NA tables
Longevity base tables (post-retirement)	2020 VITA base tables as appropriate for normal and ill health retirements.	2022 VITA base tables as appropriate for normal and ill health retirements.
Longevity future improvements	CMI 2019 model with a long-term improvement rate of 1.50% p.a., a core smoothing parameter ($S_k=7$) and addition to improvements ($A = 0.5\%$) with “peaked” short term future improvements and new style tapering.	CMI 2022 model with a 25% weighting on 2022 data and no weighting on 2021 and 2020 data, a long-term improvement rate of 1.50% p.a., a core smoothing parameter ($S_k=7$) and addition to improvements ($A = 0.5\%$) with “peaked” short term future improvements and new style tapering.
Retirement in normal health	All members are assumed to retire at the earliest date at which benefits are payable unreduced (this includes allowance for the special terms applicable to the future early retirement of Employed Deferred members)	
Late retirement	No allowance other than for members already above normal retirement age who are assumed to retire immediately using late retirement factors currently in force	
Ill health retirement	A proportion of Employed Deferred members are assumed to retire in future in ill health consistent with rates used previously for active members as set out in the Statement of Funding Principles	

	Technical provisions 06 April 2020	Technical provisions 5 April 2023
Cash commutation	Members assumed to exchange 25% of their pension for a cash lump sum at retirement (using factors of 75% of 2019 CETV basis)	Members assumed to exchange 25% of their pension for a cash lump sum at retirement (using factors currently in force)
Transfers out	No allowance	
Expenses	An expense reserve of £15m	An expense of £11.5m.
Proportion married	83% for males and 53% for females at all ages from pension start date with an allowance for subsequent spouse's mortality	82% for males and 51% for females at all ages from pension start date with an allowance for subsequent spouse's mortality
Spouse's age difference	Male members are assumed to be 4 years older than their female dependants and female members are assumed to be 2 years younger than their male dependants.	Male members are assumed to be 3.5 years older than their female dependants and female members are assumed to be 2 years younger than their male dependants.
GMP equalisation	0.4% loading	

A3. Solvency assumptions

With the exception of the following changes, I have used the same demographic and financial assumptions as for assessing the technical provisions:

- I have used a discount rate based on swap market curves +0.3% p.a. pre and post-retirement for deferred members and a discount rate based on swap market curve +0.8% p.a. for pensioners.
- Inflation has been set in line with implied inflation from swap market curves.

- I have assumed that future CPI inflation is 0.75% p.a. less than RPI inflation with a step change to 0.15% p.a. post 2030. The initial gap is smaller than used for technical provisions because there is no deep and liquid market for CPI linked assets that insurers could use to hedge CPI in their annuity book and so they need to hold additional reserves for CPI risk.
- I have used the same longevity base tables as for assessing the technical provisions as these are intended to reflect the expected future experience of the CJC Section's membership; I would expect an insurer to take account of the CJC Section's demographics in a similar way. Future improvements have been assumed as CMI 2021 model with a long-term improvement rate of 1.50% p.a., a core smoothing parameter ($Sk=7$) and addition to improvements ($A = 0.25\%$) with "peaked" short term future improvements and new style tapering.
- Within the liabilities I have allowed for insurer expenses in line with our understanding for transactions of this size.
- No allowance has been made for members commuting pensions for a cash lump sum on retirement.

Appendix B: Data – benefits, membership and assets

B.1 Benefits

The CJC Section provisions that we have taken into account in this valuation are set out in the membership booklet and trust deed and rules dated 28 April 2000 with subsequent Deeds of Amendment, as well as the merger agreement dated 8 January 2020 between the C&J Clark Pension Fund and the Clarks Flexible Pension Scheme and are summarised below.

The Trustee closed the CJC Section to future accrual on 31 July 2018. There are therefore no longer any active members in the pension scheme. Active members are referred to as employed-deferred members since they retained their active early retirement and ill-health decrements upon Closure of the CJC Section.

The scheme provisions that I have taken into account in this valuation are summarised below.

Normal pension age (NPA)	60 / 65 depending on benefit group and date of leaving
Pensionable Pay	A Member's gross earnings excluding any bonuses, allowances and other non-pensionable amounts, less the State Pension Offset. HMRC Earnings cap applies.
Final Pensionable Pay	Calculated as at the date a Member's Pensionable Service ends or 31 July 2018, if later. The aggregate of: - the Member's highest Pensionable Pay in any one of the last five complete tax years; and - the annual average of any bonus or allowances which are included within the Member's Pensionable Pay during the three tax years preceding the year used in (a). No period of Service with an Employer prior to its participation in the Fund is counted. <i>This differs for members part of Schedule 2.</i>

Pensionable service Years and complete months of service with the company whilst an employee member of the Fund.

For members part of Schedule 1 -5 additional service may also be awarded.

Pension at NPA An annual pension of one sixtieth (or eightieth) of Final Pensionable Pay for each year of pensionable service, payable monthly.

For members part of Schedule 2 and 5 their accrual rate is different to that outlined above.

Early retirement pension A deferred member may retire early with Employer consent. The Member's pension will be subject to a reduction (see Rules for reduction factors) for retirements before the age they can go unreduced.

Plan 35 Members who joined the Fund before 1 January 1996 and members under schedule 2 and 5 and have been made redundant can receive their Normal Pension unreduced.

Deferred early retirement factors are decided by the Trustee.

Ill-Health pension For deferred employed members, a Member who retires before Normal Pension Age due to Incapacity may take an immediate pension equal to the Normal Pension (including prospective pension to NPA) after obtaining the consent of the Principal Employer.

For members part of Schedule 2 the ill-health pension differs to that outlined above.

Pension increases	The lower of 5% and the percentage increase in the Retail Prices Index over the year to the previous December (some members use a different reference month). <i>For Upper tier members (members part of Schedule 5 they are entitled to the lower of 8.5% and the percentage increase in the Retail Prices Index over the year to the previous December.</i> Proportionate increases are applicable for members who have been retired for less than a year. GMP benefits increase in line with statutory increases.
Lump sum	A Member may exchange the whole or part of his or her pension for a cash sum. The amount is to be decided by the Trustee.
Death after retirement	A spouse's pension of 50%, plus, if the member dies within five years of retiring, the balance of five years' pension payments will be paid as a lump sum. If spouse is more than 10 years younger than member spouse pension is reduced.
Death in deferment pension	A spouse's pension of 50%, of the Member's deferred pension (including revaluation and late retirement factors where applicable). If spouse is more than 10 years younger than member spouse pension is reduced.
Members' contributions	No member's contributions are payable after the Closure date (31 July 2018).
Deferred Pension Revaluation	Deferred pensions in excess of the GMP are increased until Normal Retirement Date in line with the increase in the Retail Prices Index (RPI), or at 5% for each complete year, if less.

Notes:

All benefits under the Fund are subject to limits laid down from time to time by the HM Revenue & Customs.

Certain categories of members of the CJC Section are entitled to benefits which differ from those summarised above. Where differences exist, the benefits outlined above reference Plan 35 membership only. Members part of different Schedules may be entitled to different benefits in accordance with the trust deed and rules dated 28 April 2000.

Following Closure of the CJC Section, AVCs are no longer permitted.

Discretionary benefits

In the past some discretionary benefits (i.e. benefits or increases to benefits in excess of those payable under the rules of the scheme) have been provided. These include deferred revaluation which revalues in line with CPI capped at 5% for post April 2009 benefits and also in respect of some dependent benefits. There was also a historic practice of awarding deferred increases to historic non-revaluing benefits.

Areas of uncertainty

Following a high court judgement on 26 October 2018 stating that benefits need to be equalised for differences in Guaranteed Minimum Pensions we have included an approximate reserve equal to 0.4% of the CJC Section's liabilities. This reserve will be refined over time as the CJC Section implements the judgment.

B.2 Membership

The membership data as at the valuation date is summarised below:

Status	06 April 2020			5 April 2023		
	Number	Salaries / Pensions	Average age	Number	Salaries / Pensions	Average age
Employed-Deferred	354	£0m p.a.	50.9	182	£0m p.a.	53.4
Deferred	2,257	£7m p.a.	54.1	2,033	£7m p.a.	56.5
Pensioner	7,521	£39m p.a.	70.0	7,100	£41m p.a.	72.2
Total	10,132			9,315		

The Fund membership has changed since the previous valuation, as members have retired and died.

The pensions shown in the table above are as at the valuation date for pensioner members and deferred pensioners. Average ages in the table are weighted by liability.

The data has been provided by the Trustee via the administrator. I have carried out some general checks to satisfy myself that the information used for this valuation is sensible compared with the information used for the previous valuation and also with that shown in the report and accounts. However, ultimately I have relied on the accuracy of the information provided. I am satisfied there is no material uncertainty in the membership data.

B.3 Assets

The Fund's assets include additional voluntary contributions (AVCs) paid by members. At retirement, these funds are used to buy benefits for members on a money-purchase basis, with no possibility of profit or loss for the CJC Section. In my valuation I have excluded these assets and the corresponding liability. The market value of assets at the valuation date (in respect of the DB section and excluding AVCs) was £854m as shown in the audited accounts for the Fund for the period ending on the valuation date.

The Trustee's investment strategy as at the valuation date was as follows:

Asset class	Allocation as at 06 April 2020 (£m)	Allocation as at 5 April 2023 (%)
Equities	12%	0.1%
Credit	7%	12.7%
LDI	59%	25.1%
Cash	4%	1.5%
Other hedging portfolio	18%	17.3%
Buy-in	0%	24.4%
Other	0%	18.8%
Total	100%	100%

Full details of the Trustee's investment strategy are contained in the CJC Section's Statement of Investment Principles.

Appendix C: Technical provisions certificate

My certification of the calculation of the technical provisions is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions. That certificate is appended to the contribution schedule.

Actuarial certification of the calculation of technical provisions as required by regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: C&J Clark Pension Fund - CJC Section

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 5 April 2023 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the statement of funding principles dated 27 February 2024.

Signature

Date 27 February 2024

Name Richard Shackleton

Qualification Fellow of the Institute and Faculty of Actuaries

Name of Employer Hymans Robertson LLP

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Appendix D: Reliances and limitations

Purpose of the valuation

This valuation has been carried out to comply with the statutory requirements of Part 3 of the Pensions Act 2004, which requires trustees to periodically obtain an actuarial valuation, defined as “a written report, prepared and signed by the actuary, valuing the fund's assets and calculating its technical provisions”.

Addressee

This report is addressed to the Trustee of the CJC Section who commissioned the work and is provided solely for their purposes in the management of the Fund and in particular to fulfil their statutory obligations and requirements of the CJC Section governing documents. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. The Trustee is obliged to pass a copy of the report to the sponsor within 7 days. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustee's unless we have expressly accepted such liability in writing.

We consent for the Trustee to share this report with the following third parties:

- C&J Clark International Limited and C&J Clark (Services) Limited (together the 'Employers') and C&J Clark (No.1) Limited (the 'Company')
- Willis Towers Watson as the Investment Adviser
- Penfida as the Covenant Adviser
- Travers Smith as the Legal Advisor

Compliance

This report complies with the requirements of the following Technical Actuarial Standards (TASs): TAS 100 and TAS 300.

The following communications are also relevant to this report:

- Assumptions advice dated May 2023
- Preliminary results paper dated August 2023

Climate-related risks

The weight given to climate-related issues should depend on a scheme's circumstances, including its funding position and maturity, its investment strategy and its sponsor's industry sector. These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the

Fund, I have not explicitly incorporated such risks in these valuation results. The Trustee has decided not to commission any specific advice on this matter but may wish to consider these at subsequent valuations, when industry thinking in this area has further advanced.

Covenant risk

I have not advised on factors particular to the sponsor, or the sponsor's industry. I am not, in my opinion, best qualified to advise the Trustee on these sponsor-related matters. The Trustee commissioned a formal covenant review as part of the valuation to get an assessment of sponsor support.