Dear Member,

Summary Funding Statement 2015

I am writing to provide you with an annual update of the funding position of the PAS as at 31st July 2015. The information contained in this letter is important and provide you with all the required statutory information required by the Pensions Act 2004.

The Trustees

The PAS is administered by six Trustees, four who are nominated by the University:

- Professor John Holloway, Chairman of the Trustees (a former Senior Pro-Vice Chancellor);
- Dr Michael Chamberlain, (a former University Treasurer);
- Mr James Hunt (a former Director of Finance of the University);
- Mr John Foster (a former Chairman of the University Council);

and two who are nominated by the PAS members:

- Mr Manohar Patel (Estates and Facilities Office) (Resigned in December 2015);
- Ms Jane Yardley (Department of Infection, Immunity and Inflammation).

Arrangements for the appointment of a replacement for Mr Patel will be taken forward shortly.

Actuarial Position of the PAS

The Trustees are legally required to undertake a formal, full actuarial valuation every three years with the next one due to take place on 31st July 2016. Actuarial updates are also undertaken on an annual basis. This Summary Funding Statement concentrates on the actuarial update prepared by the PAS actuary on 31st July 2015.
The chart above shows the value of the PAS' assets and liabilities over the past 3 years. At the time of the full actuarial valuation in 2013 assets were £124 million and liabilities were £154 million, giving a resultant deficit of £30 million.

The position as at 31st July 2015 is that the value of PAS assets have increased to stand at £138 million but liabilities have also increased to £194 million. The results of the annual update show that the funding deficit has significantly increased from £30 million at the 2013 actuarial valuation date to £56 million at 31st July 2015.

This is primarily due to a fall in gilt yields which has increased the PAS' liabilities. However the impact of this has been partly offset by contributions paid and positive asset returns which have acted to increase the value of the assets. Whilst the position has worsened over the two year period since the last actuarial valuation, the deficit is volatile, being particularly sensitive to changes in stock market performance, gilt yields and changes in life expectancy assumptions.

The next full actuarial valuation will be at 31st July 2016 and the results of this and the funding of the deficit will be discussed with the University and a recovery plan put in place.

How the PAS operates

What is the structure of the PAS?

The PAS is a final salary pension scheme. That is, it provides a pension that is based on a member’s final pensionable earnings and the number of years of pensionable service that the member has accrued. Both PAS active members and the University make contributions, based on a percentage of members’ pensionable earnings, to ensure that the cost of providing these benefits is met.

These contributions are held in a common fund (i.e. they are not held in separate funds which are allocated to each individual member). The fund is invested and is used to pay members’ benefits upon retirement. The fund excludes members’ Money Purchase Additional Voluntary Contributions (MPAVCs), which are held in separate funds in respect of individual members.

Following a consultation held in the spring of 2015, the University decided that it wished to close the PAS to future benefit accrual from 31st March 2016. Until that date the PAS remains open for future benefit accrual for active members. Current active members of the PAS will thereafter be provided with future pension benefits through either the University’s defined contribution Stakeholder pension or the USS.
How is my pension paid for?

The University and active members pay contributions into the PAS based on members' pensionable earnings. PAS active members currently contribute 7.5% of pensionable earnings whilst the University contributes the balance of the cost of providing the future accrued benefits, this is currently 19%.

The University operates a salary sacrifice scheme in relation to the PAS whereby, in exchange for a reduced salary, the University pays the member's contributions as well as the employers contributions into PAS.

Current contribution rates as a percentage of pensionable earnings for continuing service are as follows:

<table>
<thead>
<tr>
<th></th>
<th>% Employee Contribution</th>
<th>% Employer Contribution</th>
<th>Total % Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Salary Sacrifice Members</td>
<td>7.5%</td>
<td>19.0%</td>
<td>26.5%</td>
</tr>
<tr>
<td>Salary Sacrifice Members</td>
<td>0.0%</td>
<td>26.5%</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

In addition to the contributions indicated above, the University also makes an annual payment of £321,000 to meet the cost of administering the scheme.

As well at this, the University also makes a further annual lump sum payment of £1.8 million into the PAS in order to remove the PAS deficit reported in July 2013 by 2026/27.

How is the amount the Scheme needs worked out?

The PAS’ Statement of Funding Principles, agreed with the University, aims to ensure that, on a prudent assessment, there will be enough funds in the PAS to pay all of the Scheme’s liabilities (i.e. members' pensions) now, and in the future. The level of assets and future contributions required to deliver this requirement is determined by the triennial actuarial valuation, the most recent of which was carried out as at 31st July 2013.

What would happen if the Scheme were to be wound up?

Whilst the University is to end future benefit accrual for active members from 31st March 2016, the PAS itself is not being closed or wound up. It will remain ongoing, even though there may be a temporary funding shortfall, and benefits will continue to be paid in full.

In ending future benefit accrual the University is merely attempting to limit its exposure to future risks. The PAS Trustees will continue to meet and manage the PAS’ assets, deal with any administrative issues and ensure that actuarial valuations are undertaken every three years as required by legislation.

If, in the future, the University decided that it needed to wind up the PAS, the law requires that the University pay enough funds into the PAS to enable members’ accrued benefits to be completely secured through an insurance policy. Whilst the University is not contemplating winding up the PAS, regulations require that Summary Funding Statements include an estimate of the amount needed to secure such an insurance policy. This was calculated at the time of the 2013 actuarial valuation and at that time the estimate was £235 million, reflecting the investment strategies, profit margins and administration costs of insurance companies.

Were the PAS to be wound up, and the University were not able to pay the full amount required, e.g. if the University became insolvent, the Pension Protection Fund (PPF) would take over the PAS and pay compensation to members, although the benefits members would receive from the PPF would be less than the full benefit they had earned in the Scheme. Further information and guidance is available on the Pension Protection Fund’s website at www.pensionprotectionfund.org.uk.
Alternatively you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Inclusion of this information in the Summary Funding Statement is a legal requirement and does not imply that the University is thinking of winding up the PAS.

**What is the Scheme invested in?**

The PAS’ primary investment objectives are set out in the Statement of Investment Principles which is regularly reviewed and updated by the Trustees. These principles are:

- To ensure that the Trustees can meet the members’ entitlements as they fall due;
- To achieve a long term positive real return on investments;
- To manage the volatility of the assets in order to control the level of volatility in the required contributions;
- To reduce the risk of the assets failing to meet the liabilities over the long term;

In the light of these principles, the Trustees’ policy is to set the overall investment target in line with the assumptions used in the actuarial valuation and then monitor the performance of their investment managers against the target. The Trustees take advice on all aspects of their investment activity from their professional advisors, Barnett Waddingham LLP. The determination of the PAS’ asset allocation (e.g. the split between equities and bonds) and the selection of individual fund managers is undertaken by the Trustees. Day-to-day management of the assets is delegated to professional fund managers, who are responsible for stock selection and the exercise of voting rights.

As at 31st July 2013, the PAS had three investment managers, Legal & General Investment Management, BlackRock Investment Management UK and BNY Mellon Asset Management International. In line with the investment objectives above, the Trustees have pursued a policy of reducing volatility and increasing diversification in the asset allocation. To this end, the Trustees have, since 2013, appointed a further three investment managers, M&G Investments, Aviva Investors and AXA Investment Managers UK.

The current PAS asset holdings as at 31st July 2015 are set out below:

<table>
<thead>
<tr>
<th></th>
<th>UK Equity</th>
<th>Overseas Equity</th>
<th>Corporate Bonds</th>
<th>Alternative Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>L&amp;G Equity Portfolio</td>
<td>7.6%</td>
<td>23.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>L&amp;G Active Corporate Bond</td>
<td></td>
<td></td>
<td>9.8%</td>
<td></td>
</tr>
<tr>
<td>L&amp;G Cash Fund</td>
<td></td>
<td></td>
<td></td>
<td>0.1%</td>
</tr>
<tr>
<td>BlackRock Dynamic Diversified Growth Fund</td>
<td></td>
<td>20.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BNYM Newton Real Return Fund</td>
<td></td>
<td>17.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;G European Loan Fund</td>
<td></td>
<td></td>
<td></td>
<td>3.6%</td>
</tr>
<tr>
<td>Aviva Lime Property Fund</td>
<td></td>
<td></td>
<td></td>
<td>3.6%</td>
</tr>
<tr>
<td>AXA Sterling Smart Beta Fund</td>
<td></td>
<td></td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>AXA LDI Portfolio</td>
<td>7.6%</td>
<td>23.8%</td>
<td>19.8%</td>
<td>48.8%</td>
</tr>
</tbody>
</table>
Pension scams

There has been a recent rise in the incidence of pension scams in the form of 'pension liberation offers'. These scams usually claim to allow you to access your pension savings outside of the normal rules. However, taking up one of these offers could make you liable to high levels of tax and charges, and you could potentially lose all of your pension savings. The Pensions Regulator has stepped up its campaign against such scams and you can visit www.pension-scams.com for more information.

If you are tempted by any kind pension offer, please take independent financial advice before making a decision and never let yourself be rushed into anything. You can report any offer you think may be a scam to Action Fraud on 0300 123 2040.

Other Information

I am required to include certain additional regulatory statements in the Summary Funding Statement. These additional statements relate to payments from the PAS to the University and interactions with the Pensions Regulator.

No payments have been made to the University out of PAS funds since the last Summary Funding Statement was issued other than reimbursement of the costs associated with PAS administration.

The PAS has not been subject to any modifications or directions imposed by the Pensions Regulator.

Use of personal data

In providing actuarial services to the Trustees, including preparing this Summary Funding Statement, the Trustees, their adviser Aon Hewitt and the Scheme Actuary require access to personal data about members and their dependants. The Data Protection Act governs how the Trustees, Aon Hewitt and the Scheme Actuary use and store personal data. Members can find out more information about how their personal information is used in the provision of actuarial services at www.aonhewitt.co.uk/privacy-statement. Should a member have further questions regarding the processing of their personal information, they should contact the Secretary to the Trustees in the first instance (contact details are given below). General guidance is also available from the Information Commissioner's website.

Where can I get more information?

If you have any questions, or would like more information, please contact:

Mr G. R. Hague, Secretary to the PAS Trustees,
Finance Office, University of Leicester, University Road, Leicester, LE17RH
E: gh32@le.ac.uk
T: 0116 252 2406

The following documents are available on request:

- The full Actuarial Valuation report as at 31st July 2013, including the Schedule of Contributions and the Recovery Plan
- The latest Annual Actuarial Report following an actuarial review
- The Statement of Funding Principles which sets out the PAS's funding plan.
- The Statement of Investment Principles which explains how the Trustees invest the money.
• The 2015 Annual Report and Accounts of the PAS which shows income and expenditure in the year up to 31st July 2015.
• The Scheme booklet

Next Summary Funding Statement

As the outcome of the 2016 full actuarial valuation will not be available until the spring of 2017, I anticipate that the next Summary Funding Statement will be sent to you in mid to late 2017.

May I also request that if you change address please let us know so we can update our records.

Important: If you are considering leaving the PAS for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.

Yours sincerely

[Signature]

Professor J H Holloway
Chairman of Trustees
University of Leicester Pension & Assurance Scheme