

Allied Domecq Pension Fund Statement of Funding Principles

This Statement has been prepared by the Trustee of the Allied Domecq Pension Fund ("the Fund") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Actuary to the Fund, Tim Panter. This Statement is dated 10 December 2024 for reference purposes. It replaces the Statement dated 24 March 2022.

Employers

Participating Companies

Payments to the Fund can be made by the following companies which are employers in relation to the Fund for the purpose of Part 3 of the Pensions Act 2004 and also Participating Companies under the Fund's rules:

- Allied Domecq (Holdings) Limited (registered in England CRN 689729) ("Holdings");
- Allied Distillers Limited (registered in Scotland CRN SC026753);
- Allied Domecq Spirits and Wine Limited (registered in England CRN 703977); and
- Allied Domecq Spirits and Wine (Overseas) Limited (registered in England CRN 1521000).

They are referred to in this statement as the "Participating Companies".

Parent Companies

The intermediate parent company of the Participating Companies is Allied Domecq Limited (registered in England CRN 3771147). It is referred to in this Statement as "AD".

The ultimate parent company of the Participating Companies (and many other companies) is Pernod Ricard S.A. (registered in France with the Paris Commercial and Companies Register under number 582 041 943 RCS Paris). It is referred to in this Statement as "PR". The group of companies (including the Participating Companies) of which PR is the ultimate parent company is referred to in this Statement as the "PR Group".

Agreement with the Employers

The Trustee has agreed the contents of this Statement with the Participating Companies, PR and AD. In this Statement the word "Company" is used to refer to the Participating Companies, PR and AD collectively.

Statutory funding objective

The statutory funding objective is that the Fund should have sufficient and appropriate assets to cover its technical provisions as provided for under Section 222 of the Pensions Act 2004. The technical provisions means the amount required, on an actuarial basis, to make provision for the scheme's liabilities, in accordance with the Pensions Act 2004 and the Scheme Funding Regulations¹ and having regard to the Code of Practice issued by the Pensions Regulator.

Additional Funding Objective

In accordance with Section 223 of the Pensions Act 2004 and the Scheme Funding Regulations, the Trustee is required to include in this Statement of Funding Principles any funding objective which the Trustee has adopted in addition to the statutory funding objective.

The Trustee's long-term objective is to have sufficient assets to enable the Fund's benefits to be secured through insurance policies and to be satisfied there is suitable cover for residual risks. This enables the Trustee to manage the Fund with a very low chance of further significant contributions being required from the Company.

The Trustee, in consultation with the Company, will consider whether reserves in addition to the technical provisions are likely to be required in order to support the additional funding objective. It is anticipated, at this time, that any additional funding required to meet the additional funding objective will come through investment returns.

¹ The Occupational Pension Schemes (Scheme Funding) Regulations 2005

The Company acknowledges and supports the Trustee's additional funding objective, but without any specific commitment beyond what is explicitly agreed from time to time.

This Statement sets out the Trustee's policy for meeting the statutory funding objective and its additional funding objective.

Technical provisions

Method

The technical provisions for the Fund at any valuation date are the discounted capital value of all the prospective benefits payable from the Fund. This section describes how the assumptions used to determine the amount of the Fund's liabilities under the statutory funding objective (referred to as the "technical provisions") will be set.

In 2019 the Fund purchased an insurance policy to secure the majority of the Fund's benefits ("Bulk Purchase Annuity"). The assumptions used for the technical provisions will be different for members covered by the Bulk Purchase Annuity and those not covered. The assumptions used to calculate both the asset and technical provisions liability value of the benefits insured by the Bulk Purchase Annuity are consistent with the premium paid for the insurance contract, updated for any changes in market conditions.

The assumptions below therefore only relate to those members not covered by the Bulk Purchase Annuity.

Financial assumptions

The financial assumptions used to calculate the capital value of the prospective benefits will be based on market conditions at the valuation date:

- The discount rate is intended to be a risk free rate adjusted to reflect a prudent estimate of investment returns across the Fund's investment portfolio. The discount rate therefore references the weighted average of the yield curve derived from UK government bonds for the cashflows projected to arise from the prospective benefits.
- The discount rate used to determine the technical provisions at the 2024 valuation (net of investment expenses) was the weighted average of the gilt yield curve for the cashflows projected to arise from the prospective benefits minus 0.1% pa.
- Any excess return over gilts to be used at future valuations will be no more than 0.15% pa.
- The guaranteed pension increase rate for pensions in payment (in excess of any GMPs) is the annual increase in the retail price index subject to a minimum of 3% and a maximum of 5% each year. The assumed rate of future increases to pensions in payment will have regard to the market implied rate of retail price inflation and indicative market pricing for the 3% minimum and the 5% maximum.
- The guaranteed pension increase rate in deferment (in excess of any GMPs) is the cumulative increase in the consumer price index over the period from the date of leaving to retirement with a minimum of 3% per annum and a maximum of 5% per annum. The assumed rate of future increases to pensions in deferment will have regard to the market implied rate of consumer price inflation and the historical accumulation of increases in deferred pensions to the valuation date relative to the minimum rate of 3% per annum and the maximum rate of 5% per annum.

Mortality

The Trustee recognises the importance of making an adequate allowance for improvements in pensioner longevity after the valuation date. At each valuation the Trustee reviews relevant mortality information, including any relevant mortality experience and postcode analysis of the Fund's insured and uninsured members to determine if the assumptions made remain appropriate, with a sufficient margin for prudence. Reference is also to be made to any further evidence for trends in longevity improvements across the UK population as a whole, and the results of mortality studies which have been published. Any changes made will have regard to the advice of the Actuary and will be agreed with the Company, with the intention of making a prudent allowance for future improvements.

Other demographic assumptions

The other demographic assumptions will be set by the Trustee on the advice of the Actuary, having regard to:

- an analysis of the experience of the Fund membership
- relevant information and statistics applicable to Fund members, similar pension schemes and the UK population.

The other demographic assumptions are intended to reflect a realistic estimate of the future demographic experience.

Expenses

The Company and Trustee have agreed that the Trustee will take responsibility for paying all of the Fund's expenses. The reserve within the technical provisions to fund future expenses, assuming the Fund continues on an ongoing basis, will be set at £48 million at the 2024 valuation, recognising that the Trustee now pays VAT on expenses. For subsequent valuations, the Trustee and the Company will agree any revision required to this reserve to reflect changing expectations about future expenses.

For the purposes of the paragraph above, the expense reserve is designed to cover all reasonable administration expenses, advisers' fees, audit fees, and Pension Protection Fund and other levies. Investment management costs are deemed a first charge on investment returns achieved and the discount rate used in the valuation is therefore net of these costs.

Member options and discretionary benefits

There are a number of areas where the benefits payable are subject to the exercise of an option by the member or discretion on the part of the Trustee and/or the Company.

- Members may commute part of their pension for a lump sum at retirement. Allowance for the commutation of part of members' pensions into cash is currently made in the calculation of technical provisions.
- Members may transfer their pension out of the Fund to an alternative pension arrangement. The technical provisions makes no advance allowance for members to transfer out of the Fund.
- Subject to the Trustee's consent, members may convert pensions from one form into another, such as on early retirement or late retirement. Allowance is made for the exercise of the option to retire early to reflect the experience of members of the Fund.
- If the Company requests that a member's benefits be augmented, and if the Company pays any additional contribution advised by the Actuary, then the Trustee will effect the requested increase. No advance allowance for such discretionary benefits is made in calculating the technical provisions.
- Pensions in deferment or in payment receive guaranteed increases as specified in the Rules. The Trustee is also required to review pension increases in payment and at their discretion, subject to approval from the Company, they may grant additional discretionary increases. No advance allowance for discretionary pension increases is made in calculating the technical provisions.

Frequency of actuarial investigations

The Fund's first actuarial valuation under Part 3 of the Pensions Act 2004 was carried out as at 5 April 2006. In the normal course of events the Trustee will request subsequent valuations three years after the preceding one. The Actuary will provide an estimate of the updated financial position of the Fund as at each anniversary of the formal funding valuation.

The Trustee, after having considered the Scheme Actuary's opinion, may call for a valuation at any time if it is of the opinion that events have made it inappropriate to continue to rely upon the results of the previous valuation. The Trustee may wish to consider doing so in the following circumstances:

- following a request from the Company
- if there is evidence that the level of cover for the technical provisions has deteriorated materially
- if there is any event which might have a significant effect upon the ability of the Company to support the Fund
- if there is a significant change in the membership for any reason.

Actuarial valuation as at 31 March 2024

Following the principles described above, the assumptions for calculating the technical provisions as at 31 March 2024 are as set out in the Appendix.

Eliminating a deficit

The Trustee's aim is that any shortfall of the Fund's assets to the technical provisions at a valuation date ("a deficit") should be eliminated as quickly as the Company can reasonably afford by the payment of additional contributions over the recovery period. In determining the recovery period at any particular valuation the Trustee will take into account relevant factors such as:

- the provisions of the Trust Deed & Rules;
- the size of the deficit and the degree of prudence in the technical provisions;
- the risk that the Fund's financial position may deteriorate against the statutory funding objectives;
- the projected financial position of the Company, including its free assets and projected cashflow, and the risk of significant deterioration in this position;
- any contingent assets or letters of credit provided by the Company (so long as these are not already being used to support the level of technical provisions).

The intention is that any deficit relating to the statutory funding objective at a valuation date will be met by the payment of contributions from the Participating Companies.

Responsibility for Company payments

Holdings will undertake to the Trustee in each Schedule of Contributions prepared pursuant to section 227 of the Pensions Act 2004 ("Schedule") to make or procure that there are made by the other Participating Companies all the payments provided for in the Schedule. In addition, and without prejudice to Holdings' obligation in respect of all such payments, the other Participating Companies will undertake to the Trustee to make all the payments allocated to them by Holdings. For this purpose the "other Participating Companies" shall exclude any of the Participating Companies that has been sold and thereby ceased to be a subsidiary of PR within the meaning of Section 736 of the Companies Act 1986.

AD will confirm to the Trustee in each Schedule that all the payments by the Participating Companies provided for in the Schedule are covered by the guarantee AD has given to the Trustee.

PR will confirm to the Trustee in each Schedule that all the payments by the Participating Companies provided for in the Schedule are covered by the guarantee PR has given to the Trustee in the guarantee letter dated 20 April 2005 ("Guarantee Letter"). PR has requested the Trustee to rely on the strength of PR (by virtue of the resources of the PR Group) as the guarantor of the Fund's liabilities. PR undertakes to the Trustee that in relation to any future recovery plan, it will not seek to argue that "reasonable affordability" should be measured only by reference to what is affordable to Holdings or the other Participating Companies.

Arrangements for other parties to make payments to the Fund

There are no arrangements for a person other than the Company or a member to pay contributions to the Fund.

Paying funding surpluses to the Participating Companies

The Trust Deed & Rules do not include provisions for the Trustee to make payments to any of the Participating Companies out of the Fund unless any surplus exists following a winding up of the Fund.

Cash equivalent transfer value calculations

The Trustee will ask the Actuary to advise them after each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values for all members other than pensioners without adversely affecting the security of the benefits of other members and beneficiaries. The Trustee's current policy is not to reduce cash equivalent transfer values paid to members.

Dates of review of this Statement

The Trustee may review, and if necessary revise, the Statement at any time. In any event, the Trustee must review this Statement, and revise the Appendix accordingly and the Statement if necessary, within the 15 months starting from the effective date of each actuarial valuation. Any revision to the Statement is subject to the agreement of the Company.

Counterparts

This Statement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Statement.

Signed to evidence the agreement of the Trustee, the Participating Companies, PR and AD to the contents of this Statement dated 10 December 2024.

Appendix – Main assumptions for calculating the technical provisions as at 31 March 2024

Main financial assumptions at 31 March 2024 for members not covered by the Bulk Purchase Annuity

	% per annum	Notes
Valuation discount rate	4.2% pa	The discount rate is set by reference to the full gilt curve with a reduction of 0.1% at each duration. The quoted rate is the equivalent single rate over the period
Revaluation of pensions in deferment (apart from GMPs)	2.7% pa	The 3% collar will apply for many members
Pension increases in payment (on pensions subject to LPI with a minimum of 3% per annum)	3.8% pa	The assumption uses the full RPI curve using the applicable forward rate, allowing for the impact of the caps and floors. The quoted rate is the average rate over the expected cashflows

Demographic assumptions at 31 March 2024 for members not covered by the Bulk Purchase Annuity

Mortality

The tables below are self-administered pension schemes' Series 2 (SAPS S2) tables adjusted to give a confidence level of 67% in relation to the Fund's own experience from 2014-18, projected from 2007 to 2014 in line with the CMI 2017 model with a 1.5% pa long-term trend and then, projected from 2014 in line with CMI 2022 model with a 1.5% pa long-term trend a smoothing parameter of 7.0 and an initial addition to mortality of 0.25%.

Members	Table
Pensioners - Male	SAPS S2 All Heavy Pensioners table with a multiplier of 118%
- Female	SAPS S2 All Heavy Pensioners table with a multiplier of 117%
Deferred pensioners	As pensioners
Widow(er)s - Male	SAPS S2 All Heavy Pensioners table with a multiplier of 118%
- Female	SAPS S2 Dependants table with a multiplier of 132%

Spouses' and dependants' pensions

A Lexis Nexis study was carried out to identify members' actual family statistics, including information on marriage status and age difference between members and dependants. This information is used where it is available.

Otherwise, the proportion of deaths of members who die immediately after retirement which give rise to a dependant's pension is assumed to be 80% for men and 70% for women. The assumed proportion reduces for older members in retirement in line with assumed post-retirement mortality of their dependants. Members are assumed to have an age difference (male – female) of three years.

Retirement

Members with a normal retirement age of 60 are assumed to retire at the age of 59 subject to the benefits being reduced for early payment where appropriate. All other deferred pensioners are assumed to retire at the age of 62 subject to the benefits being reduced for early payment where appropriate.

Allowance for members commuting pension for cash at retirement

Members are assumed to commute 20% of their pension for cash at retirement.

Other Reserves within the technical provisions as at 31 March 2024

Expenses

A reserve of £48 million for future expenses is held within the technical provisions, which assumes that the Fund continues on an ongoing basis.

GMP Equalisation

The 2019 purchase of the Bulk Purchase Annuity included a 1% allowance towards GMP equalisation on the insured liabilities. The Technical Provisions includes a reserve for 1.7% of the total member liabilities, reduced for back-payments that were made in respect of GMP equalisation in the first quarter of 2024. The true cost of GMP equalisation, however, will not be known until the GMP equalisation project is concluded.