

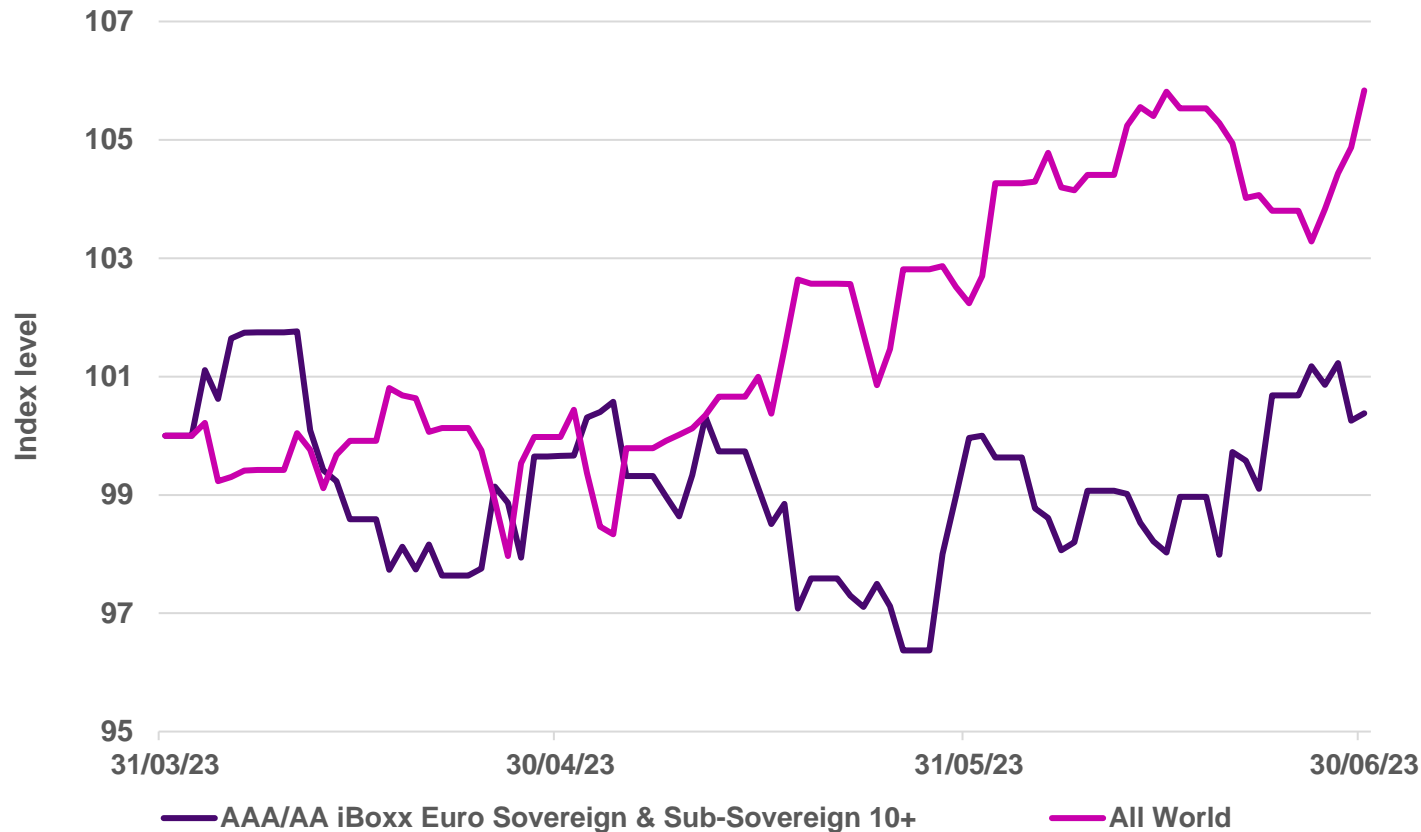


DB Pension Monitor

Q2 2023

Market developments

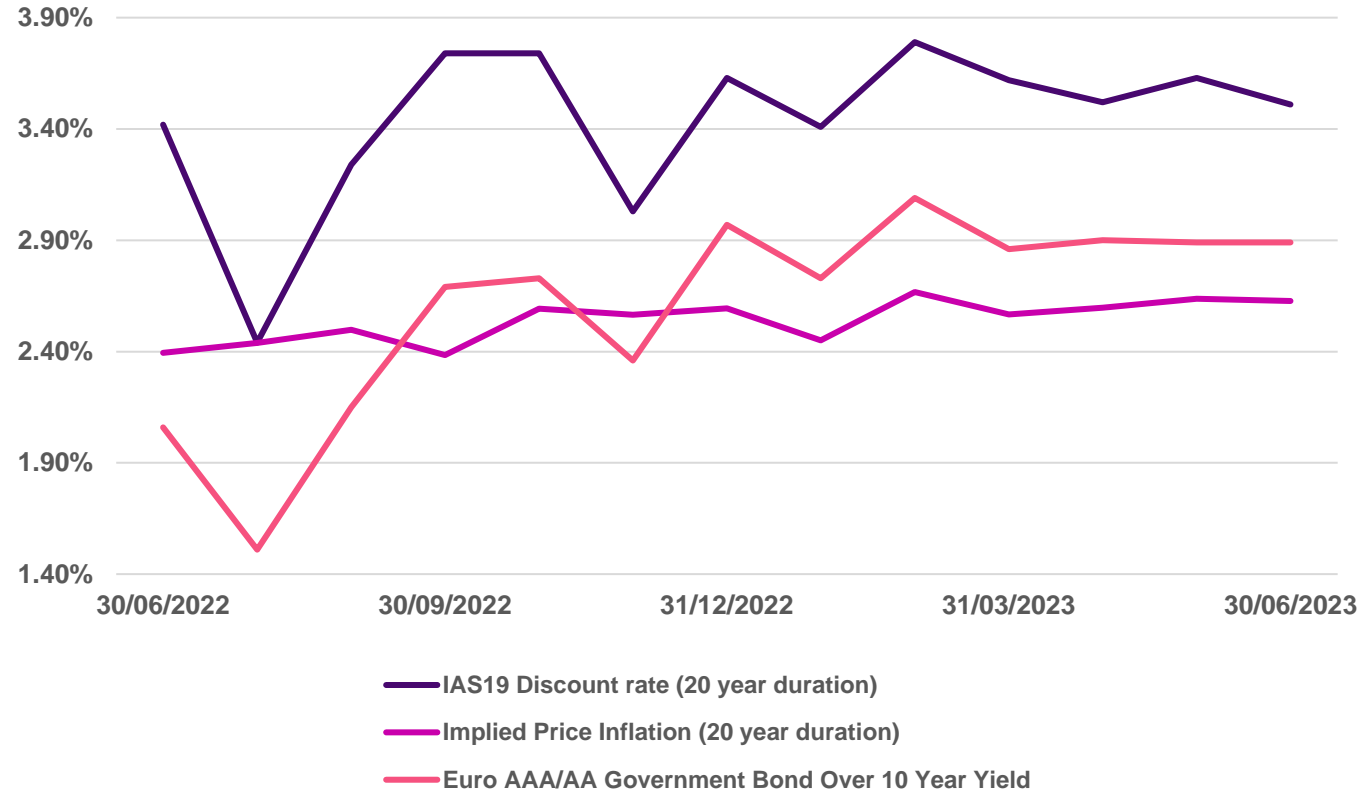
Equity & Bond market movements – Q2 2023



Equities	Market Return Q2 2023 (unhedged)	Market Return 1 year to 30 Jun 2023 (unhedged)
World	5.8%	11.7%
Europe	0.9%	13.6%
North America	7.8%	12.7%
Emerging Markets	-0.5%	-5.2%
Government Bonds	Market Return Q2 2023	Market Return 1 year to 30 Jun 2023
Euro AAA/AA Over 10 Year Sovereign & Sub-Sovereign Bonds	0.4%	-9.1%

Market developments

Bond Yields & Liability movements (since 30 June 2022)



	30 Jun 23	31 Mar 23
IAS19 Accounting Discount rate (20 year duration)	3.51%	3.62%
Euro Sovereigns AAA/AA Over 10 Year Bond Yield	2.89%	2.86%
Eurozone price inflation expectations (20 years)	2.63%	2.57%

Estimated IAS19 liability change over the quarter* (assuming 20 year liability duration)	Q2 2023
Fixed or no post-retirement pension increases	2.7%
Inflation-linked post-retirement pension increases	3.4%

* Assumes 1/3 of Plan liabilities relate to pensioners and 2/3 relates to non-pensioners



Comment & Implications

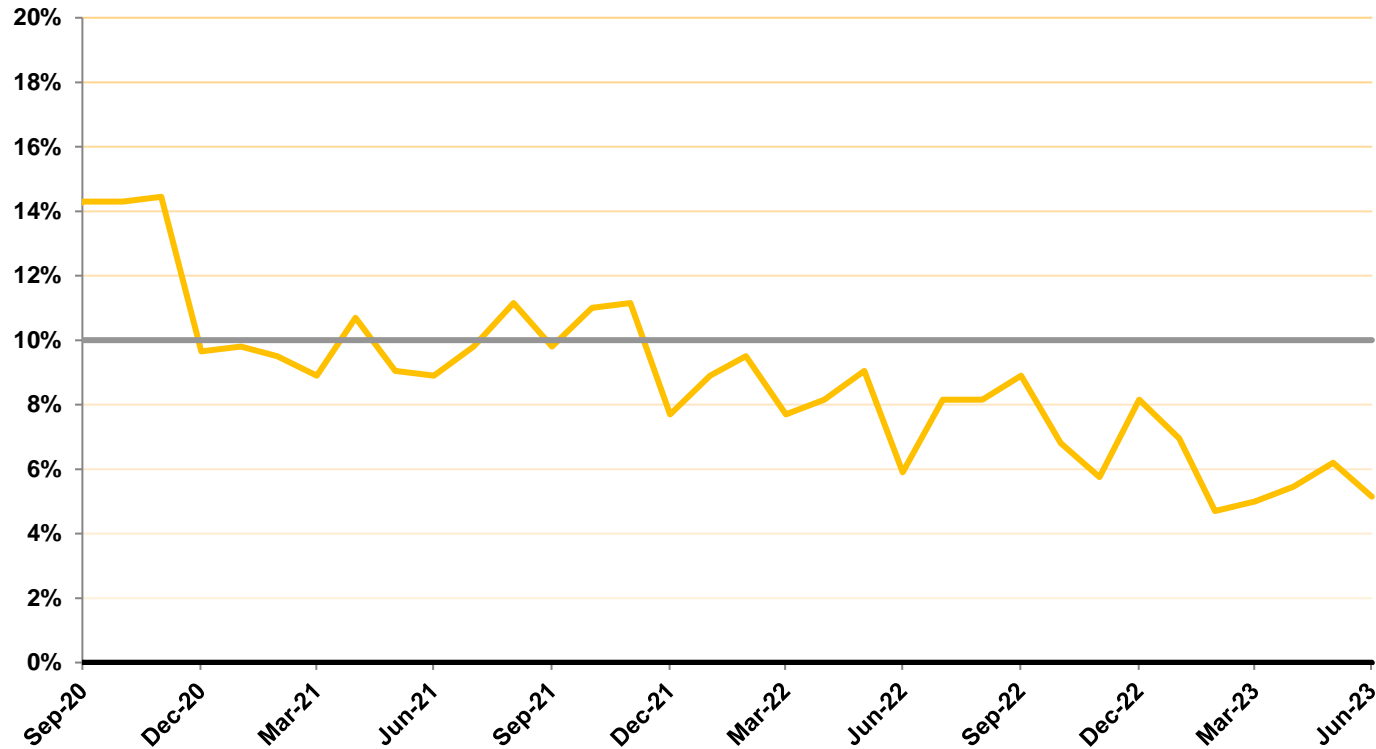
Equity markets had positive returns while bond markets were mixed over the quarter. Equity and corporate bond markets benefited from receding concerns over the prospect of a recession while most Euro sovereign bond markets fell slightly as bond yields rose and the European Central Bank increased short-term interest rates.

The impact of market movements on funding levels will have varied by scheme but we would expect to see a slight improvement in funding positions where schemes hold growth assets. This presents de-risking opportunities such as reducing exposure to Return Seeking assets, implementing LDI solutions (or increasing hedge ratios if already in place) and Annuity Settlement of pensioner liabilities (see overleaf). Enhanced Transfer Value (ETV) exercises can also be used to reduce DB pension liabilities but they are less attractive from an accounting perspective than in previous years.

Liability management options

Annuity settlement

Settlement premium (% of liabilities) vs Euro aggregate bonds



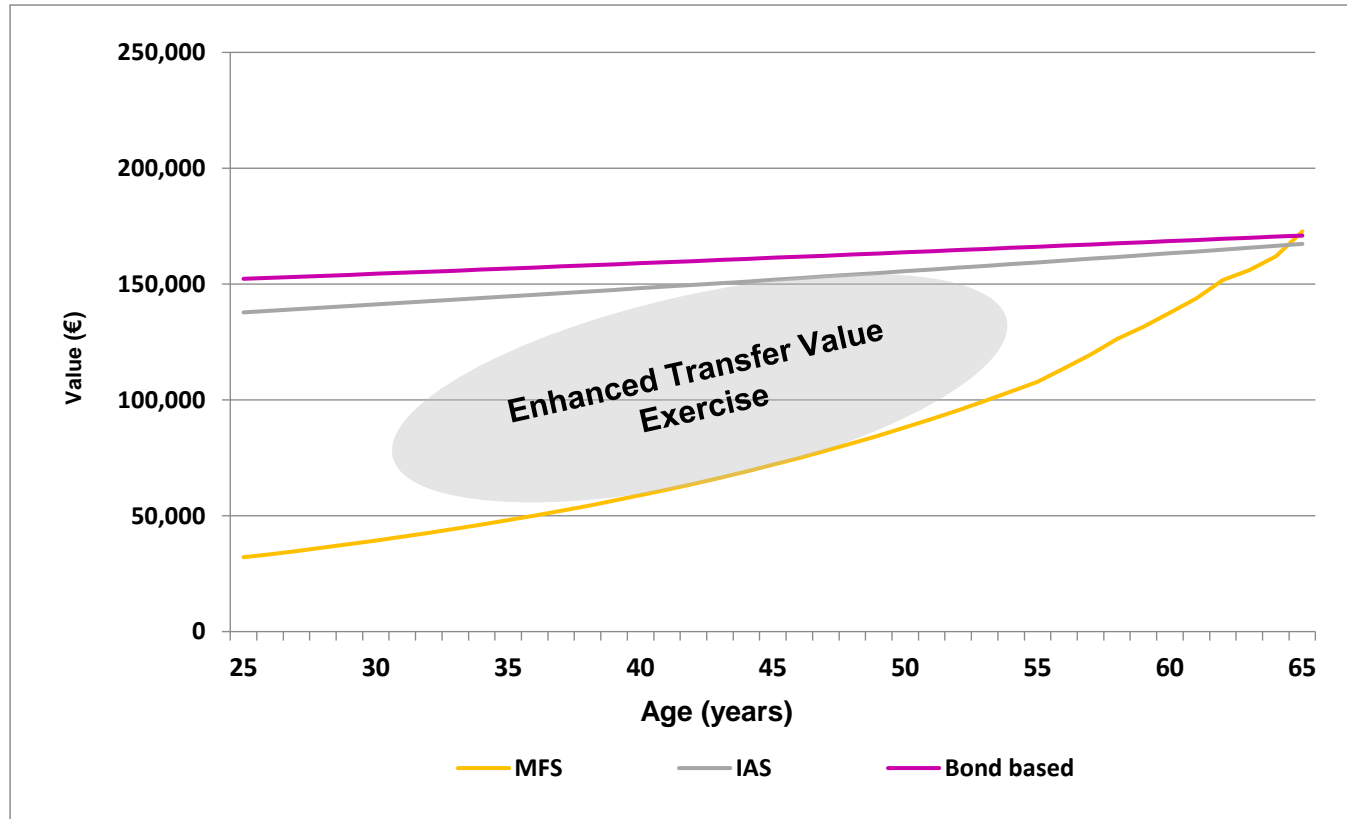
The chart above traces the movement of the Settlement Premium based on indicative insurer pricing data. This is the percentage difference between the value of a scheme's benefits calculated on a 'Bond Basis' and the market cost of securing a bulk annuity with a life insurance company. This represents the premium paid to secure benefits relative to holding Eurozone aggregate bonds to meet the liabilities. The lower the Settlement Premium, the more attractive it may be for a DB scheme to settle its pensioner liabilities using annuities.

Notes:

1. This note should not be relied upon in the absence of formal advice and we accept no responsibility for its use, which is entirely at your own risk. If you would like any assistance or further information on the contents of this note, please contact the WTW consultant who normally advises you.
2. For the purposes of valuing liabilities on a 'Bond Basis' in this analysis, we have assumed a discount rate in line with the yield available on a Euro Sovereigns 15+ Index (3.3% at 30 June 2023).
3. The actual annuity pricing available in the market can vary depending on the specific characteristics of a scheme or transaction. In particular, annuity pricing for inflation-linked benefits may be less attractive than indicated above.

Liability management options

Enhanced Transfer Value exercises



Transfer Value Exercises enable Employers to reduce defined benefit pension liabilities and improve balance sheets by offering members an enhancement above the statutory (minimum) funding standard value to transfer benefits to alternative arrangements.

The chart above shows the value of €10,000 p.a. of non-increasing pension payable from age 65 on different bases for members at ages between 25 and 65. The valuations above assume the deferred pension receives statutory revaluation prior to retirement and are based on the following assumptions:

	Funding Standard (MFS)	Accounting Basis (IAS)	Bond Basis
Pre retirement	6.00%	3.5%	3.3%
Post retirement	4.25%	3.5%	3.3%
Statutory revaluation	1.50%	2.6%	2.6%



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