HYMANS ROBERTSON

Putting pensions in context

FTSE350 Pensions Analysis 2018

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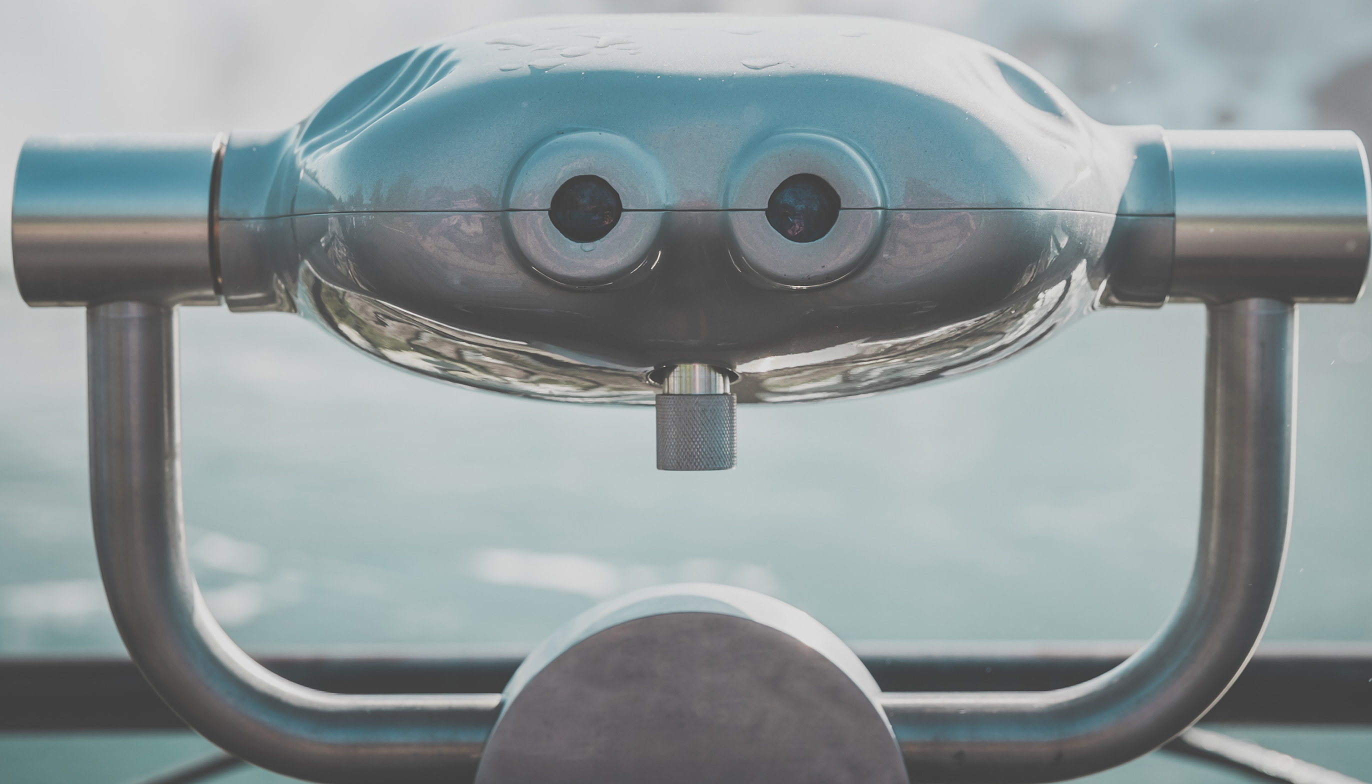


Executive Summary

Welcome to our tenth annual FTSE350 pension analysis report, which puts the Defined Benefit (DB) pension schemes of the FTSE350 in the context of the businesses that support them.

Occupational DB schemes have continued to grab headlines over the past year. We have started to feel the impact of an emboldened Pensions Regulator (TPR), taking a much more proactive stance and intervening more frequently in the running of DB schemes. There has also been another record breaking year in the risk transfer market, combined with a growing number of alternative consolidation vehicles beginning to establish themselves and bring to bear some innovative risk management opportunities.

With these in mind, we see two strong themes emerging over the next year for DB pensions:

1. **A tougher regulator.** The Pensions Regulator's 2018 funding statement set out an increasingly hard stance in the wake of several high profile corporate failures. Schemes currently going through actuarial valuations may already be feeling the impact of an invigorated Pension Regulator. Those with valuations on the horizon should be prepared for pressure to increase deficit contributions or implement additional risk management and contingency plans, especially in cases where the allocation of cash to shareholders is disproportionate to that being used to plug pension deficits.

2. **Take-off of the DB consolidation market.** For many corporates, securing all members benefits with an insurance company, and getting a clean break from their DB obligations, might seem like a pipe dream. However, new DB consolidation solutions emerging in the market could provide a good solution for a significant minority of cases for a lower cost than buy-out. Whilst companies with better funded schemes should still be aiming for a gold standard buy-out policy, consolidation in its different forms is a useful stepping stone to reduce pensions risk or get better value for money through significantly reduced ongoing running costs.

This report shows that most companies are well able to support their pension schemes, with 90% of companies able to pay off their IAS19 deficit with less than 6 months' earnings.

I hope you find this report interesting and informative. Please contact me or one of the team if you would like to discuss any aspect of our analysis.

Alistair Russell-Smith

Partner and Head of Corporate DB Consulting
alistair.russell-smith@hymans.co.uk

A tougher regulator

What's the issue?

TPR's 2018 funding statement set out an increasingly hard stance in the wake of several high profile corporate failures. A new DB code of practice is expected in 2020, but even in advance of this, companies can expect more regulatory intervention at or ahead of their next actuarial valuation. The key regulatory themes are:

- **Affordability and managing deficits** – stronger companies are expected to strengthen technical provisions, increase contributions or reduce recovery plan length. Weaker companies should prioritise DB deficits over shareholder returns.
- **Fair treatment of scheme vs shareholders** – if a company has a poorly funded DB scheme, it should ensure dividends are not 'disproportionate' to deficit contributions.
- **Risk management and contingency plans** – 'documented and workable' contingency plans should be put in place and be legally enforceable where possible.

Analysis

There are 115 FTSE350 companies with an IAS19 deficit. The chart overleaf shows corporate dividends as a proportion of cash being paid into the DB scheme. On average, these companies are paying 6x more in dividends than in pension contributions.

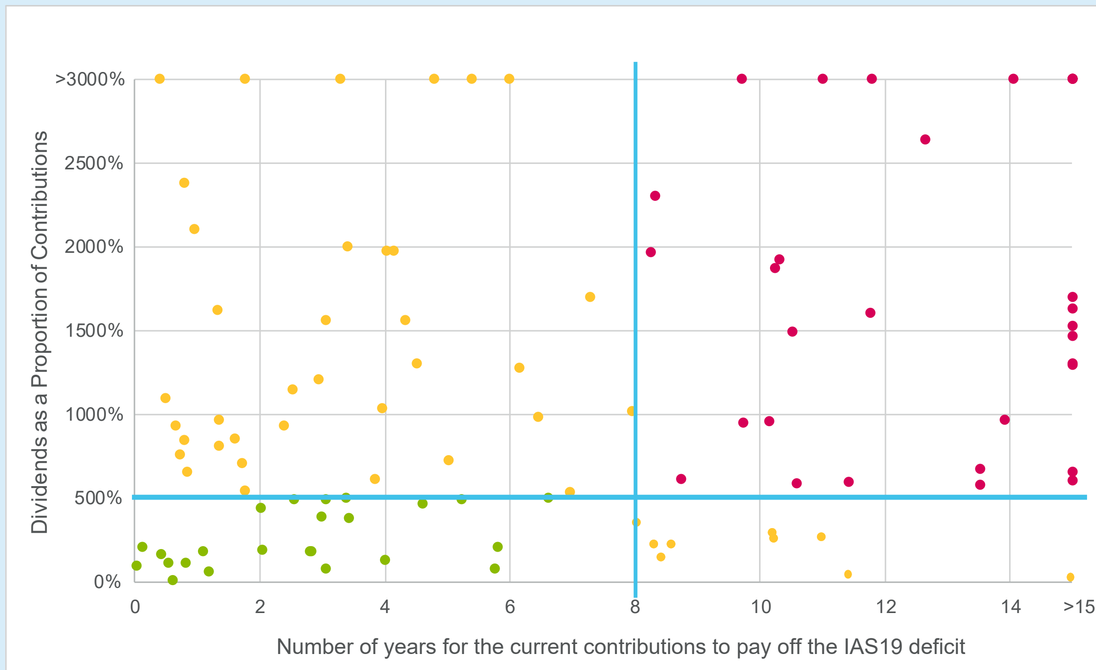
This is then plotted against the number of years it would take for the current DB contributions to pay off the IAS19 deficit. On average this takes 8 years.

TPR will use additional information when assessing schemes, in particular including details from the triennial valuation process rather than IAS19 deficits. However, this analysis provides a useful starting point for understanding which companies might be at risk of regulatory intervention.

| Our view

Corporates should plan for increased pressure from scheme trustees and TPR to pay more into their DB schemes at their next triennial valuation. It will only be well funded schemes with low levels of investment risk that avoid this. Corporates should respond by ensuring they get value on their spend. Actions to consider include reviewing the long term objective (ensure the scheme is not aiming higher than it needs to), contingent contributions (which are only payable if funding gets too far behind plan), turning contributions off when fully funded, and use of escrow funding to avoid trapped surpluses.

Dividends as a Proportion of Contributions against Implied Recovery Plan Length



Top left quadrant

Shorter implied recovery plans, and pension contributions low relative to dividend levels.

36 companies with £107bn of DB liability.

Regulatory intervention possible, particularly if long term funding targets are low or investment risk is high.

Top right quadrant

Longer implied recovery plans, and pension contributions low relative to dividend levels.

46 companies with £141bn of DB liability.

Regulatory intervention likely unless pension contributions significantly increase at the next valuation.

Bottom left quadrant

Shorter implied recovery plans, and pension contributions more substantial relative to dividend levels.

24 companies with £106bn of DB liability.

Regulatory intervention unlikely.

Bottom right quadrant

Longer implied recovery plans, and pension contributions more substantial relative to dividend levels. This could imply covenant is stretched.

9 companies with £54bn of DB liability.

Regulatory intervention possible, particularly where covenant is stretched.

Take-off of the DB consolidation market

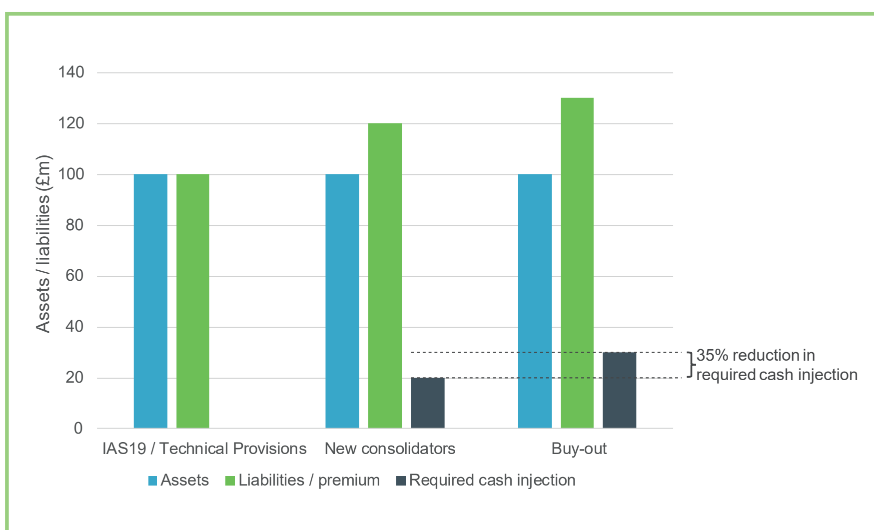
DB consolidation is leading to new solutions for corporates to either get a clean break from their DB scheme at a lower cost than buy-out or significantly reduce their DB running costs. This section analyses some of these options.

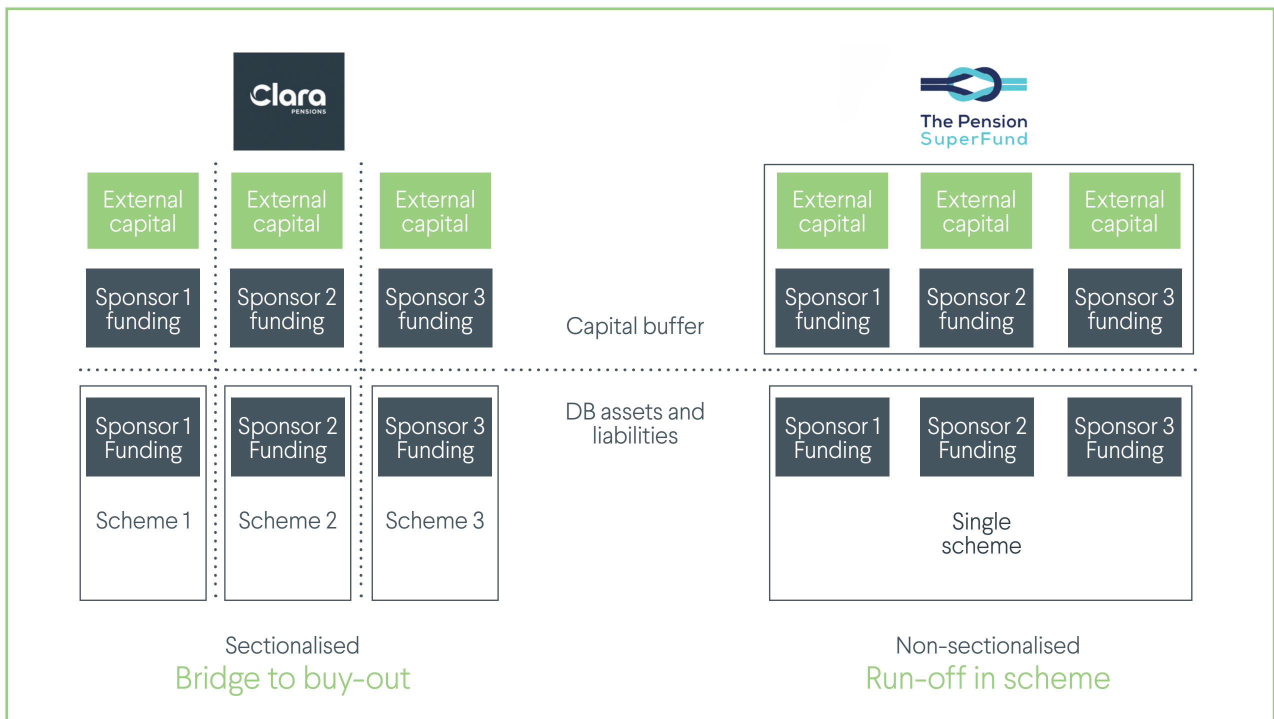
Non-insured risk transfer

This involves transferring DB assets and liabilities to a master trust backed by a capital buffer. It gives the corporate a clean break. Pricing is 10-15% cheaper than insurance buy-out, but this can translate to a far more significant reduction in the required cash injection for a clean break, as the chart below shows. The first of these types of transactions is expected in the coming months.

There are currently two providers in the market – **Clara Pensions and The Pension SuperFund**. Both use the same scheme + capital buffer approach, but they do have structural differences. Clara is sectionalised and passes the scheme assets and liabilities to the insurance market over time. The Pension SuperFund is not sectionalised and runs off the liabilities in the scheme.

Illustrative insurer and commercial consolidator pricing for a sample scheme with £100m of IAS19 liabilities:

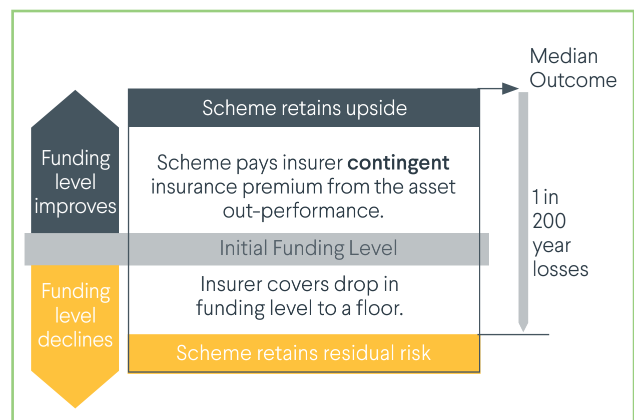




Non-insured risk transfer is unlikely to work for companies with well-funded DB schemes, where buy-out is a more appropriate settlement. However, it becomes more compelling for less well funded schemes, where a significant cash injection leading to a better funded scheme and a lower risk investment strategy can be a fair exchange for giving the employer a clean break.

Insured self-sufficiency

Conceptually this is similar to Clara Pensions, with DB assets and liabilities managed by a provider to ultimately reach insurance buy-out. The scheme needs to be funded at an adequate level at the outset. The insurer's fund management arm then invests the assets to modestly out-perform the liabilities and reach buy-out over time. The insurance arm insures the funding level in all but the worst 1-in-200 year event. This insurance is funded from a premium payable on the assets if they deliver the required out-performance. The scheme remains in its existing trust and governance structure until it reaches buy-out. So the corporate retains tail downside risk in return for not needing such a significant upfront contribution.



Mergers and simplification

Corporates with more than one DB scheme should consider mergers and simplification to reduce running costs and simplify the management requirements.

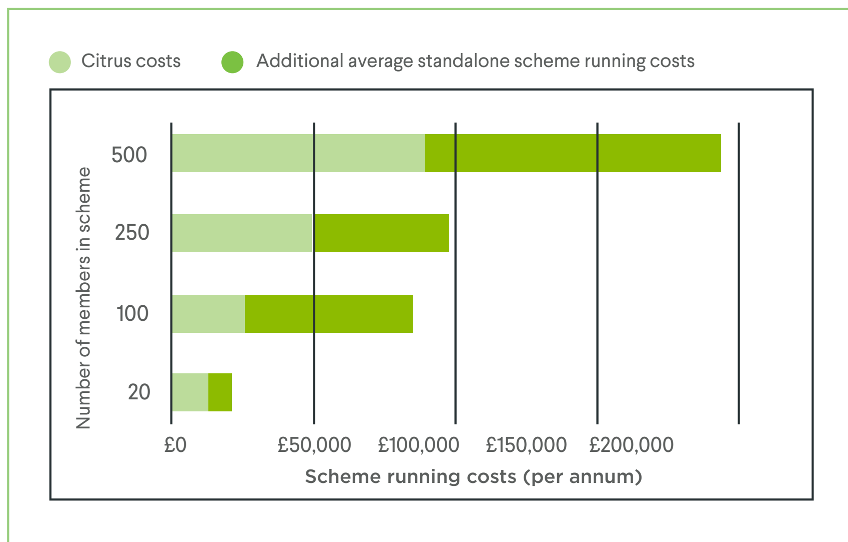
A straightforward step is to align trustee boards and service providers across the different schemes.

A further step is to merge multiple DB schemes into one trust. This may require cash or security to offset any dilution in funding levels or covenant support for the different schemes. However, it can lead to very significant reductions in running costs, with payback periods of 2 years or less often achieved.

Transfer to a DB master trust

DB master trusts are not new. As funding levels improve and risks reduce, and as corporates look harder at how they manage their involvement with the DB scheme, transferring to a DB master trust can be attractive, and it very substantially reduces running costs.

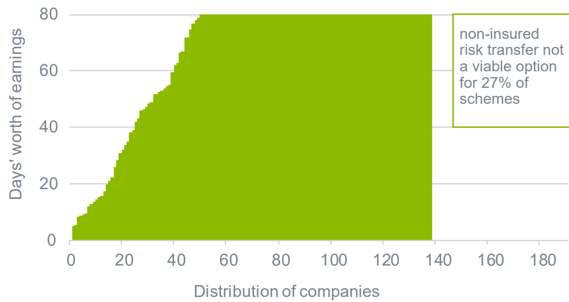
The analysis below, which was carried out by **Citrus** (a DB master trust in this market) shows that running costs can reduce by up to one half in a DB master trust compared to running your own DB scheme.



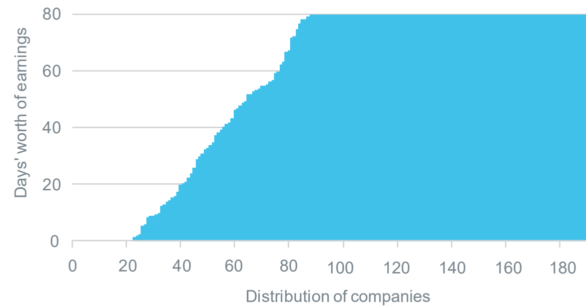
Analysis

We have analysed the ability of the FTSE350 to use the different consolidation options:

Days' worth of earnings for non-insured risk transfer

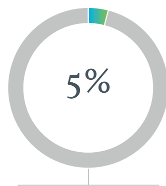


Days' worth of earnings for insured buy-out

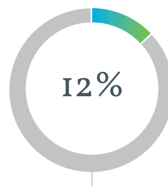


The charts show the distribution of schemes that could transfer to a consolidator (left-hand chart) or buyout with an insurer (right-hand chart) with contributions to the pension scheme (expressed as days' worth of company earnings). Transferring to a consolidator is only likely to be appropriate if a cash injection is needed to reach full funding on the consolidator's basis. Schemes funded above this level are unlikely to agree to a transfer, and also the consolidators are unable to access scheme assets tax efficiently for the capital buffer in this situation.

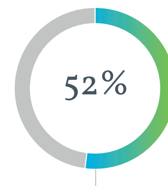
Proportion of FTSE350 companies that could immediately access consolidation:



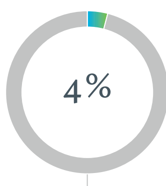
Could transfer to a consolidator with less than 2 weeks' earnings



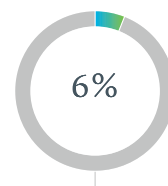
Could buy-out immediately with no cash injection



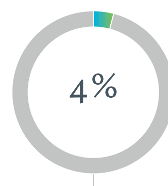
Have more than 1 DB scheme and could reduce running costs and management time by merging the schemes



Could transfer to a consolidator with 2-4 weeks earnings



Could buy-out with less then 2 weeks' earnings



Could benefit from a transfer to a DB master trust (due to having a DB scheme under £200m that is not sufficiently close to buy-out or transfer to a commercial consolidator)

Summary of the consolidation options

	Clara Pensions	Pension SuperFund	Insured Self-Sufficiency	Mergers and simplification	DB Mastertrust
Target market	Up to £500m	£200m - £10bn	£500m +	Multiple DB schemes	Under £200m
In an nutshell	Immediate clean break at a lower cost than buy-out		Risk managed exit over time	Use economies of scale from consolidation to reduce running costs	
Covenant	All but strongest covenants		All covenants		
Pricing	10-15% cheaper than buy-out		Cheaper than non-insured risk transfer	Upfront cost, but 2 year payback with a 50% reduction in running costs	
Key challenges	Need significant cash injection to offset loss of sponsor covenant	As for Clara, plus non-sectionalised structure likely needs additional due diligence	Changes to scheme governance, accepting insurer as an aligned partner	Mitigating any dilution in funding level or covenant support	Confidence that the loss of corporate control is mitigated

Our view

Commercial consolidators could be a good solution for a significant minority of cases.

The decision to consolidate means weighing up whether members are better off with the current funding and sponsor covenant, or with the improved funding and contingent capital in the consolidator. Commercial consolidation (i.e. Clara or Pension SuperFund) might therefore be appropriate for:

a) Less well funded schemes where buy-out is not realistic in the foreseeable future.

b) Schemes with weaker sponsors where there is a real risk that the sponsor will not be able to support the scheme through to buy-out in the longer term.

FTSE350 analysis

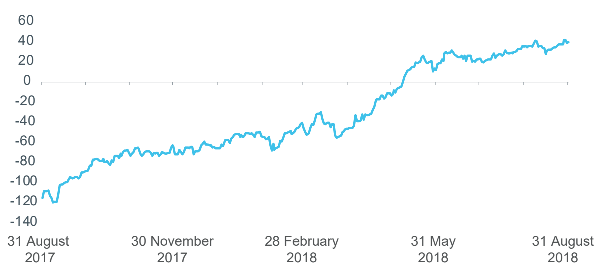
Pension deficits

For the first time in a decade, the funding position of the aggregate IAS19 FTSE350 pension obligations moved into a surplus in 2018.

The IAS19 deficit stood at £115bn at 31 August 2017. Conditions have significantly recovered since then with strong equity performance and higher corporate bond yields serving to reduce accounting deficits, as well as companies continuing to benefit from slower improvements in life expectancy seen in recent years. This has resulted in funding positions, with an aggregate surplus of £40bn at 31 August 2018. The funding position has deteriorated a bit since 31 August 2018, and further volatility should be expected as the Brexit position is clarified.

The chart shows how the aggregate IAS19 funding position for FTSE350 companies has changed between 31 August 2017 and 31 August 2018.

Surplus / (Deficit) (£bn)



Company performance

The market cap of the 205 companies in the FTSE350 that sponsor a defined benefit pension scheme has increased from £2,133bn at 31 August 2017 to £2,156bn at 31 August 2018.

The actual spending on defined benefit pensions has fallen from £20bn (reported contributions in year-end accounts up to 31 March 2017) to £19bn (reported contributions in year-end accounts up to 31 March 2018).

The £19bn of pension contributions compares with £90bn of dividend payments to shareholders.

FTSE350 Defined Benefit Pension Scheme Sponsors Market Cap

Date	2016/17	2017/18
Earnings	£264bn	£333bn
Pension contributions	£20bn	£19bn

Our view

In the cases where companies are paying substantial dividends to shareholders and have material pension deficits, it is likely that they will face increasing regulatory pressure to increase deficit contributions. Corporates should manage the risk of trapped surplus, and consider provision of security or contingent funding rather than just paying more cash.

Ability to support pension schemes

At an individual company level, what is really important is the ability of the company to support its pension scheme. To put pension schemes in the context of the businesses that support them, we consider four company metrics: **security, affordability, fluctuation and expenditure**. These are explained in the table on the right. We calculate these metrics for each company in the FTSE350 with a defined benefit pension scheme, based on information from the latest year end company accounts between 31 March 2017 and 31 July 2018 (depending on when companies file their accounts), and expressed relative to market capitalisation in August 2018. These metrics are then plotted on four axes to give a diamond shape – the larger the shape, the bigger the pension scheme burden on the sponsoring company.

The charts on page 14 show how the median shape has changed over the last five years for the FTSE350. Our key findings on the changes over the past year are set out below.

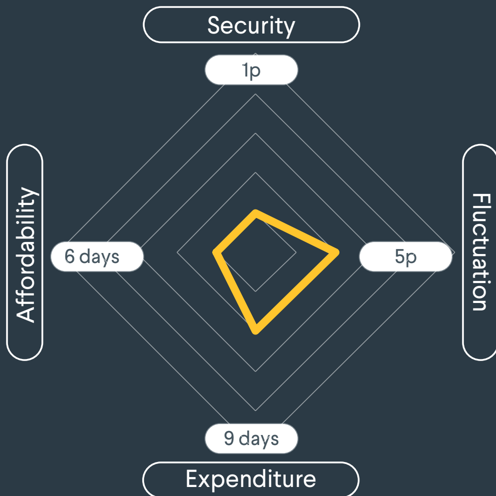
- **Security** has marginally improved. The typical company's IAS19 pension deficit equated to <1p in the pound of market cap (2016/17: 1p in the pound of market cap).
- **Affordability** has seen a significant improvement. The typical company could pay off its IAS19 pension deficit with 6 days of earnings (2016/17: 35 days of earnings).
- **Fluctuation** has improved slightly. The typical company has 5p of un-hedged IAS19 pension liabilities in the pound of market cap (2016/17: 7p of un-hedged pension liabilities).
- **Expenditure** has decreased slightly, mainly due to increases in earnings. The typical company could generate its annual pension contributions with 9 days of earnings (2016/17: 11 days of earnings).

These metrics become particularly useful when comparing the spread of scores across the FTSE350, which is set out on page 15. Appendix 2 then sets out the scores for all companies in the FTSE350 with a defined benefit pension scheme.

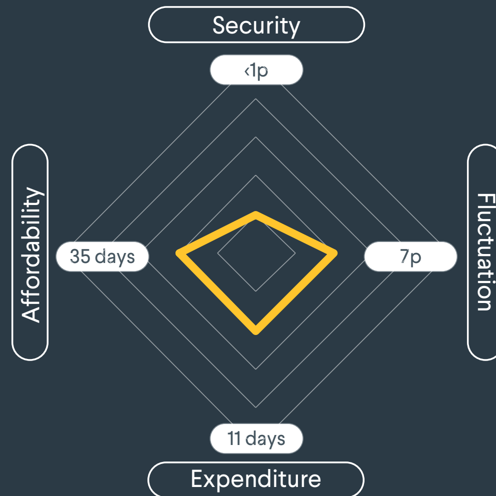
| Our view

An improvement across all four metrics suggests companies are better placed to support their pension schemes than in previous years. Corporates that have seen improved funding levels should look to bank these gains and lock down their defined benefit pension risks. Consolidation and risk transfer is often closer than you might expect.

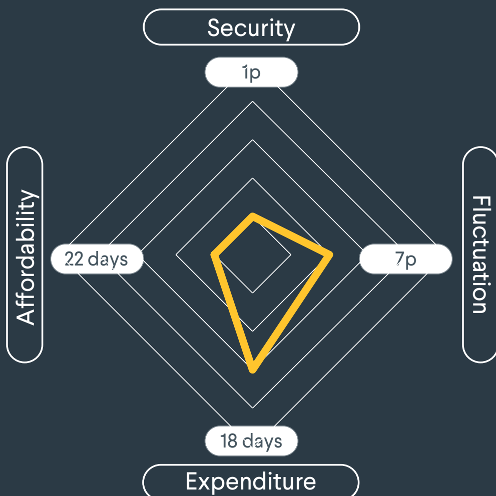
FTSE350 median – 2017/18



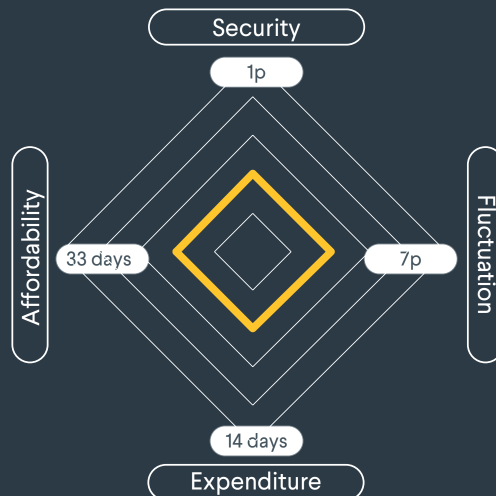
FTSE350 median – 2016/17



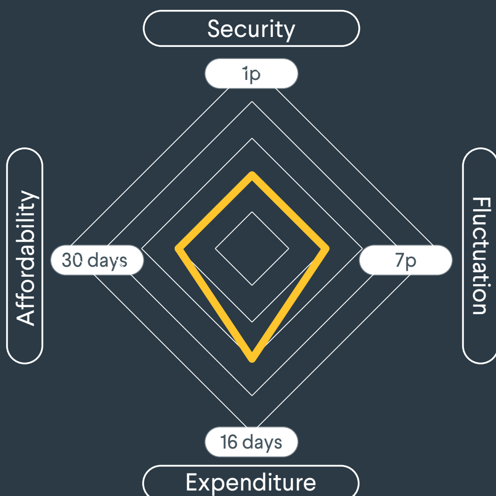
FTSE350 median – 2015/16



FTSE350 median – 2014/15



FTSE350 median – 2013/14



Pension metrics:

Security: pension deficit expressed as pence in the pound of company market cap

Affordability: the number of days of earnings to pay off the pension deficit

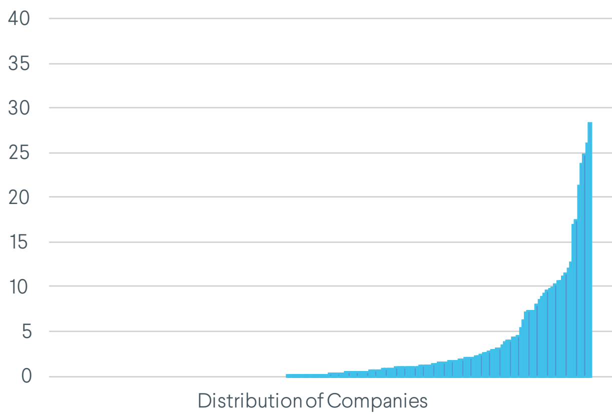
Fluctuation: un-hedged pension liabilities expressed as pence in the pound of company market cap

Expenditure: the number of days of earnings to generate the annual pension contributions

These charts rank the 205 FTSE350 companies with a defined benefit pension scheme on each of our four metrics, and hence show the spread across the FTSE350.

Security

Pension deficit expressed as pence in the pound of company market cap



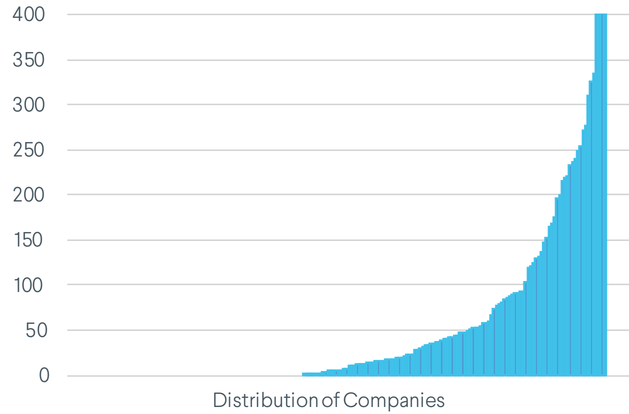
There are currently no companies with a deficit greater than the market cap. A general improvement in funding positions over the year has also improved security scores for some companies, meaning generally, deficits remain manageable relative to market cap.

93% of companies have a pension deficit of less than 10p in the pound of market cap.

86% of companies have a pension deficit of less than 5p in the pound of market cap.

Affordability

The number of days of company earnings to pay off the pension deficit

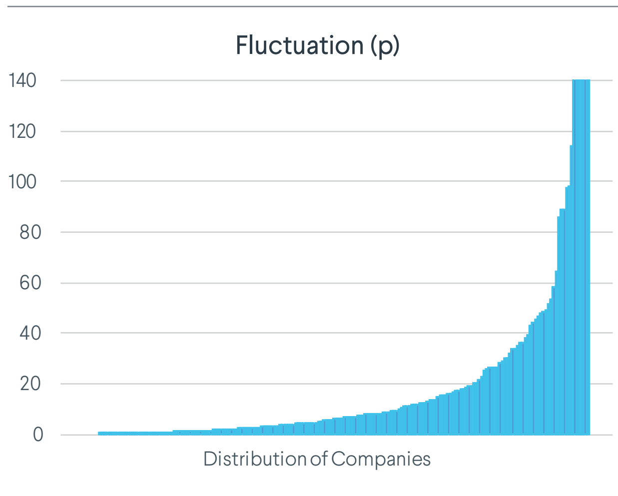


There are four companies that need more than 1 year (365 days) of earnings to pay off the pension deficit.

90% of companies could pay off the deficit with less than 6 months (183 days) of earnings.

Fluctuation

Un-hedged pension liabilities expressed as pence in the pound of company market cap



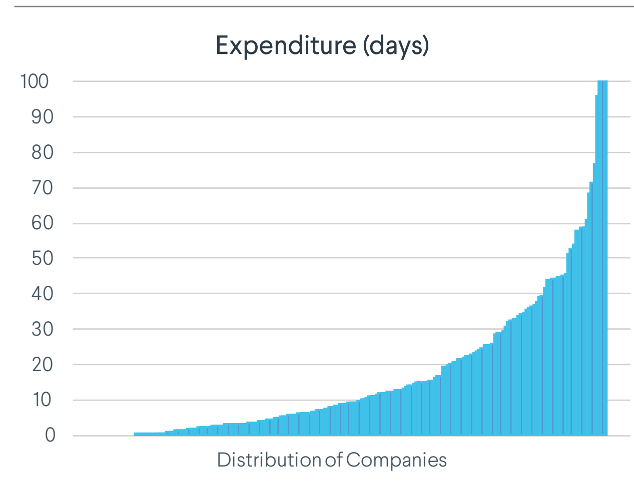
7 companies have un-hedged pension liabilities in excess of their market cap, i.e. the un-hedged liabilities are more than 100p in the pound of market cap.

78% of companies have un-hedged pension liabilities of less than 20p in the pound of market cap.

64% of companies have un-hedged pension liabilities of less than 10p in the pound of market cap.

Expenditure

The number of days of company earnings to generate the annual pension contributions



2 companies put more than half a year's earnings (183 days) into its pension scheme.

81% of companies put less than 1 month (31 days) of earnings into their pension scheme and 47% of companies put less than 1 week (7 days) of earnings into their pension scheme.

There is 1 company that paid pension contributions but reported negative earnings. This has been put at the far right of the above distribution.

Appendix 1

Methodology

Hymans Robertson has relied on external sources of information in compiling this report. Whilst every effort has been made to ensure the accuracy of the data, Hymans Robertson cannot verify the accuracy of such data. The views expressed in this report are based upon information in the public domain and the methodologies detailed in this report. The information contained is not intended to constitute advice and should not be used as a substitute for scheme specific advice. Users should not place reliance on this report; Hymans Robertson will not be held liable for any loss arising from use and/or reliance upon the report.

We have analysed the 205 companies in the FTSE350 that have defined benefit pension schemes sufficiently material to be disclosed under IAS19 in their annual reports. This excludes all investment funds and trusts, and is based on the FTSE Group listing as at 30 June 2018. We have included UK and overseas funded and unfunded defined benefit schemes. Any figures or proportions quoted in this report in relation to the "FTSE350" relate only to these 205 companies.

We have used market capitalisation in August 2018 to calculate our Security and Fluctuation metrics.

The following information has been taken from companies' most recently published annual reports. We have referenced annual reports with effective dates from 31 March 2017 and 31 July 2018, depending on when the relevant accounts were filed.

- Pension data - extracted from IAS19 disclosures
- Earnings data - extracted from performance statements. We have referenced EBITDA, i.e. earnings before interest, tax, depreciation and amortisation.
- Staff, pension and other costs - extracted from the notes to accounts.

Where necessary, figures have been converted to sterling using appropriate exchange rates.

For company expenditure, we have taken the total expenditure on pensions covering contributions for both the accrual of benefits and the repayment of deficits. These figures are as reported in companies' annual reports and include both regular contributions and one-off contributions.

We have included both funded and unfunded defined benefit pension liabilities in our analysis.

To determine un-hedged pension liabilities, we have taken pension liabilities less the value of bond type assets held by the pension scheme. Bond type assets are taken from the IAS19 disclosures. They include government bonds, LDI funds and buy-ins. There is now a wide range of bond type assets, and so the calculation of this metric does vary at a company level depending on how individual companies disclose their pension scheme asset allocation in their accounts.

When a company makes any pension deficit adjustment for IFRIC14, our analysis references the IAS19 pension surplus / deficit prior to the IFRIC14 adjustment.

Our analysis for companies that operate sections in the Railways Pension Scheme is after the liability / deficit reduction on account of franchise adjustments and employees' share of the deficit.

Appendix 2

Company scores

'NE' refers to companies disclosing negative earning (i.e. losses)

Basic materials

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
Anglo American	31-Dec-17	0	0	0	4
Antofagasta	31-Dec-17	1	17	1	0
BHP Billiton	30-Jun-17	0	0	1	0
Croda International	31-Dec-17	0	12	10	15
Elementis	31-Dec-17	0	0	20	0
Essentra	31-Dec-17	1	33	10	4
Evraz	31-Dec-17	3	40	8	5
Ferrexpo	31-Dec-17	0	1	0	0
Fresnillo	31-Dec-17	0	3	0	0
Glencore	31-Dec-17	1	6	3	1
Johnson Matthey	31-Mar-18	0	0	9	35
Kaz Minerals	31-Dec-17	0	6	1	1
Mondi	31-Dec-17	1	21	1	1
RHI Magnesita NV	31-Dec-17	11	271	15	3
Rio Tinto	31-Dec-17	1	19	11	7
Smith (DS)	30-Apr-18	1	52	14	16
Smurfit Kappa Group	31-Dec-17	10	249	19	22
Synthomer	31-Dec-17	9	326	17	31
Vedanta Resources	31-Mar-17	2	6	4	1
Victrex	30-Sep-17	0	0	1	3
Sector median		**1**	**9**	**6**	**3**

Communications

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
BT Group	31-Mar-18	28	310	173	29
Euromoney Institutional Investor	30-Sep-17	1	33	3	2
Informa	31-Dec-17	0	15	2	0
ITV	31-Dec-17	2	51	11	38
Pearson	31-Dec-17	0	0	26	120
RELX	31-Dec-17	2	47	15	12
Vodafone Group	31-Mar-18	1	7	4	7
WPP Group	31-Dec-17	1	30	3	10
Sector median		**1**	**31**	**8**	**11**

Consumer, cyclical

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
Barratt Developments	30-Jun-17	0	0	2	4
BCA Marketplace	04-Jan-18	1	22	3	1
Bellway	31-Jul-17	0	3	1	0
Berkeley Group Holdings (The)	30-Apr-18	0	0	0	0
Bovis Homes Group	31-Dec-17	0	0	6	2
Cineworld Group	31-Dec-17	0	0	0	0
Coats Group	31-Dec-17	9	199	98	545
Compass Group	30-Sep-17	0	0	2	12
Crest Nicholson Holdings	31-Oct-17	1	12	13	15
DCC	31-Mar-18	0	0	1	3
Diploma	30-Sep-17	1	44	3	3
Dixons Carphone	28-Apr-18	24	335	49	33
Ferguson	31-Jul-18	0	5	4	0
Galliford Try	30-Jun-17	0	7	8	14
Grafton Group	31-Dec-17	1	42	12	7
Greene King	29-Apr-18	0	0	30	3
Howden Joinery Group	30-Dec-17	4	152	26	58
Inchcape	31-Dec-17	0	0	36	11
InterContinental Hotels Group	31-Dec-17	0	0	0	2
International Consolidated Airlines	31-Dec-17	0	0	86	77
Kingfisher	31-Jan-18	0	0	1	15
Marks & Spencer Group	31-Mar-18	0	0	29	12
Merlin Entertainments	30-Dec-17	0	5	1	2
Millennium & Copthorne Hotels	31-Dec-17	1	28	2	3
Mitchells & Butlers	30-Sep-17	0	0	53	39
Next	27-Jan-18	0	0	4	3
Persimmon	31-Dec-17	0	0	4	9
Redrow	30-Jun-17	0	2	3	0
SIG	31-Dec-17	4	92	18	0
Taylor Wimpey	31-Dec-17	1	28	0	10
Thomas Cook Group	30-Sep-17	25	215	89	19
Ti Fluid Systems Ord 1p Wi	31-Dec-17	7	86	17	6
Travis Perkins	31-Dec-17	1	14	8	15
TUI AG	30-Sep-17	11	254	19	26
WH Smith	31-Aug-17	0	0	0	6
Whitbread	01-Mar-18	4	124	20	42
William Hill	26-Dec-17	0	0	0	11
Sector median		**0**	**3**	**4**	**7**

Consumer, non cyclical

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
AA	31-Jan-18	26	176	201	0
Aggreko	31-Dec-17	1	17	3	2
Ashtead Group	30-Apr-18	0	0	1	0
Associated British Foods	16-Sep-17	0	0	8	7
AstraZeneca	31-Dec-17	3	93	9	6
Babcock International Group	31-Mar-18	0	3	38	53
Bakkavor Group	30-Dec-17	0	0	6	9
Barr (A G)	27-Jan-18	2	104	6	15
British American Tobacco	31-Dec-17	0	0	5	12
Britvic	01-Oct-17	0	0	4	34
BTG	31-Mar-18	0	0	1	6
Bunzl	31-Dec-17	0	15	3	9
Capita Group (The)	31-Dec-17	17	277	47	20
Coca-Cola HBC	31-Dec-17	0	6	2	5
ConvaTec Group	31-Dec-17	0	0	0	0
Cranswick	31-Mar-18	0	23	1	5
Dairy Crest Group	31-Mar-18	0	0	17	44
Dechra Pharmaceuticals	30-Jun-17	0	13	1	3
Diageo	30-Jun-18	0	0	8	17
Experian	31-Mar-18	0	0	3	3
G4S	31-Dec-17	7	168	48	25
Genus	30-Jun-17	1	81	15	39
GlaxoSmithKline	31-Dec-17	2	48	14	14
Greencore Group	29-Sep-17	10	240	32	21
Greggs	31-Dec-17	1	20	9	0
Hays	30-Jun-17	0	0	7	23
Homeserve	31-Mar-18	0	0	1	4
Imperial Brands	30-Sep-17	1	24	11	7
Intertek Group	31-Dec-17	0	11	2	3
Mediclinic International	31-Mar-18	2	53	21	26
Morrison (Wm) Supermarkets	04-Feb-18	0	0	25	33
PZ Cussons	31-May-18	0	0	2	22
QinetiQ Group	31-Mar-18	0	0	0	32
Reckitt Benckiser Group	31-Dec-17	0	0	2	6
Rentokil Initial	31-Dec-17	0	0	0	1
Sainsbury (J)	10-Mar-18	2	37	52	34
Savills	31-Dec-17	2	40	13	22
Serco Group	31-Dec-17	0	0	0	29
Shire	31-Dec-17	1	32	2	2
Smith & Nephew	31-Dec-17	0	17	4	13
SSP Group	30-Sep-17	0	20	1	1
Tate & Lyle	31-Mar-18	0	0	0	0

Consumer, non cyclical continued overleaf

Consumer, non cyclical (cont.)

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
Tesco	24-Feb-18	13	408	44	35
UDG Healthcare	30-Sep-17	0	0	1	10
Unilever	31-Dec-17	1	19	26	37
Sector median		**0**	**11**	**5**	**10**

Diversified

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
Drax Group	31-Dec-17	0	2	7	24
Inmarsat	31-Dec-17	0	0	1	0
John Laing Group	31-Dec-17	12	448	29	46
Sector median		**0**	**2**	**7**	**24**

Energy

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
BP	31-Dec-17	3	66	18	8
Hunting	31-Dec-17	0	0	0	0
John Wood Group	31-Dec-17	0	0	43	14
Premier Oil	31-Dec-17	0	0	1	0
Royal Dutch Shell	31-Dec-17	7	78	39	13
Sector median		**0**	**0**	**18**	**8**

Financial

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
3i Group	31-Mar-18	0	0	0	3
Alliance Trust	31-Dec-17	0	0	2	0
Aviva	31-Dec-17	0	0	16	29
Barclays	31-Dec-17	0	0	30	59
Beazley	31-Dec-17	0	3	1	6
Brewin Dolphin Holdings	30-Sep-17	0	0	6	13
British Land Co	31-Mar-18	0	0	2	6
Close Brothers Group	31-Jul-17	0	0	1	0
CYBG	30-Sep-17	0	0	48	59
Derwent London	31-Dec-17	0	1	0	2
Direct Line Insurance Group	31-Dec-17	0	0	1	0
Grainger	30-Sep-17	0	1	1	2
Great Portland Estates	31-Mar-18	0	0	1	3
Hammerson	31-Dec-17	1	43	3	4
Hiscox	31-Dec-17	1	237	4	0
HSBC Holdings	31-Dec-17	0	0	4	15
Investec	31-Mar-18	0	0	0	0
Jardine Lloyd Thompson Group	31-Dec-17	5	222	13	23
Land Securities Group	31-Mar-18	0	0	1	0
Legal & General Group	31-Dec-17	8	196	9	14
Lloyds Banking Group ORD	31-Dec-17	0	0	33	20
London Stock Exchange Group	31-Dec-17	0	0	1	2
Man Group	31-Dec-17	0	0	5	0
Paragon Banking Group	30-Sep-17	2	73	8	9
Phoenix Group Holdings	31-Dec-17	0	0	58	45
Provident Financial	31-Dec-17	0	0	2	36
Prudential	31-Dec-17	0	0	2	4
Rathbone Brothers	31-Dec-17	1	53	8	12
RIT Capital Partners	31-Dec-17	0	0	0	1
Royal Bank of Scotland Group	31-Dec-17	0	0	36	NE
RSA Insurance Group	31-Dec-17	0	0	0	54
Saga	31-Jan-18	1	10	11	17
Schroders	31-Dec-17	0	0	3	0
Scottish Investment Trust (the)	31-Oct-17	0	17	1	7
Segro	31-Dec-17	0	0	0	11
St Modwen Properties	30-Nov-17	0	0	1	0
Standard Chartered	31-Dec-17	1	13	5	8
Standard Life Aberdeen	31-Dec-17	0	0	0	5
Sector median		**0**	**0**	**2**	**6**

Industrial

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
BAE Systems	30-Dec-17	21	566	89	68
Balfour Beatty	30-Dec-17	0	0	98	44
BBA Aviation	31-Dec-17	2	47	6	6
Bodycote	31-Dec-17	0	0	1	1
Clarkson	31-Dec-17	0	0	7	6
Cobham	31-Dec-17	0	0	0	23
CRH	31-Dec-17	2	36	6	12
Electrocomponents	31-Mar-18	2	130	7	20
Energean Oil Gas	31-Dec-17	0	58	0	0
Equiniti Group	31-Dec-17	3	84	8	4
FirstGroup	31-Mar-18	10	59	258	58
Fisher (James) & Sons	31-Dec-17	1	41	13	21
Go-Ahead Group (The)	01-Jul-17	3	35	376	71
Halma	31-Mar-18	1	78	4	1
Hill & Smith Holdings	31-Dec-17	3	88	7	9
Ibstock	31-Dec-17	0	0	15	24
IMI	31-Dec-17	3	93	35	8
Keller Group	31-Dec-17	4	60	8	3
Kier Group	30-Jun-17	9	164	141	61
Marshalls	31-Dec-17	0	0	12	0
Meggitt	31-Dec-17	0	0	0	36
Melrose	31-Dec-17	0	15	3	4
Morgan Advanced Materials	31-Dec-17	17	418	34	126
National Express Group	31-Dec-17	4	92	11	8
Renewi	31-Mar-18	4	49	45	11
Renishaw	30-Jun-18	2	132	6	9
Rolls-Royce Group	31-Dec-17	0	0	5	44
Rotork	31-Dec-17	2	121	5	23
Royal Mail	25-Mar-18	0	0	114	96
RPC Group	31-Mar-18	6	119	18	11
Senior	31-Dec-17	0	0	4	33
Smiths Group	31-Jul-17	0	0	0	51
Spectris	31-Dec-17	1	42	2	2
Spirax-Sarco Engineering	31-Dec-17	1	54	4	9
Stagecoach Group	28-Apr-18	9	89	197	45
Stobart Group	28-Feb-18	0	10	2	3
Ultra Electronics Holdings	31-Dec-17	7	232	26	29
Vesuvius	31-Dec-17	0	0	4	26
Weir Group	31-Dec-17	3	136	8	4
Sector median		**2**	**49**	**7**	**12**

Technology

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
Auto Trader Group	31-Mar-18	0	0	0	0
AVEVA Group	31-Mar-18	0	0	1	6
Micro Focus International	30-Apr-17	0	17	1	0
Sage Group (The)	30-Sep-17	0	16	1	1
Sector median		**0**	**8**	**1**	**0**

Utilities

Company	Financial accounting year	Security pence per pound of market cap	Affordability days of earnings	Fluctuation pence per pound of market cap	Expenditure days of earnings
Centrica	31-Dec-17	11	148	65	45
National Grid	31-Mar-18	0	0	26	44
Pennon Group	31-Mar-18	2	35	16	7
Severn Trent	31-Mar-18	11	218	23	15
SSE	31-Mar-18	0	0	9	13
United Utilities Group	31-Mar-18	0	0	7	24
Sector median		**1**	**18**	**20**	**19**

Appendix 3

Report authors

Alistair Russell-Smith

Alistair is a Partner and heads up our DB corporate consulting business. He advises clients on DB funding strategies, member options, risk transfer, pensions accounting and benefit change. Interesting projects over the last year have included a bulk transfer to give a corporate more control of their DB liabilities, negotiating exits from multi-employer schemes, and implementing contingent funding plans in triennial valuations.

Stuart Gray

Stuart is a Fellow of the Faculty and Institute of Actuaries and works with a variety of corporate and trustee clients. He specialises in pension scheme accounting and PPF-levies, writing many of our publications in these areas. He also has an interest in the implications for pension schemes of resource and environment constraints and is a member of the Actuarial Profession's working party investigating this.

Iain Church

Iain is a qualified actuary and team leader for our Birmingham office. He also is a member of our specialist Risk Transfer and Member Options teams. Working with companies and trustees to help them find opportunities to reduce their pension scheme's risks in a cost effective and intelligent way, whilst also improving members' benefit security and retirement outcomes.

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