UPM-KYMMENE UK PENSION SCHEME

Introduction

Welcome to the December 2020 Newsletter. It has been an eventful year for us all and for the Scheme and this Newsletter provides you with an update on a number of important Scheme issues, including:

- Trusteeship of the Scheme.
- Transfer of the Defined Contribution section of the Scheme to the Legal & General Mastertrust.
- Changes to the Scheme Website and to your Hartlink Online Portal.
- The funding position of the Defined Benefit section of the Scheme now that the 2020 funding assessment has been completed.

Trusteeship of the Scheme

Over the last few years, the Company and the Pension Trustees have continued to focus on development areas that enable the "Futureproofing" and "Sustainability" of the Scheme. In the recent past the following initiatives have been implemented:

- Investment – the appointment of Cardano as the Fiduciary Manager of the defined benefit investment portfolio.
- Defined Contribution - the transfer of the DC section to the Master Trust with Legal & General.
- Governance – the appointment of Capital Cranfield as a professional trustee (originally Steve Carlisle but now Kevin Wesbroom).
- Death in Service benefits - separated from the Scheme and now managed by the Company.

As the Defined Benefit Scheme has been closed to new members for up to 20 years (and to future accrual for around 13 years) the Company and Trustees have been considering different long-term governance models. It has now been agreed that Capital Cranfield will be appointed as the Scheme's Sole Professional Corporate Trustee. The three other current Trustees - Graham Hough, Craig Mitchell and Tracy Knox – will resign as Trustees with effect from the end of 2020.

The advantages of this new governance model are as follows:

- Futureproofing and sustainability via the external professional resource pool within Capital Cranfield, who are one of the leading firms of professional pension trustees
- Continuous professional expertise to manage the ever-changing regulatory risk and legislative requirements, in areas such as the Environmental, Social and Governance (ESG) aspects of the investment process, the need for an integrated long-term financing strategy, new mechanisms for scheme settlement, changes to RPI etc
- Key person risk and succession planning better managed, through the Capital Cranfield network, and their system of having professional backup on all key pension decisions

In order to ensure a smooth transition and full knowledge transfer, the current Trustees have kindly agreed to form a "Consultation Committee" for a period of 12 months (or longer if needed) during which they can provide any ongoing support to Capital Cranfield. The purpose of the Consultation Committee is to ensure the smooth transition from the current trustee structure to a sole independent corporate trustee and ensures trustee knowledge, expertise and understanding is maintained where appropriate for the benefit of Scheme members.

The Company has asked us to pass on their thanks to Graham, Craig and Tracy for their excellent Trusteeship over the last several years, and for their agreeing to serve on the Consultation Committee. All parties believe that the above changes are eminently sensible, ensure continuity and are in the best interests of the Scheme, the membership and the sponsoring employer.

If you have any questions or concerns about the change to the Sole Trustee arrangement, or the Consultation Committee, then please contact Kevin Wesbroom, of Capital Cranfield (k.wesbroom@capitalcranfield.com) or any of the members of the Consultation Committee.

Transfer to the Legal & General Mastertrust

The transition of the administration of the Defined Contribution benefits held within the Scheme to the Legal & General Mastertrust is now complete.

This means that the Trustees of the UPM-Kymmene UK Pension Scheme no longer have any involvement in the Defined Contribution benefits previously accrued within the Scheme.

All queries in respect of Defined Contribution benefits should now be directed to Legal & General using the following contact details:

- Website: www.legalandgeneral.com/upmuk
- Phone: 0345 0260 081
- Email: employerdedicatedteam@landg.com
- Post: First Contact, Legal & General, Ground Floor Knox Court, Cardiff, CF24 0EB

Scheme Website and Online Portal

Now that the Defined Contribution benefits are held within the Legal & General Mastertrust, the UPM-Kymmene UK Pension Scheme is solely concerned with your Defined Benefits. We have therefore streamlined the Scheme website accordingly. Please visit it at: www.myupmpension.co.uk

The Scheme also has a member portal called Hartlink Online, which can be found at the following web address: https://www.hartlinkonline.co.uk/upm/hopl.chi/wui/homepgui.html This will be of particular interest to deferred members of the Scheme as it allows you to instantly obtain an indicative Cash Equivalent Transfer Value, which many members find useful when considering their financial planning for the future.

Summary Funding Statement for 2020

The Trustees of the Scheme are required to provide you with a statement summarising the funding position of the Scheme (the extent to which the assets currently held in the Scheme are able to cover its obligations to pay benefits to members).

How is my pension funded?

UPM-Kymmene (UK) Ltd, known as 'the Company', pays contributions so that the Scheme can pay pensions and other benefits to members.

The Scheme has a common fund in which all of the assets to pay benefits are held. Members do not have separate individual holdings apart from their Additional Voluntary Contributions. Some members will have had benefits built up in the Defined Contribution (DC) Section of the Scheme, however these benefits were transferred to the Legal & General Mastertrust in August 2020 and are no longer part of the Scheme.

The Trustees of the Scheme have a funding objective, detailed in the Statement of Funding Principles, which has been agreed with the Company and which aims to make sure there is enough money in the Scheme to pay for benefits now and in the future.

The Trustees obtain regular reports from the Scheme Actuary and each of these provides an estimate of the assets needed to meet the payment of benefits. Since the benefits of many members are to be paid in the future, allowance is made for future investment returns. Using this information, the Trustees come to an agreement with the Company on how much should be paid to keep the Scheme's funding on track against the funding objective.

Funding position for the Scheme

The results of the approximate funding update as at 1 April 2020 are shown below, together with the results of the formal actuarial valuation as at 1 April 2019 which were communicated in April 2020.

	1 April 2019	**1 April 2020**
Assets	£411 million	£428 million
Amount needed to provide benefits ('Liabilities')	£430 million	£458 million
Surplus / (Deficit)	(£19 million)	(£30 million)
Funding level	96%	93%

As a result of the funding shortfall identified by the formal actuarial valuation as at 1 April 2019, the Company agreed with the Trustees that the following contributions (after allowing for future investment returns) will be paid to the Scheme, by the Company, to remove the deficit - four annual contributions of £5,300,000. The first contribution was paid by 1 April 2020 and all subsequent payments up to 1 April 2023 to be paid by 1 April of the corresponding year. The funding shortfall is expected to be eliminated in 4 years from 1 April 2019, i.e. by 1 April 2023.

Reasons for the change in the funding position between 1 April 2019 and 1 April 2020

Since the formal actuarial valuation as at 1 April 2019 the funding level has deteriorated slightly. This has been mainly due to changes in economic conditions that placed a higher value on the future pension payments due from the Scheme (the liabilities). However, the value of the Scheme's assets increased by more than was expected over the period, and the Company paid a contribution of £5,300,000 over the year to 1 April 2020, both of which helped to offset the increase in liabilities.

The next approximate funding update will be performed as at 1 April 2021, and the next formal actuarial valuation will be performed as at 1 April 2022.

The importance of the Company's support for the Scheme

The Trustees' objective is to have enough money in the Scheme to pay benefits now and in the future. However, this relies on the Company continuing in business and supporting the Scheme because:-

- assets can go down as well as up, and when there is a shortfall, the Company will usually need to put in more money; and

- the cost of benefits may increase; for example, if members are living longer the Company will usually need to put in more money.

If there were more than enough money to secure the benefits in full with an insurance company, a refund could be paid to the Company. No such payment from the Scheme has been made to the Company and there are no proposals for any payment in the foreseeable future.

Regulatory statement

The Pensions Regulator has not issued any directions against the Scheme to modify the Scheme for future benefit accrual, direct the calculations of the current liabilities or the length of the recovery plan and/or impose a schedule of contributions.

What would happen in the unlikely event of the Scheme starting to wind up?

The Government requires trustees of all pension schemes to make an annual statement on what would happen if their pension scheme were wound up. Neither the Trustees nor the Company has any plans to wind up the Scheme. This statement is only made to comply with The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

If the Scheme winds up, you may not receive the full amount of pension you have earned even if the Scheme is fully funded on its target funding level. If the Scheme were to wind up, the Company would be required to pay enough into the Scheme to enable your benefits to be completely secured with an insurance company. At 1 April 2019, the estimated amount that an insurance company would need to secure all the members' benefits was £604 million, giving an estimated 'buy-out' deficit for the Scheme of £193 million.

The worst-case scenario would be the Company going into insolvency without being able to pay the amount required to enable benefits to be completely secured with an insurance company. However, even if this happened, the Pension Protection Fund (PPF) might be able to take over and pay compensation to members. The PPF was set up by the government to help protect members' pensions where a company becomes insolvent, although it does not guarantee to pay full benefits.

Further information and guidance is available on the PPF's website at: www.pensionprotectionfund.org.uk, or you can email the Pension Protection Fund at information@ppf.co.uk or call on 0345 600 2541.

Why does the Trustees' funding plan not call for full 'solvency' at all times?

A pension scheme is said to be 'solvent' if it has sufficient assets to secure its benefits in full with an insurance company. The vast majority of pension schemes do not meet this test because insurers are required to take a very cautious view of the future, include a profit margin and make an allowance for their expenses.

In contrast, our funding plan assumes that the Company continues to financially support the Scheme as required, so it is appropriate to adopt more realistic assumptions about the future. Pensions will continue to be paid in full even if funding is temporarily below target.

How are the Scheme's assets invested?

The Trustees of the Scheme have appointed Cardano as a fiduciary asset manager. Cardano actively manage and review the Scheme's investments with the aim of achieving the best return possible while taking account of the cash flow obligations of the Scheme and the risks of having too much money in any one type of investment.

The approximate split of the Scheme's invested assets at 1 April 2020 is summarised below:

Equities (company shares)	10%
Credit (company loans)	16%
Property	9%
Liability Hedging Assets (to match future payments)	34%
Cash	31%

Further information

The following information can be provided upon request:

- The Statement of Investment Principles – This explains how the Trustees invest the money paid into the Scheme
- The Schedule of Contributions – This shows how much money is being paid into the Scheme
- The Statement of Funding Principles – This sets out the Scheme's funding plan
- The Recovery Plan – This explains how the funding shortfall is being made up
- The Annual Report and Accounts of the Scheme – These show the Scheme's income and expenditure for each year.
- The full report on the Actuarial Valuation as at 1 April 2019 – This gives a full and detailed analysis of the funding position including the Actuary's assumptions and methodology.

Contact details

Please help us to keep in touch with you by telling us if you change address – it makes it much easier for us to communicate with you and even to pay your benefits in due course.

For more information about your Defined Benefits in the Scheme please contact the Scheme's administrators:

- By email: upmpensions@capita.co.uk
- By Post: UPM-Kymmene UK Pension Scheme, Capita, PO BOX 555, Stead House, Darlington, DL1 9TY
- By telephone: 0800 917 4552

Don't forget – visit the dedicated pension website at www.myupmpension.co.uk