



PENSION
CORPORATION

Pension Corporation Investments moves Threshers pension fund into surplus, improves Thorn pension fund assets

20 August 2007

Pension Corporation Investments (PCI), which acquired Threshers in June 2007, has moved the company's pension fund from a £24m deficit to a £10m surplus, to the FRS17 benchmark despite the backdrop of increased market volatility. PCI has also grown the £1.17bn assets of the Thorn pension scheme by 1.1% since gaining economic exposure to them in June.

PCI has increased Threshers' pension scheme assets (excluding escrow) by 3% in six weeks, during a time of increased market volatility. Without this intervention, the strategy being used prior to acquisition would have lost money.

PCI assumed full control and liability for the Threshers pension scheme, known as the First Quench Pension Scheme, which had a £24m deficit according to FRS17. PCI subsequently undertook a series of measures to enhance the security of the scheme. Shortly after acquisition PCI moved the fund into surplus by transferring £32m of cash from the Thresher balance sheet into an escrow account underpinning the First Quench pension liabilities.

PCI then employed state of the art asset and liability management to outperform volatile markets and increase the fund's accounting surplus to the FRS 17 benchmark. It reduced investment risk within the portfolio by selling all the fund's equities, which had comprised 60% of investments, after a substantial rally. Consequently the scheme avoided the current market downturn. The PCI team also ensured that there was no sub investment grade credit exposure. Interest rate and inflation risks were then hedged using long dated swaps on 7th August, which locked in a £9m surplus to FRS 17. In addition, absolute return seeking assets are being acquired to construct a portfolio that will no longer depend on the market direction for investment return, and is constructed both to minimise risk and avoid correlated views on the markets.

PCI moved quickly to appoint four new and highly experienced trustees to the First Quench Pension Scheme, all of whom are senior Pension Insurance Corporation partners: Sir Nick Montagu, Graham Cooper, Tracy Blackwell and Mark Gull.

- Sir Nick Montagu is a former Chairman of HM Inland Revenue and is currently a Board member of Xafinity Group and a member of PwC's Corporate Finance Advisory Board.
- Graham Cooper is a Fellow of the Institute of Actuaries and founded New Bridge Street Consultants pension and actuarial practice in 1986. He is a board member of United Business Media and Arcadia Senior Executive Pension Schemes.
- Tracy Blackwell is a former Head of Risk Management for Goldman Sachs Asset Management in Europe and Asia. Prior to this Tracy spent five years structuring interest rate, currency and equity derivatives at Goldman Sachs. She subsequently spent one year in the pension services area, working with the firm's largest pension fund and insurance clients on strategic issues.
- Mark Gull has managed a range of institutional and retail funds including Norwich Union Monthly Income Plus Funds (AA rated by S&P) and the Norwich Union Sustainable Future Corporate Bond Fund (AA rated by S&P). Prior to joining Morley, Mark spent 7 years at Gartmore, where he was Head of Credit and he has an MBA from Cranfield School of Management.



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Edmund Truell, Pension Corporation Investments said:

"We are absolutely delighted with the turnaround of the First Quench pension scheme, which has been achieved in a matter of weeks. We've avoided both the credit markets and equity positions at a time of market de-risking, and so we've been able to transform both the risk and funding profile of the scheme. Growing the assets of the First Quench and Thorn schemes in just six weeks, and in such a volatile market, is a testament to the experience of our team. Whilst we use sophisticated models to assess risk, we do not rely on them to the exclusion of sound investment judgment.

"By using state of the art asset and liability management we have increased the assets in these schemes, leaving them better funded and with improved security for pensioners. I'm sure the new First Quench trustees will prove invaluable in maintaining the scheme's investment discipline and asset base, for the benefit of pensioners and sponsors alike."

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Notes to editors

Pension Insurance Corporation www.pensioninsurancecorp.com

- Immediately prior to acquisition (31st May 2007), the First Quench Pension Scheme had assets of £63.1 million and was in deficit of c.£24 million.
- PCI acquired both Threshers and the Thorn pension scheme from Terra Firma on 1st June 2007. Vision Capital subsequently acquired 75% of the Threshers operating company on 12th June 2007.