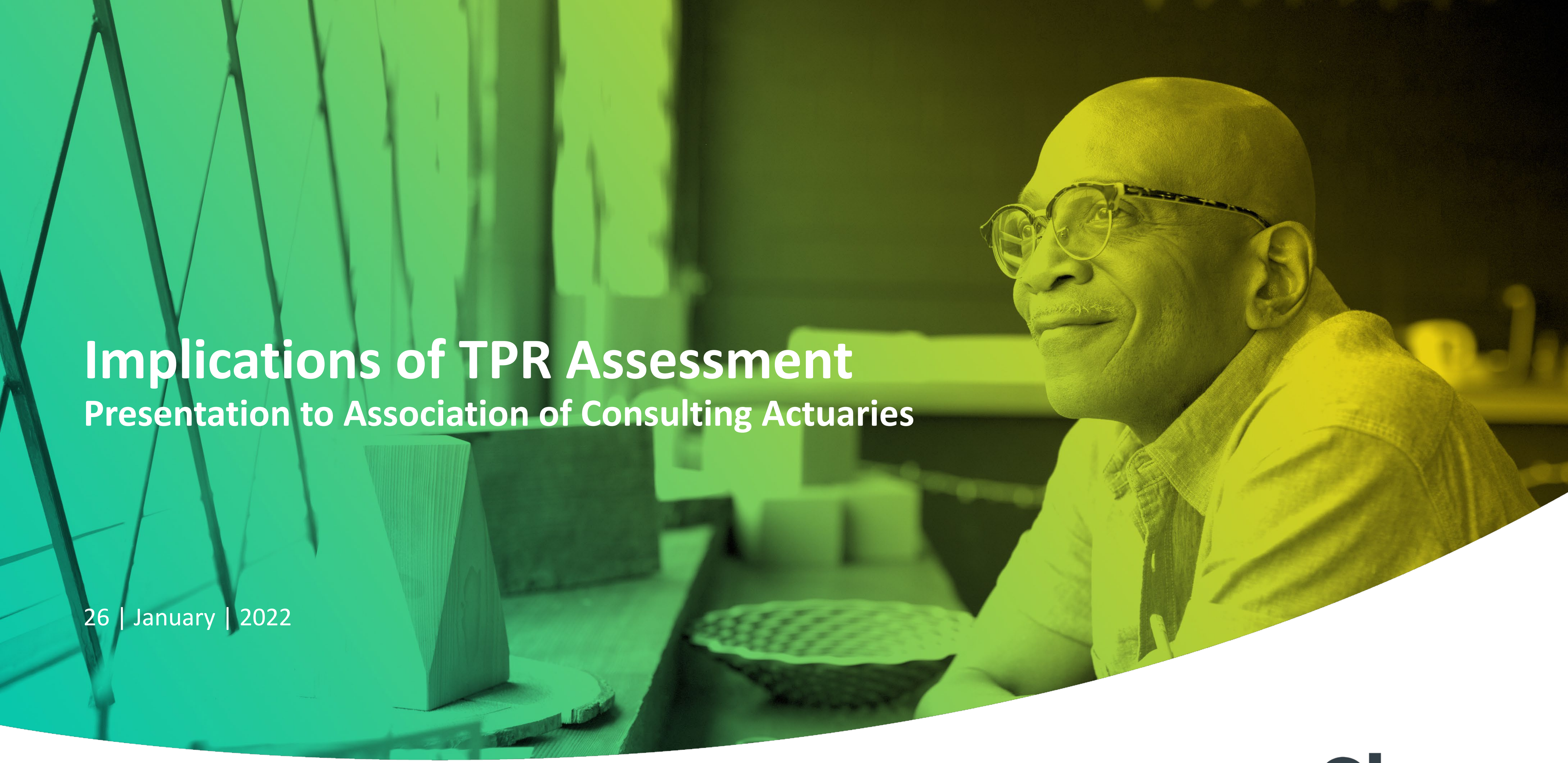
Implications of TPR Assessment

Presentation to Association of Consulting Actuaries

26 | January | 2022



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Clara | A Reminder

Four Key Structural Features

Bridge to Buyout

Clara is a safer, more efficient journey to a fully insured future for members.

+

Funded Capital

Each section is supported by funded, permanent and patient capital.

+

No Release Valve

Neither profit nor capital can be returned to Clara until every member has their full benefits secured.

+

Sectionalisation

Capital, assets and liabilities are ring-fenced in a section giving Clara structural flexibility.

TPR Assessment

Implications and Learnings

- **Assessment** – Clara is the first consolidator or ‘superfund’ to have met TPR expectations as laid out in the Superfunds Guidance in relation to people, governance, systems & process and financial sustainability. This is also referred to as ‘Phase 1’.
- **Transaction Execution** - the key implication of Assessment is that Clara is now able to (and actively is) working with ceding trustees and sponsors in executing the transfer of assets and liabilities to Clara.
- **Rigorous Process** – Assessment has been a lengthy and rigorous process. Although not a substitute for due diligence, TPR’s process is intended to give ceding trustees and sponsors confidence that Clara is fit for purpose. Ceding trustees may take account of the process that TPR has undertaken.
- **Phase 2** – Clara is already working with TPR on *Phase 2* of Assessment, which runs in parallel with our first transaction. Phase 2 is an evidentiary phase, which is primarily intended to demonstrate in the context of a first transaction that Clara’s systems & process are implemented as TPR expects.
- **Ongoing Supervision** – Clara’s engagement with TPR is not a one-off assessment. Clara will be subject to ongoing one-to-one supervision to ensure that we continue to meet the Regulator’s expectations and provide safer member outcomes.

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Transaction Readiness

Four Themes underlying Transactions in Execution and Pipeline Development

Weak sponsor covenant with a well funded scheme

Scheme can afford to transfer at no/little cost (current buy-out funding approximately 85% to 95%).

Current scheme funding would support a buy-out in less than 10 years but only if sponsor can remain solvent, which is thought unlikely.

PPF+ Cases

Scheme buy-out funding level approximately 85-95% which suggests an exit from the PPF.

Securing benefits with an insurer will lead to cuts in member benefits (up to 40% for certain members) but a Clara's solution may provide full benefits.

Improvement in member outcomes is primarily achieved through the capital provided by Clara

Corporate activity

M&A, restructuring and/or divestment .

Bringing forward settlement of the pension scheme facilitates corporate activity.

Part of the value created through corporate activity can be used to fund the transfer to Clara.

Weak UK sponsor with strong overseas parent

Overseas parent, to whom Trustees have no access, willing to fund the one-off cost of a transfer to Clara to revitalise their UK subsidiary.

Improvement in member outcomes achieved through the capital provided by Clara and additional funding from ceding sponsor

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Transaction Readiness

How Clara is Managing its Pipeline

Five questions to filter and prioritise current opportunities

1. Is buy-out not achievable in the foreseeable future?
2. Will a transfer to Clara improve member outcomes?
3. Is Clara's solution affordable for the ceding scheme and/or sponsor?
4. Is there an imperative for the ceding trustees and sponsor to act?
5. What are the scheme-specific factors?

Gateway principles

Questions 1 and 2 reflect the Gateway principles. Further details are set out in the TPR Guidance for Ceding Trustees and Employers issued October 2020

DB superfunds guidance for trustees and employers | The Pensions Regulator

When considering the work required to demonstrate the Gateway principles have been met, TPR has emphasized:

- Proportionality – The scope of advice (legal, actuarial and covenant) and due diligence should be proportionate to the scheme and employer's circumstances.
- Engagement – TPR is encouraging trustees and employers to engage early and openly.

Ultimately demonstrating how Gateway principles have been met are a key part of the Clearance application

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Transaction Readiness

Clara's Current focus

- Complete our first transactions by the end of H1 2022.
- Develop and prioritise transactions for H2 2022 and 2023.
- During 2022 prioritise transactions >£200m
- Develop relationships with potential ceding schemes and sponsors considering a transfer to Clara in 2023 and beyond.
- We are confident we can achieve our original five-year objective of £5bn of transactions by end 2023.

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Thank you!

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