

# PENSIONS NEWSLETTER

## RBP SUPPLEMENT

**THE YEAR'S FINANCIAL HIGHLIGHTS**  
To 31 December 2017

The value of the RBP section of the Plan's assets stood at £71.8 million.

Company contributions totalling £1 million were paid into RBP section.

Pensions and other benefits paid to members amounted to £3.9 million.

### Introduction

This supplement to the MRA newsletter is for all those AMG UK employees who are members of the MRA but who also retain an entitlement under the RBP. It describes matters specific to the RBP; in particular in relation to funding and investment.

### New Actuarial Valuation

Next year, the Trustee will be undertaking the triennial Actuarial Valuation of the Plan as at 31 December 2018. The Actuarial Valuation is fundamental to the operation of a defined benefit pension scheme such as the RBP. It is a detailed three-yearly assessment of the funding status of the RBP. In simple terms, the valuation compares all the projected future benefit payments promised from the Plan against the projected future asset holdings held by the Plan to meet those payments. The difference is either a deficit or a

surplus. These results in turn drive the contribution requirements from AMG Superalloys UK Limited. The complexity of the valuation exercise means that the Trustee must appoint a designated qualified Actuary to carry out the work which should be completed within 15 months of the valuation date.

In years where a full valuation is not carried out, the Trustee is required to obtain an annual 'roll-forward' update of the results of the last Valuation. The results of the latest update as at 31 December 2017 are summarised in the Summary Funding Statement overleaf.

The year's financial highlights

At the accounting year end, 31 December 2017:

- The value of the RBP section of the Plan's assets stood at £71.8 million.
- Company contributions totalling £1 million were paid into the RBP section.
- Pensions and other benefits paid to members amounted to £3.9 million.

### Integrated Risk Management

The Trustee Directors have always considered as important the interaction between investment strategy, funding strategy and, ultimately, the strength of the principal employer (AMG Superalloys UK Limited) standing behind the Plan. In short, they recognise that any change in one can have an impact on the others.

The Pensions Regulator recently asked UK trustees to make explicit allowance for these inter-related risks ("Integrated Risk Management" or "IRM" as it is known) in managing their pension schemes.

The Trustee Directors documented their thinking in a detailed IRM policy towards the end of 2017. This has directly led to the regular formal assessment of the financial position of AMG against a number of defined metrics to ensure that there are no changes in the position of AMG that might suggest any changes to the investment or funding strategy.

## Investments

### Asset Value

The market value of the RBP's assets increased by £1.5 million over the accounting year to £71.8 million. This increase in value of the assets was predominantly due to the investment performance of the Plans' assets over the year. Since the accounting year end, the market value of the RBP's assets has decreased to £68.5 million as at 31 August 2018.

The value of the assets should always be considered in conjunction with the Plan's liabilities. More information about the value of the liabilities relative to the assets is set out in the Summary Funding Statement.

### Running the Plan

In addition to the advisers mentioned in the MRA Newsletter, the Trustee Directors are required to appoint a Plan Actuary in respect of the RBP section of the Plan. The current Plan Actuary is Andrew Firbank FIA who is responsible for assisting the Trustee Directors with the Triennial Actuarial Valuation.

### Investment Performance

The Plan's investments are invested through the JLT Investment Platform. One of the benefits of this arrangement is that JLT will monitor the underlying investment managers and will replace the manager if JLT has significant concerns about its ability to deliver the fund's objectives.

The Trustee Directors also monitor the performance of the Plan's investment managers at every meeting.

There was no change to the Plan's strategy over 2017, however in Q2 2018, JLT downgraded its view of the Standard Life GARS Fund and proposed that action should be taken. Based on advice provided by JLT, the Trustee Directors have decided to disinvest from this fund and use the proceeds to increase the Plan's allocation to MAC by investing in the Investec Global Target Return Fund, and also to top up the allocation to the Baillie Gifford DGF. These strategic changes will increase the overall diversification of assets in the portfolio and are currently in the process of being implemented. Further information will be provided in next year's newsletter.

The performance of the funds (net of fees) for the year to 30 June 2018 is as follows:

	Fund (%)	Benchmark (%)
<b>Baillie Gifford DGF</b>	1.7	3.9
<b>Threadneedle Multi-Asset Fund</b>	5.2	3.9
<b>Standard Life GARS</b>	-2.1	4.8
<b>F&amp;C Real Dynamic Fund</b>	0.7	4.0
<b>F&amp;C Nominal Dynamic LDI Fund</b>	7.4	11.0
<b>Payden Absolute Return Bond Fund</b>	0.3	3.0

### Investment Strategy

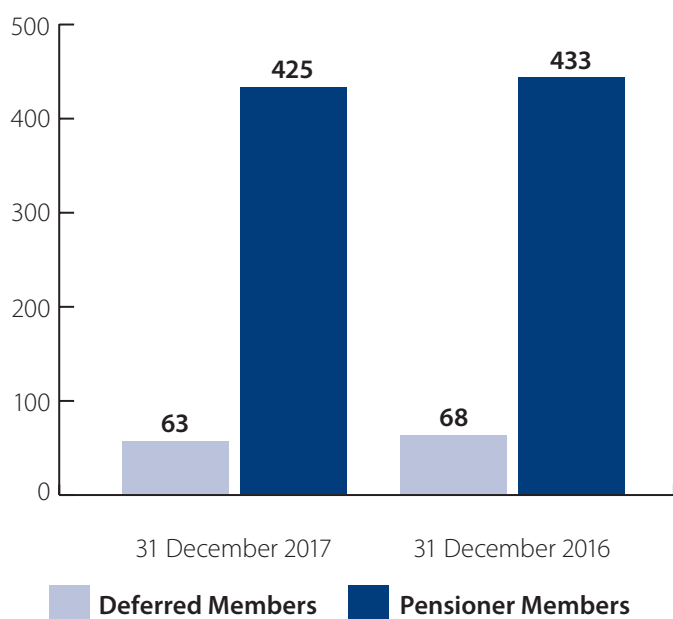
The Plan's investment strategy continues to be based around the use of Diversified Growth Funds (DGFs), Liability Driven Investments (LDI) and Multi Asset Credit Funds (MAC).

DGFs aim to give equity like returns in the long run, but with lower short term volatility. LDI funds provide greater protection than traditional bond funds against key financial factors that drive changes in the cost of providing the pensions promised by the Plan. MAC funds use a diversified mix of bond investments and aim to give a lower level of investment growth than the Plan's DGFs, but with a greater reduction in the level of volatility.



## How many members?

At the end of the accounting year 31 December 2017 the RBP had 63 deferred members and 425 pensioner members. Comparative figures as at 31 December 2016 are 68 deferred members and 433 pensioners.



A pensioner member is someone who is already in receipt of a pension from the Plan. All of the remaining members of the RBP section of the Plan are deferred members because pensionable service has ceased and no further employee contributions are payable. Deferred members retain a right to their benefits which will come into payment in the future.

## Retirement Options

If you have not already retired you will have the following options when you retire:

- Take your full pension.
- Take a cash lump sum (currently tax free) and a reduced pension.
- Transfer funds to another pension Plan (which would require independent financial advice if the value is over £30,000).

## Pension Increases in deferment

The rules of the Plan make provision for some pensions to be protected against inflation in the period from the date pensionable service ceases to the date the pension is put into payment in line with the requirements under pension's legislation. That inflation protection, under pension's legislation, is by reference to the RPI for all leavers after the 1 January 1991. If you left the Plan prior to 1 January 1991, the inflation protection is by reference to RPI for periods up to 31 December 2010 and to the Consumer Prices Index (CPI) for periods commencing on or after 1 January 2011.

## Pension Increases in payment

Pensions under the RBP increase on the 15 April each year, at the following rates:

For members who left prior to 6 April 1988

- 3% per annum

For members who left after 6 April 1988

- 5% for service completed prior to 1 January 2000
- In line with the increase in the Retail Prices Index to a maximum of 5% for service completed after 1 January 2000.



## Summary Funding Statement as at 31 December 2017

### Actuarial Valuation

The Trustee is now able to present the results of the latest actuarial valuation as at 31 December 2017.

As previously advised, AMG UK voluntarily agreed with the Trustee an adjustment to the demographic assumptions used to place a value on the Plan's benefits, in order to provide an additional margin of prudence in the way we fund the Plan. This additional margin has been implemented to give an additional layer of comfort to members.

The funding position of the Plan as at 31 December 2017 and at 31 December 2016 was as follows:

Date of Assessment	31 Dec 2017	31 Dec 2016
Liabilities	£78.9m	£79.5m
Assets	£71.9m	£70.2m
(Shortfall)/Surplus	(£7.0m)	(£9.3m)
Funding level	91%	88%

It is pleasing to see that the funding level on the more prudent funding approach has improved to 91% over the year to 31 December 2017. The ongoing payment of deficit funding contributions and strong investment returns has more than offset the increase in the value placed on the liabilities over the period as a result of the fall in gilt yields and changes in other market conditions.

Although there is a deficit on this basis, it is important to understand that, in the first instance, AMG UK would have been required by legislation to pay a lump sum into the Plan to finance the deficit of £35.1 million, if it were able to do so. If AMG UK had gone out of business and was not able to pay the amount required to secure the benefits in full, the Pension Protection Fund (PPF), which was established by the Government in April 2005, would provide for a minimum level of benefit. If you would like to know more about the PPF then please visit their website at <https://www.pensionprotectionfund.org.uk/Pages/homepage.aspx>

AMG UK has agreed to continue contributing £1million per annum for the period to 31 August 2021, at which point it is anticipated that the increased deficit will be removed. AMG UK has also committed to pay into the Plan 10% of any dividends paid to shareholders from 1 January 2015.

The Trustee acknowledges AMG UK's ongoing commitment to support the Plan.

### The importance of AMG UK's support

The Trustee's objective is to have enough assets to pay pensions now and in the future. However, success of the funding plan relies on AMG UK continuing to support the Plan because:

- AMG UK will be paying the future expenses of running the Plan on an annual basis.
- The funding level can fluctuate and where there is a funding shortfall AMG UK will usually need to put in more money.
- The target funding level may turn out not to be enough so that AMG UK may need to put in more money.

### Payments to AMG UK

There have never been any payments to the AMG UK companies out of Plan funds.

### Winding-up Valuation

Legally, we are required to provide members with the following information:

If the Plan had been wound up on the 31 December 2015, there would have been a deficit of around £35.1 million (assuming the assets of the Plan were used to secure members' benefits with an insurance company). The assets would have been sufficient to provide on average 67% of members' full benefits.

***The fact that we have shown the winding-up position does not mean that AMG UK is actually thinking of winding-up the Plan***

#### IMPORTANT

If you are thinking of transferring your benefits out of the Plan for any reason you should always consult a regulated Independent Financial Adviser, before taking any action. Indeed, if your transfer value from the RBP exceeds £30,000 it is now a legal requirement to seek such independent financial advice (and provide evidence of it), in order to transfer to a money purchase arrangement. A list of advisers can be found at <http://www.unbiased.co.uk/find-an-adviser> or you can telephone: **0330 1000 755**.



## Summary RBP Accounts for the year to 31 December 2017

The following is an extract from the accounts for the year ended 31 December 2017. A full version is available upon request. Figures for the year ended 31 December 2016 are also provided for information.

	2017 (£)	2016 (£)
<b>VALUE OF THE PLAN AT THE START OF THE YEAR</b>	<b>70,275,246</b>	<b>62,604,978</b>
<b>INCOME</b>		
Contributions:		
<i>Company's:</i>		
Normal	-	-
Special*	1,000,000	1,000,000
<i>Members':</i>		
Normal	-	-
Investment Income	8,315	12,404
Transfers in	-	-
Other Income	-	-
Transfers between sections	13,011	56,869
<b>Total Income</b>	<b>1,021,326</b>	<b>1,069,273</b>
<b>EXPENDITURE</b>		
Benefits Payable	3,122,625	3,239,731
Payments to and on account of leavers	338,622	171,152
Investment management	51,874	-
Insurance Premiums	96,309	65,429
Fees and Expenses	334,796	381,329
<b>Total Expenditure</b>	<b>3,944,226</b>	<b>3,857,641</b>
<b>FUND BALANCE</b>		
Income <i>less</i> Expenditure	(2,922,900)	(2,788,368)
Change in Market Value of Investments	4,416,709	10,458,636
<b>VALUE OF THE PLAN AT THE END OF THE YEAR</b>	<b>71,769,055</b>	<b>70,275,246</b>

\* These are deficit funding contributions payable by the Employer in accordance with the Schedule of contributions and payments towards running the pension Plan.

