

# PENSIONS NEWSLETTER RBP SUPPLEMENT

## THE YEAR'S FINANCIAL HIGHLIGHTS To 31 December 2019

The value of the RBP section of the Plan's assets stood at £71.5 million at the year end.

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

Pensions and other benefits paid to members amounted to nearly £4 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.

## TRIENNIAL ACTUARIAL VALUATION

### What is an Actuarial Valuation?

The Actuarial Valuation compares all the projected future benefit payments promised from the Plan against the assets held by the Plan to meet those payments. The difference is either a deficit or a surplus and these results in turn drive the contribution requirements from the sponsor of the Scheme, AMG UK.

Since our last Newsletter, the Trustee and AMG UK have completed the Triennial Actuarial Valuation as at 31 December 2018 and also looked at the updated position as at 31 December 2019. Between the Valuation date and 31 December 2019, there was a significant improvement in the funding level from 86% to 92%. Since then, the COVID-19 pandemic and the impact it has had on markets has created instability in funding levels for many schemes in the UK and the Trustee has been carefully tracking the position throughout 2020 to date. We are reassured that, despite some funding volatility in the first quarter of 2020, at the time of writing the Plan's funding position is estimated to have stabilised near to the level seen at the end of 2019.

In this Newsletter, we have included the regular Summary Funding Statement giving the formal position at the Valuation date and at 31 December 2019.

The other key factor for the Trustee to consider when managing the Plan's funding is the strength of the business standing behind the Plan – the "employer covenant". To this end, the Trustee carries out a formal independent assessment of the covenant of AMG UK every three years to coincide with the Valuation. When it was last reviewed in 2019, the auditors assessed the covenant as "tending to strong". The Trustee monitors key covenant metrics for the business at every routine Trustee meeting in between these formal assessments and has been careful to keep the position under review since the start of the COVID-19 crisis in March 2020. Although the business has not been immune to the economic impact of the crisis, the Trustee Directors are satisfied that the business is more than strong enough to support the Pension Plan.

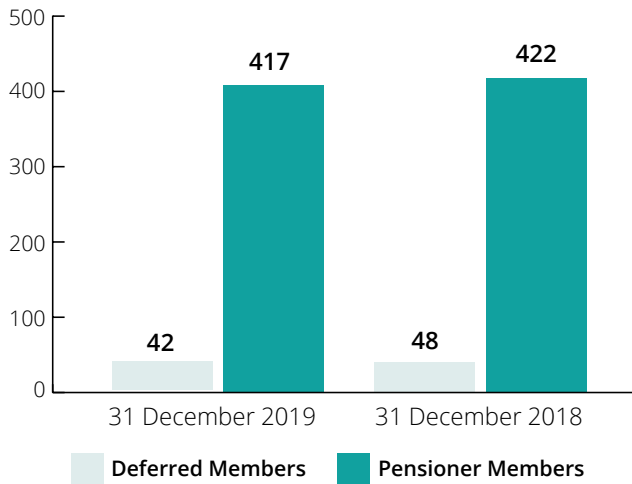
## RUNNING THE PLAN

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 James Auty FIA who is responsible for assisting the Trustee Directors with the Triennial Actuarial Valuation.



## HOW MANY MEMBERS?

At the end of the accounting year 31 December 2019 the RBP had 42 deferred members and 417 pensioner members. Comparative figures as at 31 December 2018 are 48 deferred members and 422 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.

## 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).

The aim of DGFs is to provide long term investment growth, but with lower short term volatility than investing solely in the stock market.

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.

The Plan's investment strategy takes a very balanced approach, with the majority of the risk removed in relation to changes in the Plan's liability value, whilst there is significant diversification across investment markets to mitigate the risks of falling stock markets.

## INVESTMENT PERFORMANCE

The Plan's investments are invested through the Mobius Life Limited Investment Platform, with a fiduciary overlay provided by JLT Investment Management (JLT IM). The Mobius Platform enables changes to the Scheme's investments to be implemented quickly and efficiently, and also for the Scheme to benefit from discounted fees for the underlying investment managers. Through the fiduciary overlay, JLT IM monitors the underlying investment managers and will replace the manager if it 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.

The performance of the funds (net of fees) for the year to 30 June 2020 is as follows:

	Fund (%)	Benchmark (%)
<b>Baillie Gifford DGF</b>	-3.0	4.1
<b>Columbia Threadneedle Multi-Asset Fund</b>	3.2	4.1
<b>BMO Real Dynamic LDI Fund</b>	27.9	27.1
<b>BMO Nominal Dynamic LDI Fund</b>	65.8	66.2
<b>Payden Absolute Return Bond Fund</b>	-1.0	3.2
<b>Investec Global Total Return Credit Fund</b>	0.2	4.0



The very high returns on the LDI funds have helped to protect the Plan's funding position against significant increases in the expected cost of providing the benefits promised to members, caused by reductions in the yields on the bonds which are used to put a value on these benefits.

The mixed returns on the DGFs (Baillie Gifford and Columbia Threadneedle) and MAC funds (Payden and Investec) reflect the market falls that occurred in Q1 of 2020 as a result of COVID-19, with these funds helping to protect the Scheme against the full force of the falls in stock markets. There was a good recovery in Q2 2020, albeit not yet fully recovering the lost ground.

The Trustee notes that the shorter term performance of the Baillie Gifford DGF in particular is disappointing. The Plan has been invested in this fund for nearly ten years, and the Trustee takes reassurance that over a ten year period performance has been 4.6%p.a. and ahead of the benchmark of 4.0%p.a.. Despite this, the Trustee is liaising with Mercer to monitor the fund and will replace it with an alternative if that is determined to be the most appropriate course of action.

Following a change to legislation it would be necessary for the Trustee to undertake a competitive tender exercise if the Plan were to continue to receive a fiduciary investment management service. The Trustee has therefore reviewed the investment offering and decided to remove the fiduciary overlay provided by JLT IM, but retain the current funds and continue to invest through the Mobius Platform to benefit from the flexibility it provides. The Trustee will monitor the ongoing appropriateness of the Mobius approach and investigate changes if considered appropriate.

## 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 scheme (which would require advice if the value is over £30,000).

## 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

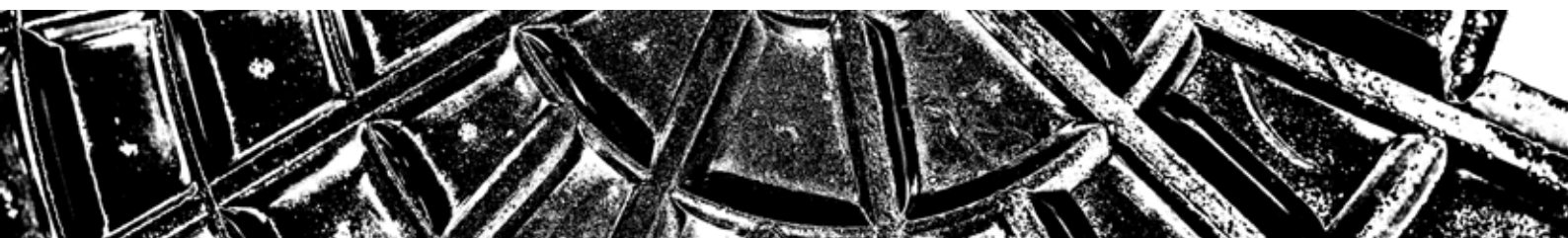
For members who left after 6 April 1988

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

## 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 pensions legislation. That inflation protection, under pensions 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.

*For the avoidance of doubt if there is any difference between the contents of this report in this respect and the Plan's formal trust deed and rules (as amended from time to time), the latter will prevail.*



# SUMMARY FUNDING STATEMENT AS AT 31 DECEMBER 2019

## ACTUARIAL VALUATION AND UPDATE

We have set out below the results of the full triennial actuarial valuation as at 31 December 2018 together with the formal update as at 31 December 2019.

Date of Assessment	31 Dec 2019	31 Dec 2018
Liabilities	£78.1m	£75.8m
Assets	£71.5m	£65.1m
(Shortfall)/Surplus	(£6.6m)	(£10.7m)
Funding level	92%	86%

It is pleasing to see that the estimated funding level has improved to 92% over the year to 31 December 2019. 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.

AMG UK has agreed to contribute £1,600,000 per annum in monthly instalments from 1 January 2020 to 31 December 2024, increasing at 3% p.a. In addition, from 1 January 2015, 10% of any dividends paid by AMG UK to its shareholders will be paid to the RBP section within 1 month of the dividend being paid.

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 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 2019, there would have been a deficit of around £27.1 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 71% of members' full benefits.

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 £27.1 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 [www.pensionprotectionfund.gov.uk](http://www.pensionprotectionfund.gov.uk)

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. 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. You can find a Financial Conduct Authority regulated independent financial adviser by visiting <https://directory.moneyadvice.service.org.uk/en>

## SUMMARY RBP ACCOUNTS FOR THE YEAR TO 31 DECEMBER 2019

The following is an extract from the accounts for the year ended 31 December 2019. A full version is available upon request. Figures for the year ended 31 December 2018 are also provided for information.

	2019 (£)	2018 (£)
<b>VALUE OF THE PLAN AT THE START OF THE YEAR</b>	<b>65,132,612</b>	<b>71,769,055</b>
<b>INCOME</b>		
Contributions:		
<i>Company's:</i>		
Normal	-	-
Special*	1,000,000	1,019,822
<i>Members':</i>		
Normal	-	-
Investment Income	8,826	8,580
Transfers in	-	-
Other Income	101,192	-
Transfers between sections	-	87,264
<b>Total Income</b>	<b>1,110,018</b>	<b>1,115,666</b>
<b>EXPENDITURE</b>		
Benefits Payable	3,798,556	3,380,939
Payments to and on account of leavers	294,034	987,273
Investment management	57,204	52,833
Insurance Premiums	98,745	97,918
Fees and Expenses	344,392	344,099
<b>Total Expenditure</b>	<b>4,592,931</b>	<b>4,863,062</b>
<b>FUND BALANCE</b>		
Income <i>less</i> Expenditure	(3,482,913)	(3,747,396)
Change in Market Value of Investments	9,873,396	(2,889,047)
<b>VALUE OF THE PLAN AT THE END OF THE YEAR</b>	<b>71,523,095</b>	<b>65,132,612</b>

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



AMG SUPERALLOYS

AMG ALUMINUM

AMG ALPOCO