

PENSIONS NEWSLETTER RBP SUPPLEMENT

THE YEAR'S FINANCIAL HIGHLIGHTS To 31 December 2018

The value of the RBP section of the Plan's assets stood at £65.1 million at the year end.

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

Pensions and other benefits paid to members amounted to £4.8 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

The Trustee and AMG are in the process of finalising the detailed three-yearly assessment of the funding status of the Scheme as at 31 December 2018. In simple terms, the 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. Because the 2018 results are not yet available, we have included again the 'Summary Funding Statement' contained in last year's Newsletter. When the new results become available these will be communicated to you.

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.

INVESTMENTS

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 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 JLT Investment Platform. One of the benefits of this arrangement is that JLT/Mercer will monitor the underlying investment managers and will replace the manager if JLT/Mercer 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.

In last year's newsletter, we informed you of the Trustee Directors' intention to disinvest from the Standard Life GARS Fund, following concerns from the Trustee Directors and advice from JLT/Mercer. This was completed in Q3 2018, with the proceeds being used to increase the Plan's allocation to MAC funds by investing in the Investec Global Target Return Fund, and also to top up the allocation to the Baillie Gifford DGF.

The performance of the funds (net of fees) for the year to 30 June 2019 is as follows:

| | Fund (%) | Benchmark (%) |
|---|----------|---------------|
| Baillie Gifford DGF | 2.9 | 4.2 |
| Threadneedle Multi-Asset Fund | 5.1 | 4.3 |
| BMO Real Dynamic LDI Fund | 22.5 | 22.7 |
| BMO Nominal Dynamic LDI Fund | 17.4 | 16.9 |
| Payden Absolute Return Bond Fund | 2.8 | 3.3 |
| Investec Global Total Return Credit Fund | 4.7 | 4.0 |

The 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.

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

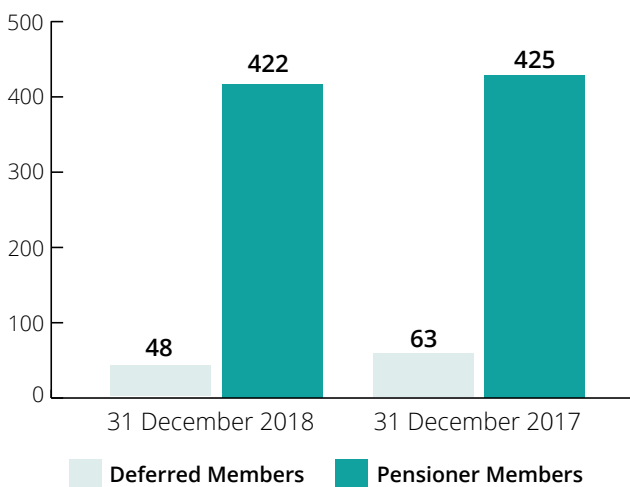
- 5% for service completed prior to 1 January 2000
- In line with the increase in the Retail Prices Index (RPI) to a maximum of 5% for service completed after 1 January 2000.

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.

HOW MANY MEMBERS?



At the end of the accounting year 31 December 2018 the RBP had 48 deferred members and 422 pensioner members. Comparative figures as at 31 December 2017 are 63 deferred members and 425 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.

SUMMARY FUNDING STATEMENT AS AT 31 DECEMBER 2017

ACTUARIAL VALUATION

As at the date this Newsletter was compiled, the full actuarial valuation as at 31 December 2018 was not yet completed. To reflect the complexity of this triennial task, trustees are given 15 months to complete the valuation – in this case, the AMG Trustee has until 31 March 2020, although it is expected that the process will be completed well before then.

In accordance with the requirements, we set out below the same formal ‘Summary Funding Statement’ update wording that was provided in last year’s Newsletter. This shows the latest available funding position estimated by the Scheme Actuary 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 www.ppf.co.uk/

AMG UK has agreed to continue contributing £1 million 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.

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

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.

SUMMARY RBP ACCOUNTS FOR THE YEAR TO 31 DECEMBER 2018

The following is an extract from the accounts for the year ended 31 December 2018. A full version is available upon request. Figures for the year ended 31 December 2017 are also provided for information.

| | 2018 (£) | 2017 (£) |
|---|-------------------|-------------------|
| VALUE OF THE PLAN AT THE START OF THE YEAR | 71,769,055 | 70,275,246 |
| INCOME | | |
| Contributions: | | |
| <i>Company's:</i> | | |
| Normal | - | - |
| Special* | 1,019,822 | 1,000,000 |
| <i>Members':</i> | | |
| Normal | - | - |
| Investment Income | 8,580 | 8,315 |
| Transfers in | - | - |
| Other Income | - | - |
| Transfers between sections | 87,264 | 13,011 |
| Total Income | 1,115,666 | 1,021,326 |
| EXPENDITURE | | |
| Benefits Payable | 3,380,939 | 3,122,625 |
| Payments to and on account of leavers | 987,273 | 338,622 |
| Investment management | 52,833 | 51,874 |
| Insurance Premiums | 97,918 | 96,309 |
| Fees and Expenses | 344,099 | 334,796 |
| Total Expenditure | 4,863,062 | 3,944,226 |
| FUND BALANCE | | |
| Income <i>less</i> Expenditure | (3,747,396) | (2,922,900) |
| Change in Market Value of Investments | (2,889,047) | 4,416,709 |
| VALUE OF THE PLAN AT THE END OF THE YEAR | 65,132,612 | 71,769,055 |

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

