

PENSIONS NEWSLETTER – RBP SUPPLEMENT

For members of the Member Retirement Account (MRA) with Retirement Benefits Plan (RBP) Benefits

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.

This past year the Trustees have been busy with the actuarial valuation as at 31 December 2012. You may be aware that the Trustees are required to carry out a formal valuation of the Plan to assess the level of funding on various prescribed bases at least every three years. This is a very detailed and complex process but we are pleased to confirm that the valuation has now been signed off and contributions agreed with AMG Superalloys UK Limited to fund the remaining deficit. Full details of the valuation results are included later in the Newsletter as part of the Summary Funding Statement.

The year's financial highlights

At the accounting year end, 31 December 2013:

- The value of the RBP section of the Plan's assets stood at £58.5 million.
- Company contributions totalling £1.8 million were paid into the RBP section.
- Pensions and other benefits paid to members amounted to £3.0 million.

Running the Plan

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

Investments

Asset Value

The market value of the RBP's assets remained broadly static over the accounting year even though nearly £3 million of benefits were paid out over the year. Since the accounting year end, the market value of the RBP's assets has increased to £59.8 million as at 30 June 2014.

Investment Performance

Over the 12 month period to 31 December 2013, both the Standard Life and Baillie Gifford diversified growth funds have been ahead of their respective benchmark net of fees.

The total LGIM performance for the year, which covers the Plan's holding in three funds, was negative reflecting an increase in bond yields. All three funds performed in line with their benchmarks.

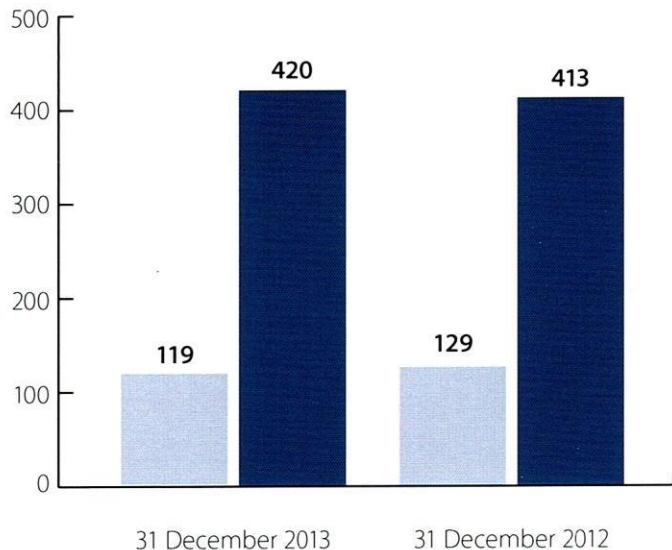
The Trustees monitor the performance of the Plan's investment managers at every Trustees' meeting and the investment managers are invited to attend Trustee meetings periodically.

The performance for the RBP funds for the years ending 31 December 2012 and 31 December 2013 are as follows:

	YEAR ENDING 31 DECEMBER 2012	YEAR ENDING 31 DECEMBER 2013
Standard Life	7.7%	7.0%
Baillie Gifford	10.8%	5.4%
LGIM	10.4%	-0.8%

How many members?

At the end of the accounting year 31 December 2013 the RBP had 119 deferred members and 420 pensioners. Comparative figures as at 31 December 2012 are 129 deferred members and 413 pensioners.



Deferred Members

Pensioner Members

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 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, or
- Take a cash lump sum (currently tax free) and a reduced pension.
- Transfer funds to another pension scheme

Pension Increases

Pensions in payment under the RBP increase on 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% p.a. for service completed prior to 1 January 2000
- In line with the annual increase in the Retail Prices Index (RPI) to a maximum of 5% p.a. 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 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 2012

Ongoing Valuation

The Trustees are now able to present the results of the latest actuarial valuation as at 31 December 2012.

On a continuing basis the funding position of the Plan as at 31 December 2012 (the valuation date) and at 31 December 2009 (the previous valuation date) was as follows:

DATE OF ASSESSMENT	31 DECEMBER 2012	31 DECEMBER 2009
Liabilities	£64.0m	£54.5m
Assets	£59.4m	£51.2m
(Shortfall)/Surplus	(£4.6m)	(£3.3m)
Funding level	93%	94%

The funding position has remained broadly flat since the last valuation. During the inter-valuation period the Plan experienced strong investment returns and AMG UK continued to make significant deficit reduction contributions totaling £600,000. However, the positive impact of these factors on the funding has been offset by the increase in the value placed on the liabilities as a result of the significant fall in long term bond yields between 2009 and 2012.

As part of the new valuation AMG UK has agreed to increase its contributions from £50,000 to £83,333 per month (equivalent to £1m per annum) for the period to 30 September 2017, at which point it is anticipated that the 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.

On 25 July 2014 AMG Superalloys UK Limited made a \$4m dividend payment to its parent company and it was agreed with the Trustees of the AMG UK Group 2006 Pension Plan that a one-off contribution to the pension plan would be made totalling \$400,000 in August 2014.

The Trustees acknowledge AMG UK's ongoing commitment to support the Plan.

The importance of AMG UK's support

The Trustees' 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 AMG UK 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 31 December 2012, there would have been a deficit of around £35.9 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 62% of members' full benefits.

This may appear worrying but 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 £35.9 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

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 leaving the Plan for any reason you should always consult a professional advisor, such as an Independent Financial Adviser, before taking any action.

Some Key Activities/Pensions Matters

Equalisation

As part of good governance, the Trustees carry out audits of the Plan from time to time. In this way the Trustees have identified the need to adjust some members' historical RBP benefits to correctly reflect 'equalisation'.

The requirement for equalisation was introduced following a European Court judgement in 1990. Prior to that, pension schemes routinely operated with different retirement ages for men and women (65 and 60 respectively for the Plan). Although the Plan went through an equalisation exercise in 1993, legal hindsight has made it necessary to recalculate the benefits for some members.

The good news is that **this will result in an improvement in the amount of benefits that some members are entitled to under the Plan**. Detailed announcements to those members who are affected by these recalculations will follow on an individual basis. For the avoidance of doubt, no members' benefits will be worsened by these recalculations.

Budget Changes 2014

You may have heard in the press that this year's Budget announced some significant changes to the way that individuals can access their pension savings. Whilst the changes will have a greater impact on defined contribution schemes than defined benefit schemes (such as the RBP), the Trustees are currently considering what impact the changes will have on the Plan and will provide further information in due course, when more details have been released.

Summary RBP Accounts for the year to 31 December 2013

The following is an extract from the accounts for the year ended 31 December 2013. A full version is available upon request. Figures for the year ended 31 December 2012 are also provided for information.

	2013 (£)	2012 (£)
VALUE OF THE PLAN AT THE START OF THE YEAR	59,406,193	56,209,973
INCOME		
Contributions:		
<i>Company's:</i>		
Normal	–	–
Special*	1,767,782	600,000
<i>Members':</i>		
Normal	–	–
Investment Income	42,639	41,740
Transfers in	–	–
Other Income	54,147	151,079
Transfers between sections	47,257	10,726
Total Income	1,911,825	803,545
EXPENDITURE		
Benefits Payable	2,964,468	2,786,675
Payments to and on account of leavers	–	–
Insurance Premiums	136,748	203,738
Fees and Expenses	338,392	231,991
Total Expenditure	3,439,608	3,222,404
FUND BALANCE		
Income <i>less</i> Expenditure	(1,527,783)	(2,418,859)
Change in Market Value of Investments	654,564	5,615,079
VALUE OF THE PLAN AT THE END OF THE YEAR	58,532,974	59,406,193

* Comprising deficit removal payments of £600,000 and a special payment of £1,167,782 following the Group re-structure at the end of 2012.

