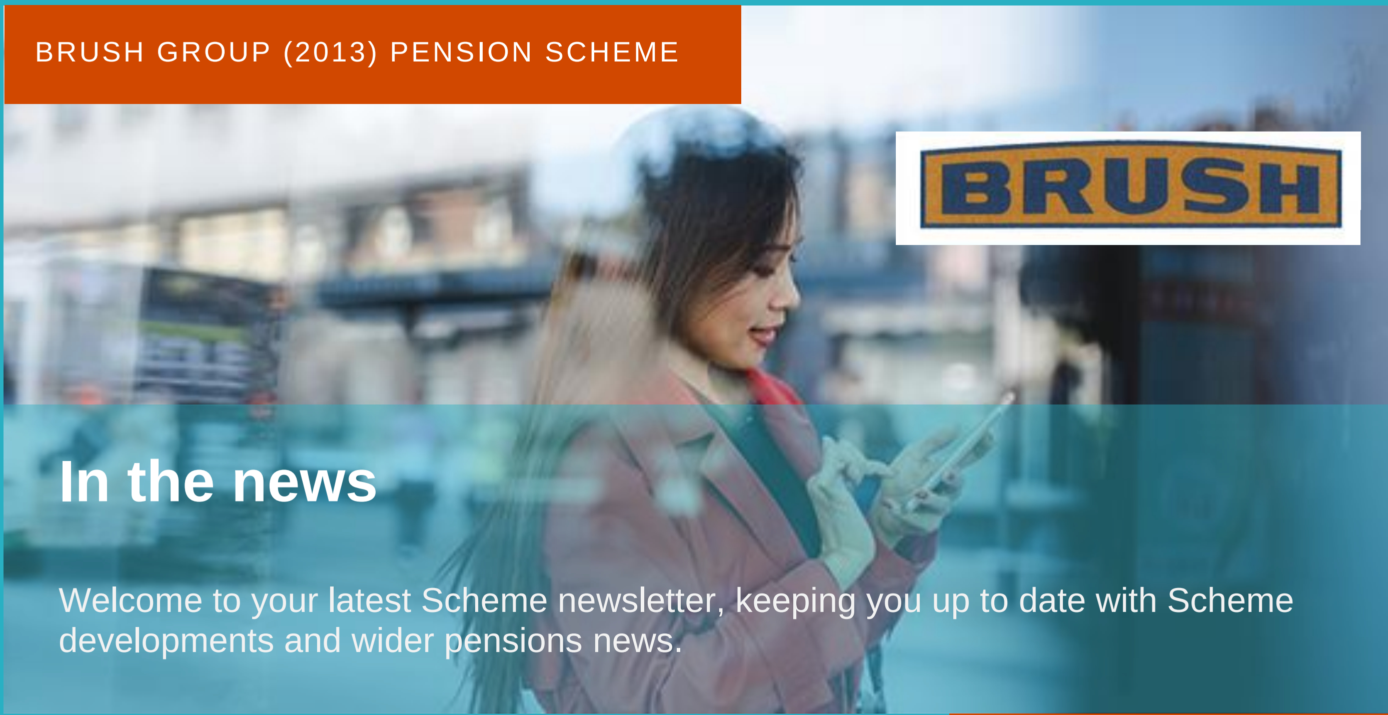
BRUSH GROUP (2013) PENSION SCHEME



In the news

Welcome to your latest Scheme newsletter, keeping you up to date with Scheme developments and wider pensions news.

Autumn 2022

In this issue

Change in business ownership

In August, we wrote to you to confirm that the Brush Power Generation business had been sold by One Equity Partners to the Baker Hughes Company, a US listed energy company.

The Trustee board was made aware of the sale and instigated a review of the potential impact on the Scheme. When considering the impact of the sale on Brush Electrical Machines Limited (the sponsoring employer) , we took independent legal, actuarial and covenant advice. That advice did not raise any concerns, partly because the Scheme is in a strong financial position but also because the sale has resulted in an improvement in the overall covenant that supports the Scheme.

Economic conditions

Geo-political tension continues to impact the global economy, pushing inflation higher than it has been for decades and putting pressure on many peoples’ finances. The Government’s package of support towards energy costs and introduction of an energy price cap until April 2023 aims to help, and the hope is that inflation starts to fall to more typical levels sooner rather than later.

There has been considerable market turmoil in recent months but our Scheme has not been unduly affected due to the risk mitigation actions previously taken by us.

As we did throughout the pandemic, we are monitoring how these external pressures might impact the Scheme and will make any changes we feel are necessary to protect it and the best interests of you, the members.

In this newsletter

Inside, you can read how the Scheme’s financial position is developing in our latest summary funding statement. We report on the Scheme’s funding position as at 31 December 2021.

We also include a summary of the year’s accounts and an update on the Scheme’s investments.

Pension fraud shows no sign of going away sadly but, as Trustees, we now have new powers to help you avoid pension scams. Read more on page 5.

There is also some important information relating to the increase in the minimum retirement age on page 6, and some information regarding changes to the Trustee board on page 9.

We also report on new climate-related financial reporting duties in light of the increasing focus on the environment and sustainability.

As always, please do get in contact if you have a query about the Scheme or your benefits, or if there is a topic you would like us to feature in our next issue. The contact details are on page 8.

Andy McKinnon
Chair of the Trustee

In numbers

The membership

At 31 December 2021 there were 1,431 members in the Scheme compared with 1,445 members at the 31 December 2020.

844	**Deferred members** - no longer building up benefits but have benefits in the Scheme for when they retire.
587	**Pensioner members** - receiving benefits from the Scheme (including the dependants of members who have died).

The accounts

Here we show headline figures from the Scheme's Annual Report and Accounts. If you would like more detail, please request a copy of the full report using the contact details on page 7.

The value of the assets supporting the Scheme at 31 December 2020	£311.5M
The decrease in the value of the assets over the year	(£1.8M)
The total value of Company contributions paid in to the Scheme during the year	£25M
The total value of benefits paid to members and administrative expenses during the year	(£7.4M)
The value of the assets supporting the Scheme at 31 December 2021	£327.3M

Investment update

As Trustees, it is our responsibility to decide on the overall investment strategy. We work closely with our investment advisers and we keep a close eye on how the funds are performing.

Asset allocation

At 31 December 2021, the Scheme held assets of £326.0M compared with £310.2M at 31 December 2020 (not including £1.3M of AVCs).

The Scheme's investments were invested primarliy in Common Contractual funds at 31 December 2021.

Performance

The table below shows how the Scheme's investments have performed to 31 December 2021.

Over the year to 31 December 2021	Over three years to 31 December 2021 (% per year)	Over five years to 31 December 2021 (% per year)
0.6%	11.5%	7.3%

Please note that the Scheme's assets were transferred into a Fiduciary Managament arrangement with Cardano Risk Management Limited over 2021. The performances shown in the table reflect the transition but are estimates.

Market turbulance

The Scheme operates a Liability Driven Investment programme. The assets allocated to this portfolio make up a significant proportion of Scheme assets, with close to half of Scheme assets allocated to this programme.

These Liability Driven Investments are comprised on Fixed Interest Gilts, Index-linked Gilts, Cash and Derivatives. The use of Gilts and Gilt based derivatives in the liability hedging portfolio amid the recent market turbulence has meant that the value of total Scheme assets have seen significant moves over the course of the last few weeks.

However, the Scheme's liabilities (i.e. the present value of expected member payments due in the future) have also seen similar changes in value due to the movements in interest rates. Indeed, this is the purpose behind holding these Liability Driven Investments – that they change in value in a comparable way to the Scheme's liabilities, for given moves in interest rates and inflation. As a result, the funding position of the Scheme (i.e. assets as a proportion of liabilities) weathered the volatility in Gilt markets reasonably well.

There were however some losses within the growth assets held in the portfolio (e.g. equities), which fell further over September after already having lost value earlier in 2022. As a result, the funding ratio had deteriorated somewhat, although not to the extent it could have were the Schemes in a position where the protection afforded by the Liability Driven Investment Program was reduced (if done so at an inopportune time).

To ensure the protection afforded by the Liability Driven Investments was maintained at the target level, the Fiduciary Manager, acting on behalf of the Trustees, took the decision to rebalance Scheme assets by selling some growth portfolio assets in September and October. This ensured that there was sufficient collateral to support the derivative contracts in the Liability Driven Investments programme.

For the avoidance of doubt, all collateral calls were met and the protection was kept at the target level throughout the turbulence to date, and the Scheme remains well collateralised at present. Based on information as at the 22nd October, the Scheme had enough collateral to weather instantaneous increases in interest rates to the magnitude of more than 4% – this is a prudent level. In addition there are additional Scheme assets which can be sold quickly if needed to top-up collateral levels further. The Trustees and Fiduciary Manager continue to monitor these levels and make changes as required, but the overall Scheme position remains very healthy.

Additional Voluntary Contributions (AVCs)

As you will be aware, the main benefits provided under the Scheme are 'final salary' benefits. Some Scheme members chose to pay AVCs to increase their overall level of benefits from the Scheme. AVC benefits are calculated in a different way to the main Scheme benefits, they are 'defined contribution' (not final salary) which means the level of AVC benefit depends on the amount of AVCs paid in and the investment returns achieved on those AVCs.

If you hold AVCs, the Trustees would like to remind you that it is important to regularly review your AVC investment choices, to make sure they are still suitable for you. If you require further details on your AVCs, please contact the Aon administration team (see page 8 for details).

In the news

New powers to tackle pension fraud

In the ongoing battle to protect people from falling victim to pension fraud, the Government has given pension scheme trustees new powers to put a transfer on hold, or to block transfers out of their schemes completely if certain 'warning flags' suggest fraudulent activity or a scam.

Most transfers are likely to be straightforward and take place without any issues, however, the new regulations require pension scheme trustees to intervene if particular warning flags are raised.

In some situations, the transfer will go on hold until the transferring individual proves that they have taken free, scam-specific guidance from the Money and Pensions Service.

If there are more serious warning flags that indicate possible fraud, trustees are required to block the transfer and prevent it from going ahead.

If you are thinking about transferring your benefits out of the Scheme, there will be more information about this in your transfer pack.

You may find that a transfer may take longer than anticipated due to these new requirements.

For details of the new regulations, go to www.thepensionsregulator.gov.uk and choose Document library > Scheme management detailed guidance > Administration > Dealing with transfer requests.

Planning to retire early?

The Government has confirmed that the earliest age at which most individuals can start receiving their pension benefits will go up from age 55 to 57 in 2028.

This change is set out in the Finance Act 2022. It is designed to coincide with the change to the State Pension Age, which will rise from 66 to 67 between 2026 and 2028.

If you are thinking about retiring early and want to check when you can start receiving your Scheme pension, please get in touch with the Scheme administrators.

In the news

New climate-related reporting duties

There is increasing focus on Environmental, Social and Governance (ESG) factors on investment decisions and the Scheme in general.

In keeping with this, the Task Force on Climate-Related Financial Disclosures (TCFD) has been established to develop best practice guidance for climate reporting in different sectors, including the pension industry.

In December 2021, the Pensions Regulator published a final version of its guidance on the governance and reporting of climate-related risks and opportunities.

This recognises the collective potential that UK pension schemes have as a force for good, and the prospects that a greener future can offer to everyone.

With better climate-related financial information, companies and trustees will be better-placed to incorporate climate-related risks and opportunities into their strategies.

This in turn, will raise investors' understanding of the financial implications of climate change. The aim is that this will empower the markets to channel responsible and sustainable investment opportunities.

TCFD reporting is being rolled out in stages, with the largest schemes required to report this year.

We will keep you updated.

Pensions Dashboard: latest

A few years ago, the Government called on the pension industry to develop and launch an online pensions dashboard. The aim is to enable everyone to have quick and easy access to information on all their pension savings in one place.

To achieve this, the Money and Pensions Service established a Pensions Dashboards Programme team.

The digital build phase is almost complete, and the first volunteer providers are nearly ready to connect to the system to begin testing using data.

This means that the rest of the planned development remains on track with the largest schemes going live first from next Spring/Summer.

In order to prepare for the release of Pensions Dashboards, we will be working with our advisers and administrators to make sure that we have the right processes in place to be able to support this initiative.Our data will need to be ready between late 2024 and early 2025.

Consumer testing is also expected to take place during 2023, ahead of moving to widespread public availability from 2024.

To find out more go to **www.pensionsdashboardsprogramme.org.uk**.

You can also read regular updates on their blog as the programme progresses: **www.pensionsdashboardsprogramme.org.uk/category/blog**

More information

To find out more about the Scheme, please go to https://www.brushpensions.co.uk/home/ or scan the QR code to the right.

There are lots of useful websites that can help you understand your options and support you with your retirement planning.

Get to know your pension at www.yourpension.gov.uk. The site has a tool that can quickly generate a retirement checklist to help you assess where you are with your planning. It also has useful links to a pension calculator, a State Pension calculator and more.

Picture your future at http://www.retirementlivingstandards.org.uk The retirement living standards show you what life in retirement looks like at three different levels, and what a range of common goods and services would cost for each level.

MoneyHelper

MoneyHelper is a free, impartial guidance service, backed by the Government. It brings together the support that was previously available through the Money Advice Service, the Pensions Advisory Service and Pension Wise.

www.moneyhelper.org.uk

Contact point

Please use any of the methods below to get in touch with the Administration team.

Email: brushpensions@aon.com

Phone: 0345 268 8475
(lines are open Monday to Friday, 9am to 5pm)

Write to: Brush Pensions
Aon Scanning Division
PO Box 196
Huddersfield
HD8 1EG

Reminder to keep us up to date

Please let us know if you change your name or address so we can continue to contact you about the Scheme and your benefits.

Please also update your Expression of Wishes form if you need to. This tells us who you would like to receive any benefits that become payable in the event of your death. As Trustees, we have the final say over who receives the benefits. We will consider your Expression of Wishes form, so if you have never filled one in, or you have not done so recently, particularly if your circumstances have changed, please complete a form and send it to us.

You can download a blank Expression of Wishes form from the Scheme website.

Taking advice

If you would like advice about your retirement plans, we recommend you speak with an independent financial adviser. You can find an adviser in your area by searching MoneyHelper's online directory.

Go to www.moneyhelper.org.uk and choose Pensions and retirement > Taking your pension > Find a retirement adviser.

Remember: if you would like more information about the Scheme, you can request a copy of the Trustees' Annual Report & Accounts. Contact the administration team (details to the left).

Behind the scenes

Following the sale of the Brush Power Generation business to the Baker Hughes Company, Thomas Burgess and Zoya Zeinalova replaced Ben Hewitson and Christian Lordereau on the Trustee Board. We would like to thank Ben Hewitson and Christian Lordereau for the support they have provided to the Scheme.

The current Trustee Directors are detailed below:

Company-appointed	Member-nominated	Independent
T Burgess	G Dallard	A McKinnon, Chairman
Z Zeinalova	G Peters	

As Trustees, we maintain up-to-date knowledge of pensions, investments and finance. We also attend training courses as and when necessary, for example, when pensions legislation changes. We meet regularly throughout the year to discuss how the Scheme is progressing.

We also appoint professionals to support us on areas of particular expertise.

The current advisers are detailed below:

Administrator	Aon Solutions UK Limited (formerly Aon Hewitt Limited)
Actuary	A Shah, Aon Solutions UK Limited
Auditor	Ernst & Young
Fiducairy Manager	Cardano Risk Management Limited
Investment Adviser	Aon Solutions UK Limited
Legal Adviser	Squire Patton Boggs (UK) LLP

Summary Funding Statement

This section summarises the results of the funding update at 31 December 2021. It also looks at the most recent previous results. These financial health checks are vital for monitoring the Scheme's progress. We hope the information helps you to understand how the Scheme is developing.

The latest position

The table below shows how the funding position has changed since 31 December 2019. Note that the asset values differ slightly from those on page 3 as the values below exclude Additional Voluntary Contributions.

	Annual Actuarial Update	Annual Actuarial Update	Actuarial Valuation
Date	31 December 2021	31 December 2020	31 December 2019
The funding level	113%	102%	101%
The funding target	£289.6 million	£304.1 million	£276.0 million
The value of the Scheme's assets (excluding £1.3 million of AVCs)	£326.0 million	£310.2 million	£277.7 million
The overall position	Surplus of £36.4 million	Surplus of £6.1 million	Surplus of £1.7 million

The latest update shows that the funding level has improved since the 31 December 2019 actuarial valuation.

The next financial check will be based on the Scheme's position at 31 December 2022. We will report on the results once they are complete.

It is important to remember that it is normal for pension scheme funding levels to fluctuate over time. Even when funding is temporarily below target, the Scheme will continue to pay benefits in full as long as it continues.

Reasons for the change

The Scheme's funding position has improved over the period largely due to the lump sum contribution of £25M that was paid into the Scheme in June 2021 following Melrose selling Brush Electrical Machines to One Equity Partners.

Current funding position

As a result of the volatility seen in investment markets, the funding level has reduced to 101% as at 30 September 2022. This was mainly due to falls in the growth assets during 2022 as highlighted on page 4. Despite the detoriation in the funding level, the Scheme remains in a very healthy position.

Summary Funding Statement

Financial support

As the Scheme was in surplus as at 31 December 2019 valuation, the Company does not contribute to the Scheme.

The Pensions Regulator

The Pensions Regulator is the UK watchdog of workplace pension schemes. It has the authority to change the way occupational pension schemes are run though it has not needed to use its powers in this way for our Scheme. You can find out more about the Regulator online at **www.thepensionsregulator.gov.uk.**

If the Scheme came to an end

The Scheme's funding level is worked out in two ways.

- The 'ongoing' basis (shown overleaf), which assumes that the Scheme will continue into the future.
- The 'full solvency' basis, which shows the funding position if the Scheme started to 'wind up' at the date of the valuation. If this happened, all members' benefits would have to be secured without delay by buying insurance policies. This would be more expensive than paying benefits gradually over time, so the full solvency position is generally lower than the ongoing position, even for fully funded pension schemes.

At 31 December 2019, the Scheme's full solvency funding level was 74% with a shortfall of £96.4 million.

Please note that we are legally required to report the full solvency position as part of this funding statement. The Company has no current plans to end the Scheme.

We must also tell you if there have been any payments to the Company out of Scheme funds in the last 12 months. There have not been any such payments.