BRUSH GROUP (2013) PENSION SCHEME

Aon Hewitt Limited
Colmore Gate, 2 Colmore Row, Birmingham B3 2QD Telephone: 0345 268 8475 Fax: 0121 262 5099
E-Mail: brushpensions@aonhewitt.com

Dear member

As you will be aware, the main benefits provided under the Brush Group (2013) Pension Scheme (the "Scheme") are 'final salary' benefits. A number of members chose to pay Additional Voluntary Contributions (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 amount of AVC benefit depends on the amount of AVCs paid in and the investment returns achieved on those AVCs.

As a member who holds an AVC account, your savings are invested by the Trustee on your behalf, according to the investment options you choose.

The Trustee would like to remind you that it is important to regularly review your investment choices, to make sure they are still suitable for you.

Review your fund choices

When you select or review your AVC funds you need to make sure you are clear about the different types of risk involved. There are different risks and potential future investment performance associated with each fund, so you need to choose your funds carefully depending on your personal circumstances and your attitude to risk. The way your retirement savings are invested will directly affect the fund value available to you at retirement.

Decide your objectives

When making any investment decision, you should consider your personal circumstances and think about your retirement goals. Your objective may depend on when you intend to use your AVC fund and what you want to use it to provide. When investing in a pension scheme, this generally means the number of years until retirement:

- If you are younger then you may be looking for investment growth and decide to invest in higher risk funds which have traditionally produced greater growth over the long term.
- Older members may be more concerned with avoiding a fall in value which reduces the income they may receive and may wish to protect the value of their funds by investing in lower risk funds.

Once you have a firm understanding of your retirement goals (and have chosen your selected retirement age), you must then establish your attitude to risk.

Decide your attitude to risk

There is a clear link between the level of risk you are prepared to take and the potential long-term growth that the funds you choose to invest in will achieve. All investments carry an element of risk.

The main types of risk you need to consider when saving for your retirement are:

Inflation risk

This is the risk that your investments will not grow quickly enough to keep up with the increase in the cost of living (inflation). Over time, inflation may reduce the buying power of money.

If you do not seek a high enough level of growth then it is possible that the value of your investments could fall behind price and salary inflation. This risk is likely to be more of a concern where you have many years to go until you plan to take your retirement benefits and could reduce the eventual buying power of your AVC fund.

Capital risk

This is the risk to the money you have invested if the value of your AVC fund falls. Some types of investment are likely to change in value more quickly and by larger amounts than others (volatility). Managing capital risk means deciding whether, for you, the potential long-term gains are worth the potential short-term losses.

Lost opportunity risk

This is the risk you invest too cautiously (i.e. in funds with a low investment risk). Over the long-term, less volatile investments tend to produce lower growth. If you are investing in a low risk fund, then you may see smaller changes in the day to day value of your AVC fund than you would in a more volatile fund, but the value of your AVC is likely to be smaller at your selected retirement age in a less volatile fund. There is also a greater risk of the value of your AVC being eroded by inflation.

Currency exchange risk

If you choose a fund that invests in overseas assets, changes in exchange rates between currencies may also cause the value of your AVC funds to fall or rise.

Concentration risk

You will probably know this risk by another name – the risk of 'putting all your eggs in one basket'. If you invest in only one small area of the market and that area fails, you may have nothing to fall back on. Managing concentration risk involves investing in a range of markets.

Having a good mix of different types of investment (such as equities, bonds and cash) in your AVC fund helps reduce the overall volatility of your fund. This is because at any time, if one investment type is performing poorly, another may be performing strongly.

As a general rule:

- Low risk – usually associated with lower potential growth prospects and lower volatility
- High risk – usually associated with higher potential growth prospects and higher volatility

Different people wish to take different levels of risk with their savings, which is sometimes called their attitude to risk. Some are naturally cautious while others are willing to take more of a risk with a view to getting a better return. There are many ways to describe attitude to risk, three examples could be described as follows:

- A **cautious investor** is someone who wants investments to be less volatile so that they won't fall in value very much, if at all, and who accepts that in the long run their fund may not be worth as much as it might have been if they had taken more risk.
- A **balanced investor** is someone who is prepared to take short term falls in return for the potential of long term growth and will perhaps be investing overseas and not just in the UK, which means there may be more volatility than with UK investment alone.
- An **adventurous investor** is someone who understands and accepts much higher degrees of risk in return for higher potential long-term growth, and with this comes greater volatility.

The majority of people tend to see themselves as balanced investors but it may well be that your attitude to risk will change over time or indeed might be affected by other investments that you have e.g. your final salary benefits.

If you have built up significant savings outside your pension, or if you have already built up a significant amount of pension elsewhere, then you may be prepared to take more risk than someone for whom this forms a major part of their retirement planning.

Likewise, someone who is, for example over 20 years or so away from retirement, or who expects to draw on their investment later in retirement, may be more willing to take a more adventurous view because they have some time and there is potential for investment markets to recover if there is a fall.

Someone who is within, say, ten years of retirement may take a more cautious view to try and avoid the possibility of a sudden market downturn because they have less time for a potential recovery in investment markets.

You may have other reasons for choosing a particular investment fund, or funds, so when making a decision you should also consider your personal circumstances and seek independent financial advice.

Once you have considered your retirement goals and the amount of risk you are prepared to take, the next step is to familiarise yourself with the different investment asset types. Generally, funds tend to be made up of three main types of investment and these are described in more detail below:

Equities

Equities are shares in companies. In the past they have grown in value more than bonds, gilts or cash over longer periods. However, they can go up and down in value, sometimes significantly.

Equities are likely to carry the most 'investment risk'. A member might want to choose a fund that invests mainly in equities if they are aiming for higher long-term returns and can accept the risks of loss of capital and fluctuating value.

You may be more willing to invest mainly in equities if, for example, your retirement is still some way off or you have other secure investments or your AVCs are only a small part of your retirement savings.

Bonds and gilts

Bonds are loans to a Government, company or other organisation. UK Government bonds are called 'gilts'. The level of investment risk falls somewhere between cash and equities.

Assuming the bond issuer does not default, the return on your investment over the lifetime of the bond can either be 'fixed' (for example 5%) or 'index-linked' (which means it varies in line with inflation). Bonds and gilts are traded on the stock market so their value can go down or up, although probably by less than the value of equities.

Bonds generally have a maturity date (when the loan is repaid) and bond funds usually hold a mix of bonds with different maturity dates. Bond prices usually fall when interest rates rise (and vice versa).

Investing in bonds closer to retirement might help protect the buying power of your AVCs. This is because should you wish to buy a pension the cost partly depends on the price of bonds and gilts. In the past, bonds and gilts have given lower returns over the longer term than equities, but they are generally less volatile – i.e. they are not so prone to large short-term fluctuations in value.

Cash

Cash funds invest in short-term interest bearing investments, short-term bonds and other money market instruments. The value of an investment in cash can occasionally fall in the short term, although cash investments typically have the lowest capital risk of the main asset classes.

Returns on cash funds over the longer term may not keep pace with inflation, so the buying power of your investment may reduce. They can provide good security for your pension savings if you are about to retire, but may not provide good long-term returns.

Lifestyle funds

Lifestyle is an investment strategy for members who do not wish to actively manage their AVC investments. How your AVC fund is invested will change over time and is based on how close you are to your normal retirement date. Your AVC fund is moved to less volatile funds as you move towards your normal retirement date. Lifestyle may, however, not be suitable for your circumstances and you should think carefully about whether it meets your needs.

AVC provider details:

Friends Life

If you are a preserved member, you can view your AVC details and choices online by registering at https://member.friendslife.co.uk/CFEWeb/public/pages/member/jsp/LandingPage.jsf. This is an easy way to monitor and manage your benefits.

The website contains details of the funds available and the investment performance of those funds. It also includes a range of tools to help you assess your personal risk profile and financial education material to help you plan and understand your retirement options.

If you wish to change your fund selections please contact the administrator Aon Hewitt or Friends Life for details on how to proceed:

The Brush Group (2013) Pension Scheme Aon Hewitt PO Box 196 Huddersfield HD8 1EG	Friends Life PO Box 1550 Salisbury Wiltshire SP1 2TW
Telephone: 0345 268 8475 Email: brushpensions@aonhewitt.com Fax: 0121 262 5099	Telephone: 0345 602 9199 Enquiries: https://www.friendslife.co.uk/contact-us/forms/customer-services.jsp

There are also legacy AVC arrangements held with Equitable Life and Royal London, if you require further information on your holdings in either of these arrangements please contact the administrator, Aon Hewitt.

You should consider taking independent financial advice before making any investment choices or decisions.

Trustee of the Brush Group (2013) Pension Scheme

July 2016