

Pensions Watch

An update from the EEF Staff Pension Fund

November 2022

Dear member,

I hope this newsletter finds you well. As you'll see, we've given the newsletter a refresh since we last wrote to you.

Over 2022 we have been working with our advisers to ensure that the Fund continues to operate smoothly, particularly given recent turmoil in the investment markets. An update on how the high inflationary environment is affecting the Fund, a business update from the Principal Employer, Make UK, and the latest on the Fund's investment strategy is given on pages 2 and 3.

We have also been working with the Employers to improve the options and support provided to members approaching retirement. News about the introduction of a new bridging pension option, access to a new interactive Fund website, and the appointment of an FCA-registered adviser, Hub Pensions Consulting, is on pages 4 and 5.

The remainder of the newsletter provides further useful information about the Fund, including the latest assessment of the financial position of the Fund, and a reminder of the payment plan we agreed with the Employers in 2021 (see pages 6 and 7).

Ross Trustees Services Limited has been the sole Trustee of the Fund since March 2017. You can contact us directly if you have any questions about the Fund, but for day-to-day questions about your benefits we suggest you contact LCP, your key contact for all pension-related queries. See page 8 for contact details.

We hope you find our newsletter helpful. Do let us know if you've any questions or comments on it.

Yours faithfully

Kate Hardingham

*On behalf of Ross Trustees Services Limited,
Trustee of the EEF Staff Pension Fund*



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Further information

If you have any questions or need any further information please contact our administrator, Lane Clark & Peacock - contact details on page 8.

Are your details up to date?

Please let us know if your contact details have changed. If you would like to change the people you have nominated to receive benefits upon your death, please complete an expression of wish form.

How is the high inflation environment affecting the Fund?

Inflation is at its highest level for 40 years and is expected to remain high over the next 9 to 12 months. At the time of writing, the current market expectation is that inflation levels will be more than 10% for the remainder of 2022 before returning to more normal levels in mid-2023. This is already starting to have a significant impact on individuals, organisations, and investment markets. Rest assured that although uncertainty in the economy may lead to fluctuations in the value of the Fund's investments, the Trustee continues to manage the Fund in the best interest of members and ensure that the operations of the Fund continue as normal. In particular, you should be reassured that your benefits in the Fund are not directly affected by sudden changes in investment markets – they remain payable at the rates set out in the Fund's governing documents, the Trust Deed and Rules.

The Trustee is responsible for investing the Fund's assets to provide for benefits as they fall due and takes professional advice when doing so. It does this in the best interests of members, and with a view to meeting the pension benefits promised over the short and long term. The Trustee is confident that the investment strategy it has in place is suitable for the Fund and its members.

Business update

from Richard Greenway (Finance Director, Make UK)

As the effects of Covid-19 and the associated lockdowns and restrictions receded, so Make UK has seen an upturn in its financial performance in line with the easing of those restrictions during the course of 2022.

Both 2020 and 2021 saw varying degrees of restrictions which curtailed the ability to deliver, in full or in part, a number of key business services, notably training and conference & events activity.

Since then these areas of the business have returned, initially on a gradual basis in the first quarter of this year, and accelerating as customer confidence returned.

The growth witnessed across quarters 2 and 3 resulted in the company seeing strong double-digit growth in revenues and profitability.

Such is the growth in confidence seen in customer activity, September even saw the biggest-ever revenue month within our Venues hospitality business. This is a testament to the team who work in that part of the business, and also the investments we have made across 2021 and into 2022 to ensure the product offering remains fresh and inviting. This is why we are also investing a further £1.5m into our Technology Hub Apprentice Centre in Birmingham to ensure we maintain a fit-for-purpose modern training environment for the next generation of engineers.

With ongoing cost control mechanisms the company has kept in place since Covid, along with the reorganisation of elements of the fixed cost base during the pandemic, I am pleased to announce that the company has operated profitably in the first 9 months of this year.

However, as many of you will have seen in the news over the past year, and indeed more recently, the domestic and geo-political situation has stirred up a great deal of uncertainty, with high inflation, higher interest rates and financial markets being in a state of volatility.

It is difficult to predict exactly what the coming weeks and months holds for the company from a trading perspective, although to date many of the inflationary pressures, notably energy, have been mitigated through existing fixed term contracts.

The measures instigated during the peak Covid years of reducing the fixed cost base, along with an agile approach to cash management, means that the company remains optimistic irrespective of the economic headwinds it may face.

I'd like to finish by thanking all Make UK staff, both past and present, for their support and contribution over the recent difficult years, and the Trustee of the Fund in continuing to engage positively with Make UK as principal sponsoring employer of the Fund.

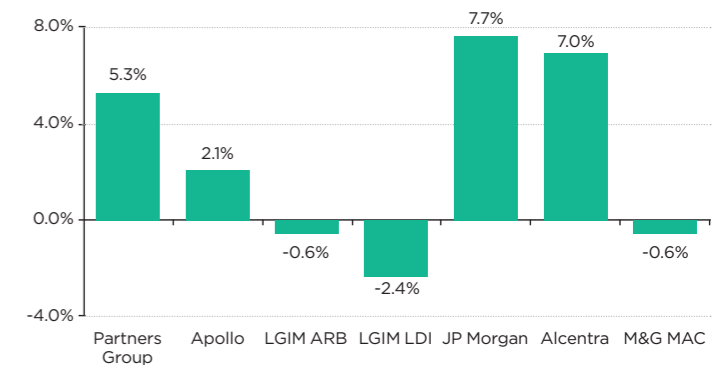


An update on investments

For the 9 months to the end of 2021, most equity markets delivered strong returns due to the sustained economic recovery from Covid-19, supported by fiscal and monetary policies. However, in Q1 2022 market sentiment turned negative in response to several key themes, leading to mixed returns across asset classes for the period of 12 months to 31 March 2022. The MCSI World Total Return Index (£) remained positive returning 15.9%, whilst the Iboxx All Maturities Corporates Index (GBP) returned -5.5% over the period as credit spreads widened and interest rates rose. Global supply chains and shipping slowed significantly during the Covid-19 restrictions, which reduced the quantity of goods and materials available. The conflicts in Ukraine / Russia created further supply chain disruption and uncertainty in markets. Additionally, consumers' inability to go out and spend during lockdown led to excess household savings. Following the re-opening of the economy, demand increased significantly and this, in conjunction with the supply chain shortages, led to high levels of inflation and CPI reached over 7% in March 2022.

In an attempt to reduce the high levels of inflation faced by economies globally, central banks hiked interest rates several times throughout the year; the Bank of England increased the UK base rate from 0.10% to 0.75%. The effects of these rises combined with the lower-than-expected gilt issuance in Q4 2021 led to a rise in nominal gilt yields. This rising yield environment created an opportunity for underhedged pension funds to make significant funding level improvements as the value of their liabilities fell more than the value of their assets.

Over the year, the Trustee made several changes to the Fund's investment strategy. In May 2021, the Fund reduced risk following improvements in the funding level, removing the Synthetic Equity allocation, and temporarily reinvesting the proceeds into the L&G Absolute Return Bond Fund. In December 2021, the Fund made an allocation to the M&G Total Return Credit Investment Fund. This mandate accesses a broad range of credit opportunities with a focus on generating return from the creditworthiness of the underlying companies rather than interest rates. The Fund's mandate performance for the 12 months to 31 March 2022 can be found in the table below.



Notes: M&G MAC returns shown since initial investment on 1st December 2021. Returns shown net of fees. Alcentra return is an estimate based on the net IRR provided by the manager. Source: investment managers

Expression of wish forms

It might be that benefits are payable to your beneficiaries on your death. It is important to complete an expression of wish form and to keep it up to date if your personal circumstances change. This will ensure that the Trustee is aware of whom you nominate to receive any benefits from the Fund in the event of your death, where the Trustee has discretion over the beneficiaries. A new website will soon be launched where you will be able to update this information online (see next page). In the meantime, please contact our administrators, LCP, using the contact details provided on page 8, if you would like to update your expression of wish form.

The new bridging pension option

The Trustee of the Fund and the Employers are delighted to announce a new retirement option to be offered to members who have not yet taken their pension and are yet to reach their State Pension Age to have more flexibility on how they take their pension. The new option, called a 'bridging pension option', is expected to go live before the end of the year. It will be subject to certain eligibility requirements.

The Fund rules need to be amended to introduce this 'bridging pension option'. The amendments to the Fund rules will reflect the details of the new option set out immediately below.

If you have any questions or concerns about the proposed amendment to the Fund rules to facilitate this option please contact the Trustee.

What is this new option?

If the Trustee determines you are eligible, this option enables you to receive a temporary higher initial pension from the Fund until the date you reach your State Pension Age and your State Pension starts being paid. This temporary 'bridging' pension will receive pension increases whilst in payment and does not impact the pension or any lump sum due to your spouse.

Once you reach the State Pension Age and your State Pension comes into payment, your temporary bridging pension will stop and the income you will receive from the Fund will reduce. The Fund pension after your State Pension Age is then lower than it would have been had the bridging pension option not been chosen. The effect of this would be to 'smooth' total annual income across the whole of your retirement, which may, for example, help people to afford to retire before they reach State Pension Age.

Further details on the new bridging pension option will be provided once the new option is ready to launch.

What other options do I have at retirement?

Your current options are still also available – for example the option to take a transfer to another pension scheme or exchange some of your pension for a lump sum on retirement. In particular, if you have not yet started receiving your pension, you can:

- transfer the value of your pension to another pension arrangement (available at any point before you reach normal retirement date); or
- take your pension from the Fund. This can be done from age 55 (rising to 57 from 2028 under current Government proposals) or possibly earlier if you are retiring due to ill-health. Pensions are reduced for early payment.

On retirement, subject to eligibility requirements, you have an option to:

- Receive your pension in full.
- Exchange around 25% of your benefits for a lump sum which is tax free at the present time.
- Choose a combination of above.

If the cash value of your pension benefits is over £30,000, you have to take advice from HUB Pension Consulting (or your own financial adviser) if you want to transfer your pension benefits out of the Fund.

If your pension is small, you might have the option to take it all as a (taxed) cash sum. You will be notified at retirement if this option might apply to you.

On the following page we set out how you can discuss your options with an FCA-registered financial adviser.

New member website

We are pleased to let you know that we are getting ready to launch a new website for members of the Fund.

Working closely with the Fund's administrator, LCP, we are updating the Fund information and getting ready to make new online tools available for you to access securely.

We want to be able to provide you with news and information about the Fund and your benefits quickly and efficiently. Our new website will hold a wealth of information about the Fund, explanations about your pension benefits and sources of help if you have a question. Members will be able to access their correspondence with the Fund administrator and update their expression of wish forms at any time. Deferred members will find tools to model their retirement options and transfer value to help their pension planning, and pensioner members will be able to keep up-to-date with online payslips.

Please look out for more information and details on how to register in the coming months.



Taking financial advice

To help you understand your pension options, the Trustee of the Fund has appointed HUB Pension Consulting to provide you with FCA-registered financial advice relating to your Fund benefits, for which the first piece of advice will be paid for by the Fund.

Who is HUB?

HUB Pension Consulting is a specialist professional firm which gives financial advice about pensions and retirement planning. HUB Pension Consulting is independent of the Employers and the Trustee of the Fund, and is being paid to provide you with advice based on your own personal and financial circumstances. The advisers are not paid a commission based on any decision that you make. Their role is simply to help you make the best decision for you.

The financial adviser will discuss your personal and financial circumstances with you, answer questions about your options and provide you with a written recommendation. It is important that you give the financial adviser as much information as you can about your personal and financial circumstances so that they can factor these points into their financial advice to you.

How do I contact HUB Pension Consulting?

You can call HUB Pension Consulting's helpline on **0800 031 5787** (UK Free Phone) between 9:00am and 8:00pm Monday to Friday (excluding UK Public Holidays).

HUB Pension Consulting can provide you with advice up to the point you transfer out from the Fund, or start taking your pension from the Fund directly (with or without a lump sum and/or bridging pension option).

How to contact HUB Pension Consulting



HUB Pension Consulting helpline:
0800 031 5787



Email inbox:
EEF@hubpc.co.uk



Website:
hubpensionconsulting.co.uk/eef

Do I have to pay for advice?

Members are eligible for one piece of financial advice with HUB Pension Consulting at no cost to you. If you wish to take a further piece of advice this will be at your own expense.

Neither the Trustee of the Fund nor the Employers can provide you with any financial advice and they do not take any responsibility for the advice provided to you by HUB Pension Consulting.



Can I use another financial adviser?

You can use your own financial adviser but the Trustee will not pay towards their costs. If you use your own financial adviser, please be careful. You should be aware that there are some fraudulent plans which exist such as 'pension release arrangements' (sometimes called pension scams or pension liberation plans). There may be significant tax penalties levied on you personally by HMRC if you transfer to these types of arrangement and high fees levied by the 'provider' which will significantly reduce your retirement income. Scammers may try to entice you with a so-called free pension review, 'one-off investment opportunity' or a 'legal loophole'.

For more information, see the pension scams booklet available on www.thepensionsregulator.gov.uk/pension-scams

The Financial Conduct Authority (FCA) has more information on how to protect yourself against pension scams. It also publishes a list of unauthorised firms and individuals of which it is aware. www.fca.org.uk/consumers/unauthorised-firms-individuals#list

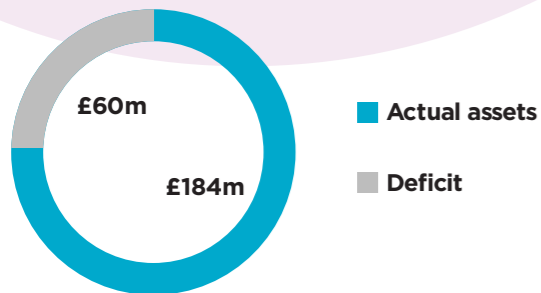
You can also get independent support and guidance from organisations such as MoneyHelper at www.moneyhelper.org.uk.

This service is only available to members within the UK.

Results of the valuation at 31 March 2020

Every three years we undertake a formal assessment of the present cost of providing the future benefit payments to our current and future pensioners using lots of assumptions about how long members will live, the impact of inflation and what return we will make on our invested assets – this is the Technical Provisions. We then compare that to the current value of assets and update the Employers' payment plan.

Technical Provisions: £244 million



At 31 March 2020 the Technical Provisions were £244m, but the assets were £60m less than this.

This £60m shortfall does not affect the pensions being paid out of the Fund – we have always paid members their full pensions.

To an extent, the Fund's shortfall was a reflection of the turbulence of financial markets at that point in time following the first UK lockdown on 23 March 2020. The funding position improved materially after the valuation date, and at 31 August 2020 had reduced to £47m.

To meet this deficit, the Employers agreed with the Trustee to pay:

- £2.6m into the Fund by 31 March 2021;
- £3.3m by 31 March 2022;
- £2.7m pa from 1 April 2022 to the agreed end date; and
- an extra contribution of £0.5m in 2026.

Further contributions may also be payable depending on the financial performance of Make UK.

Assumptions

The Trustee employs an independent expert to provide regular checks on the Fund's finances. These regular check-ups involve calculating a target level of assets.

The target level of assets is the amount that is expected to be enough to continue to pay out all the pensions that members have already built up in the Fund.

Nobody knows exactly how much money will be needed to pay everybody's pensions. This will depend on how long members live, the level of inflation, and the returns earned on the investments, amongst other factors.

Assets of the Fund

The assets of the Fund come from contributions paid by members and by the Employers together with investment growth.

The assets of the Fund are held separately from the Employers and the Trustee is responsible for investing this money, after taking professional advice.

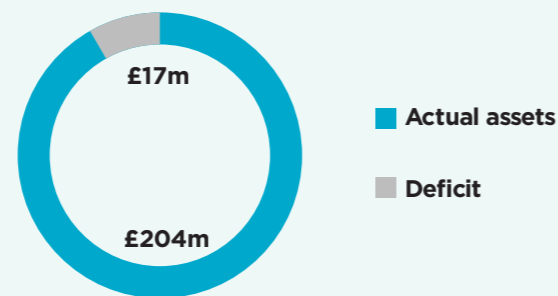
The assets are held in a common fund – they are not held in separate pots for each member or each Employer.

Pensions are paid to retired members out of this common fund.

A snapshot of the Fund at 31 March 2022

In interim years we undertake an approximate update of the present cost of providing the future benefit payments.

Technical Provisions: £221 million



At 31 March 2022, the Fund's projected deficit had reduced by £43m compared to March 2020.

The chart above shows that on 31 March 2022 there was a shortfall of £17m between the projected value of Fund assets and its liabilities. However, this is a significant improvement from the shortfall as at 31 March 2020 which was then £60m.

The improvement over the period is due to the favourable experience in financial markets following the first lockdown in March 2020, together with the contributions paid by the Employers.

The Trustee recognises that the funding position can be volatile, and we expect the snapshot to change from year to year because the Fund's finances depend on changes in global financial markets.

Your questions on funding answered

Q: Have the Employers taken any money out of the Fund?

Regulations require us to confirm to you whether the Employers have taken any money out of the Fund since the date of our last Summary Funding Statement. We can confirm that they have not.

Q: What if the Fund has to wind-up?

The Employers and the Trustee do not intend to wind up the Fund. We do, however, monitor the impact on the Fund should the Employers no longer be able to support the Fund. In this event, a wind-up of the Fund is likely to begin and responsibility for paying members' pension benefits would be transferred to an insurance company. The Trustee monitors the cost of securing all members' benefits with an insurance company.

The most recent estimate provided by our independent advisers looked at the position on 31 March 2020. This estimate showed that the employers would have had to make an additional final contribution of about £104m to make sure all members' pensions could be paid in full by an insurance company. This is larger than

the shortfall shown on page 6, but this is common amongst similar UK pension schemes.

If all of the Employers became insolvent and could not afford to pay this, you might not get your full pension benefits.

Q: Is my pension protected?

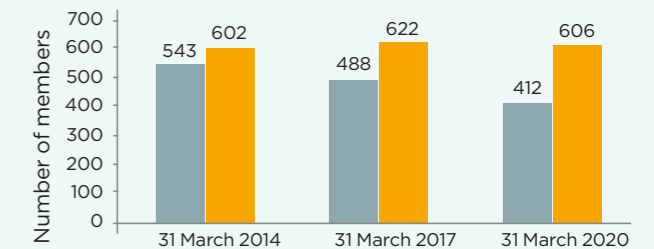
The Government has set up the Pension Protection Fund which provides pension scheme members with added security should their employer become insolvent and unable to pay the final contribution. If the Fund were to enter the Pension Protection Fund, the amount members receive may be less than the pension benefits built up for them in the Fund.

The Pension Protection Fund rules are complex. The amount they will pay depends on the rules of the scheme, whether a pension is already being paid, a member's age and the type of pension benefit.

More information and guidance about the Pension Protection Fund is available at www.ppf.co.uk or by emailing them at information@ppf.co.uk or calling them on 0345 600 2541.

Summary of the Fund's membership

■ Pensioners and dependants ■ Deferred members



Pension news

Benefit review

For a long time the Government paid State pension benefits to men at age 65 and women at age 60. There is an element of benefits within the Fund (GMPs) which replicated this. However, sex discrimination law made this unlawful and a recent Court decision has confirmed that pension schemes such as the Fund need to review member benefits to ensure this discrimination is addressed.

We expect any changes to benefits to be small and this will only affect members with benefits built up between May 1990 and April 1997. It is terrifically complex and will take the Trustee and our advisers some time to work through what this means for our members. However, we will write to any of you who are affected to let you know what this means.

Pension tax allowances

There is a limit on pension contributions and the build-up of pension benefits, beyond which a special tax can be triggered.

Normally, only people with significant pension contributions or benefit build-up should be affected by this, but there are some situations where the limit (called the Annual Allowance) can be

exceeded unexpectedly. For most people, the Annual Allowance (AA) for pension savings is currently £40,000 and where this (together with unused AA from the previous three years) is exceeded an AA tax charge applies. For high earners, the AA reduced to between £4,000* and £40,000 from 6 April 2020. Broadly the reduction doesn't apply to people who have taxable income of less than £200,000 a year; for those that are affected, the AA differs depending on income levels.

If you 'flexibly access' benefits under a DC arrangement, your capacity thereafter to make further DC pension savings without triggering the special tax reduces. The Money Purchase Annual Allowance (MPAA) operates alongside the Annual Allowance (referred to above). The MPAA is £4,000 per tax year from 2017/18.

There is an overall limit on the value of retirement and death benefits you receive from pension schemes – called the Lifetime Allowance – beyond which a special extra tax charge may apply. The general standard Lifetime Allowance (LTA) is currently £1,073,100 (unchanged from last year). Some people may have a higher figure if they have applied for and received confirmation from HMRC that they have Lifetime Allowance Protection. For more information, go to www.gov.uk and search for 'HMRC'.

Protect yourself against pension scams

Pension scams are a growing problem, particularly in light of increased activity post Covid-19, and the Pensions Regulator and Financial Conduct Authority are constantly updating their advice in this area. There are four simple steps to protect yourself from pension scams:



Step 1

Reject unexpected offers.

If you get a cold call about your pension, the safest thing to do is to hang up. If you get unsolicited offers via email or text you should simply ignore them. Fortunately, most people do reject unsolicited offers – research suggests that 95% of unexpected pension offers are rejected.



Step 2

Check who you are dealing with.

Check the Financial Service Register (register.fca.org.uk) to make sure that anyone offering you advice or other financial services is FCA authorised.



Step 3

Don't be rushed or pressured.

Take your time to make all the checks you need – even if this means turning down an 'amazing deal'. Be wary of promised returns that sound too good to be true and don't be rushed or pressured into deciding.



Step 4

Get impartial information and advice.

You should seriously consider seeking guidance before changing your pension arrangements. Many members are told about the benefits of a new arrangement but not about tax penalties and high charges which often apply. As mentioned on page 5, the Trustee has appointed HUB Pension Consulting who can provide you with FCA regulated advice around your pension options.



BE WARY OF PENSION SCAMS

Further details on scams can be found at: fca.org.uk/scamsmart

Further information

Documents which provide more information about the Fund are listed below and are available on request. The Fund's Statement of Investment Principles is now available to view via Make UK's website (www.makeuk.org).

Schedule of contributions -

Shows how much money is being paid into the Fund.

Annual report and accounts of the Fund -

Shows the Fund's assets, income and expenditure.

Full report on the actuarial valuation -

Provides more details on the check of the Fund's funding position as at 31 March 2020.

Statement of investment principles -

Sets out our approach to investing the Fund's assets.

Please contact LCP if you would like a copy of any of these documents.

You can find out details of your State Pension at www.gov.uk or check how much you are due here: www.gov.uk/check-state-pension

Trustee, EEF and professional advisers

Trustee:

Ross Trustees Services Limited
Westgate House, 9 Holborn
London
EC1N 2LL

Principal Employer:

EEF Limited (Make UK)
Broadway House
Tothill Street
London
SW1H 9NQ

Investment advisers:

Isio

Legal advisers:

ARC Pensions Law

Actuaries & consultants:

LCP

Administrators:

LCP
95 Wigmore Street
London
W1U 1DQ

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