



Martin-Baker

Pension Scheme

Pension Schemes Registry No. 10090466

Trustees' Annual Summary Report to
Members 2019



Engineering for life



Notes



MARTIN-BAKER PENSION SCHEME TRUSTEES' ANNUAL REPORT TO MEMBERS 2019

INTRODUCTION

The Trustees of the Martin-Baker Pension Scheme ("the Scheme") are pleased to publish this their twenty fifth Report, which is being issued for the year ended 30 September 2019. The purpose of this annual report is to provide members with information about the Scheme and its development over the year.

This year the Report is only being mailed to pensioners and members with a deferred pension entitlement. The Report is available to current employees on the Pension Scheme's website at www.martinbakerpensions.com, which is available to all interested parties.

For current employees, this Report is only of relevance to those who joined the Company before September 2013 and have legacy Final Salary and/or Cash Balance entitlements under the Scheme. We hope this report and the information contained in the membership booklet issued to members before September 2013, together with the annual benefit statement, provides an understanding of the value of the Scheme and the benefits it extends to members and their dependants. Some of the information contained in this report is covered in more detail in the formal report and financial statements which the Trustees produce each year. A copy of this can be obtained by submitting a written request to the Pensions Administrator at the address given on page 13.

The Scheme was closed to future accrual at the end of September 2013. A salary link has been retained for the accrued benefits of pension members who remained in Company employment after that date. Reports will continue to be available each year in future, as benefits will still be payable from the Scheme for many years to come.

The Scheme is established under a Trust Deed. The Scheme is a Registered Scheme with Her Majesty's Revenue and Customs following the changes to the legislative framework from 6 April 2006.

The Scheme continues to be managed on behalf of the members and other beneficiaries by Trustees. Some of the Trustees are appointed by the Company and some are nominated by the members. The Trustees' main responsibilities are to ensure that an adequate level of assets is available in the Scheme, that the benefits paid under the Scheme are calculated in accordance with the Rules and that the assets of the Scheme are properly managed. The level of benefits payable under the Scheme was determined by the Company.

This Report incorporates the information needed to satisfy the requirements to issue a Summary Funding Statement to all members each year.



2018/2019 SCHEME YEAR OVERVIEW

This was a very significant year for the Scheme. There have been a number of changes in the arrangements, which have been introduced during the year to ensure the long-term health of the Scheme.

The Trustees have been aware for a number of years that the profile of the members is changing. This has meant that some of the investments, which have served the Scheme well in recent years, are no longer appropriate. A strategic investment review has taken place and a revised investment profile has been introduced during the year. The new investment profile appears in the Investment Information section of this report on page 8. Overall, the value of the investments increased during the year, after taking into account the costs of implementing the new profile. The performance figures, which appear on page 8, show how the individual investments have performed. Further comments on this performance appear in the investment information on pages 8 and 9.

In spite of the good investment performance, the Scheme was in deficit at the end of the year. The main reason for the deficit was a significant increase in the calculation of the liabilities, which resulted from the decrease in gilt yields during the year. The funding position is discussed further on page 10.

The Scheme has shown an actuarial surplus in the last two full valuations, i.e. 1 October 2014 and 2017. The Trustees and the Company share the view that there may be an actuarial deficit shown in the valuation at 1 October 2020, but that this may be a temporary situation. In order to provide comfort for the Trustees and the members of the Scheme, the Company will make available, in a special, protected bank account, a sum of £15 million before the end of September 2020. The Trustees will be able to call on these funds if there is an actuarial deficit in both of the next two full valuations, i.e. 1 October 2020 and 2023.

Employees who have joined the Company in recent years have not been entitled to pensions benefits from the Scheme, but have been made members for Life Assurance benefits only. This has resulted in a number of complications, including the way in which membership has to be reported to The Pensions Regulator. The majority of the Company's employees now fall into this "Life Assurance only" category. After taking legal advice, the Company has created a new, separate trust arrangement to provide Life Assurance cover for current employees. This means that no Life Assurance benefits will be provided by the Martin-Baker Pension Scheme after 30 September 2019. The Life Assurance only members are listed separately in the membership table for comparative purposes in this report and will not be included in future years.

During the year, the Company made payments to meet the cost of the Life Assurance cover available under the Scheme. There will be no future payments to the Scheme for Life Assurance cover. All of the administration costs associated with the Martin-Baker Pension Scheme will continue to be paid directly by the Company.



MEMBERSHIP INFORMATION

The number of members of the Scheme at 30 September 2019 is given below, along with the figures for 2018 in brackets:

Members who are employees:		
With pension benefits:	300	(333)
With Life Assurance cover only:	460	(424)
Members or their dependants receiving a pension under the Scheme:	718	(721)
Former employees entitled to a pension when they retire:	278	(298)

FUNDING INFORMATION

The Trustees are required to give you an update of the Scheme's funding position at least once each year. This report covers the period ending 30 September 2019.

The Scheme is subject to a valuation by an independent actuary every three years. The latest full Valuation was prepared as at 1 October 2017. The next full Valuation will be carried out as at 1 October 2020.

The Valuation as at 1 October 2017 showed that the funding position was as follows:

Assets	£119.2 million
Amount needed to provide benefits	£111.0 million
Surplus	£ 8.2 million
Funding Level	107%

The Scheme's funding position improved from 102% to 107% over the 3 year intervaluation period to 1 October 2017. In monetary terms, the ongoing surplus increased from £1.6m to £8.2m. This was mainly due to better than expected returns on the Scheme's assets, partially offset by changes in market conditions (and in particular lower future expected bond yields leading to a higher value being placed on the liabilities).

The Trustees have obtained an update of the approximate funding position of the Scheme as at 1 October 2019. This showed that the asset value had improved slightly to approximately £123m, but that the liabilities had increased to approximately £132m. The deficit at that date was approximately £9m, representing a funding level of 93%. The deterioration was largely due to the increase in liabilities resulting from a change in financial conditions over the year since 1 October 2018. The main factor

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impacting the liabilities had been the significant fall in gilt yields during the 2019 year and in particular over the last few months of that year. Long-term inflation expectations did not change materially over the period. The effect of falling gilt yields had been partially offset by better than expected investment returns over the period. Although the funding position has deteriorated, the Trustees and the Company remain confident of their ability to meet members' benefits as they fall due.

The Scheme Actuary produced a Schedule of Contributions to be paid by the Employers from 1 October 2017 to 30 September 2022. This schedule stated that no contributions were required in respect of future accrual, as the Scheme had closed to future accrual and that no deficit reducing contributions were required, as the Scheme was in surplus at 1 October 2017. The schedule did, however, require Martin-Baker Aircraft Company Ltd to pay the cost of insuring death in service benefits (for those Pension Scheme members who remain in employment with the Employers) the Pension Protection Fund levy and the expenses associated with administering and operating the Scheme. The Company is no longer required to pay to the Pension Scheme the cost of insuring death in service benefits, as these are now provided under the separate arrangement mentioned in the Overview of the Scheme Year. The schedule also states that the Employer may pay additional contributions to the Scheme at any time. The funding requirements will next be reviewed as part of the full Actuarial Valuation exercise as at 1 October 2020.

The Trustees are also required to include information on the cost of securing benefits if the Scheme were to be wound up. However, this does not imply that the Company is thinking of winding up the Scheme. At 1 October 2017, the Scheme Actuary's estimate of the amount needed to ensure all members' benefits could be paid in full by an insurance company if the Scheme started winding up was £27 million in addition to the assets already held by the Scheme. As mentioned last year, current financial conditions are very volatile, making it difficult to assess the buyout position with any accuracy.

If the Scheme were to wind-up, the Company is required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. Although a wind-up is most unlikely, should the Company be unable to pay this amount, it is expected that the Pension Protection Fund would take over the Scheme and continue to pay a significant proportion of your benefit entitlement.

Members should consider obtaining professional financial advice should they be considering leaving the Scheme at any time before their normal retirement date. Members are reminded that they should inform the Trustees of any change of address or change in their marital status.

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655) require disclosure of the following information:

The Regulator has not exercised any of its powers in relation to directions or the Schedule of Contributions.

No payment of surplus has been made to the Sponsoring Employer since the previous Summary Funding Statement.



WHO'S WHO

The names of the Trustees who served during the year are:

Company Nominated Trustees P W Badman J W Martin R J Martin

Member Nominated Trustees P A Carpenter G R Ward

Administration is undertaken by: Miss C E Guest

The advisers to the Scheme during the year were:

Actuary: Ms. V Smart, F.I.A. (appointed 6 November 2017)
Barnett Waddingham LLP

Auditors: Ward Williams Limited

Bankers: National Westminster Bank PLC

Life Insurers: Aviva (until 30 September 2019)

Investment Managers: Legal & General Investment Management Ltd
M&G Pooled Funds
Aberdeen Standard Investments
Santander

Legal Advisers: Pinsent Masons LLP

**Pension Consultants
and Administrators:** Barnett Waddingham LLP

INVESTMENT INFORMATION



The Trustees are responsible for ensuring that the assets of the Scheme are properly invested. The choice of investments and investment managers was reviewed during the year. A new Statement of Investment Principles has been produced and can be viewed at the address given on page 13.

The Trustees' investment profile targets were revised during the year. The targets as at 30 September 2019 were:

- 25-35% in the Legal & General Global Equity 60:40 Index Tracker Fund
- 10-20% in the Legal & General Over 5 Year Index-Linked Gilts Fund
- 20-30% in the M&G Long Dated Corporate Bond Fund
- 5-15% in the M&G Property Fund
- 15-25% in the ASI Life Diversified Growth Fund

The Legal & General fund invests 60% in the UK stock market and 40% in overseas (North American, European, Japanese and Far Eastern) stock markets.

These investments are accumulation units, except for the M&G Long-Dated Corporate Bond Fund, which was switched to distribution units part-way through the year. The Trustees receive interest on any cash holdings and deposit accounts, but this has been insignificant in recent years, because of low interest rates.

The annualised returns on the current investments for periods of one, three and five years ending 30 September 2019 are as follows:

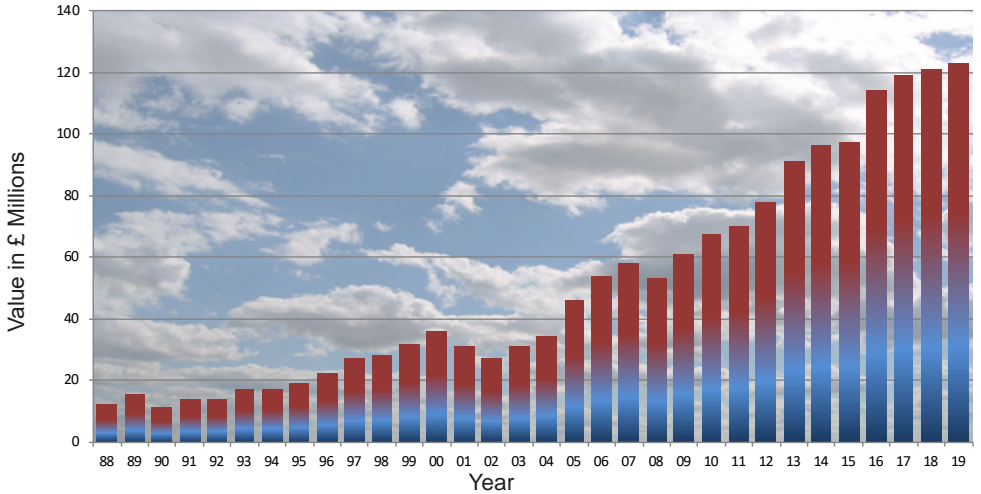
	1 Year	3 Years	5 Years
Legal & General Global Equity 60:40 Index Tracker Fund	+ 4.2%	+8.8%	+ 9.3%
Legal & General Over 5 Year Index-Linked Gilts Fund	+20.3%	+5.3%	+10.7%
M&G Long Dated Corporate Bond Fund	+19.7%	+5.5%	+ 9.4%
M&G Property Fund	+ 0.4%	+6.2%	+ 7.2%
ASI Life Diversified Growth Fund	+ 1.0%	+4.4%	+ 4.9%

The volatility in investment performance has meant that the Trustees have set ranges for the target investment profile. Although the relative performance of the current investments has diverged during the year, all of the investments remain within their target ranges. The Trustees decided to reduce the Scheme's exposure to equities and increase the exposure to fixed interest investments during the year.



The chart below shows how the Scheme's assets have changed. Each column relates to the position at 30 September each year.

Asset Value



Asset Distribution - 30 September 2019

The distribution of assets at the end of the year is shown in the chart below.

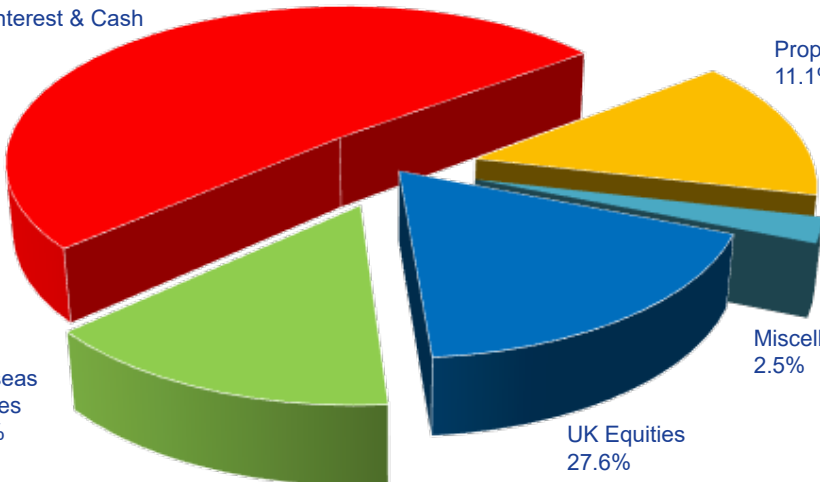
Fixed Interest & Cash
42.8%

Property
11.1%

Overseas Equities
18.5%

Miscellaneous
2.5%

UK Equities
27.6%





ACCOUNTS



The Trustees prepare detailed financial statements annually at the Scheme year end and these were audited by Ward Williams Ltd (WW). WW issued an unqualified audit opinion on the financial statements and an unqualified audit statement about the contributions. The following is a summary of the main points of the Accounts at 30 September:

VALUE OF FUND AT 30 SEPTEMBER 2018

£120.6 Million

PLUS		LESS	
Employer's Contributions		Pensions paid	£3.2
Regular (re Life Assurance)	£0.3	Lump sums on retirement	£0.7
Claims on insurance policies	£0.1	Risk premiums	£0.3
Receipt of AVC funds	£0.1	Death in service benefits	£0.2
Investment Income	£0.4	Transfers out	£1.0
Net change in market value of investments	£6.9		

VALUE OF FUND AT 30 SEPTEMBER 2019

£123.0 Million

PENSION SCAMS



Please continue to be aware that you could be the target of a pension scam, especially since the new pension flexibilities have been introduced, making it harder to tell the difference between genuine and bogus opportunities.

Pension scams can take many forms, but may offer a free pension review, access to your pension funds before age 55, or the temptation of a "unique investment opportunity". If you were to be taken in, as well as losing most, if not all, of your savings, you could also receive tax charges of over half the value of your pension.

The Pensions Regulator gives the following advice for protecting yourself against pension scams:

1. Never give out financial or personal information to a cold caller and be wary of unsolicited calls, texts and emails, even from those purporting to be genuine pensions bodies such as Pensions Wise or other government-backed bodies.
2. Check everything for yourself – even if the adviser is recommended to you by a friend, for example.
3. Make sure your adviser is authorised by the Financial Conduct Authority (FCA) at <https://www.fca.org.uk/firms/financial-services-register>



4. Check the FCA's list of known scams at: <https://www.fca.org.uk/scamsmart>
5. Be wary of overseas investment deals, for example in a hotel, vineyard or other overseas opportunities.
6. Don't fall for "guaranteed returns", or professional-looking websites or brochures.
7. Don't be rushed into a decision – scammers often try to pressure you and may even send couriers to your door to sign documents.
8. If you are over 50 and have a DC pension, talk to Pension Wise to help you investigate your retirement options: <https://www.pensionwise.gov.uk/>.
9. Ask the Pensions Advisory Service for help if you have doubts: <https://www.pensionsadvisoryservice.org.uk/>.
10. Contact your pension provider and call Action Fraud on 0300 123 2040 if you have already signed and think you have been scammed. They may be able to stop a transfer that hasn't taken place yet.

Further information can be found at the following website:

<http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx>

GENERAL PENSION INFORMATION

There have been many changes in the rules associated with pensions benefits since the membership booklets were issued. There are a few changes that affect Defined Benefit (DB) schemes, such as the Martin-Baker Pension Scheme, but the changes mainly affect members of Defined Contribution (DC) pension schemes. Although the changes have not adversely affected your benefits under the Scheme, you may have more flexibility over how you can access them in the future. Below is a brief summary of some of the changes.

Transfers out of the Scheme

Since April 2015, DB members who wish to transfer their benefits out of the Scheme (for example, to access their pension in a flexible manner) are required to obtain appropriate independent advice, unless the value of their Defined Benefits is £30,000 or less.

There are special rules which apply to certain transfers to and from overseas pension schemes, which may affect individuals who intend to retire overseas. In a move to combat tax avoidance, the government



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has introduced a tax charge on certain transfers to Qualifying Recognised Overseas Pension Scheme (QROPS). Transfers to QROPS will be taxed at a rate of 25%, unless certain exemptions apply, e.g. the member is resident in the same country as the receiving QROPS or the QROPS is an occupational pension scheme sponsored by the member's employer. The tax charge can also apply where funds are transferred from a QROPS, where funds originated in a UK scheme. If you are thinking of retiring overseas, you should seek independent financial advice.

Small Lump Sum Payment

In certain circumstances, members with relatively small pensions or benefits in the Scheme can take the value of their entire benefit (including any dependant's pension) as a one-off cash lump sum. To qualify for this option, the value of the member's pension or cash balance from the Scheme must be less than £10,000; or the value of the member's pension from the Scheme and from all other pension arrangements must be less than £30,000 in total.

Annual and Lifetime Allowances

There are complex rules covering annual contributions to pension schemes (Annual Allowance) and the total value that can be built up in pension funds (Lifetime Allowance). The Annual Allowance is the maximum amount of tax-privileged pension savings an individual can make in a single tax year. Although the Martin-Baker Pension Scheme has closed to future accrual, a salary link has been retained for the accrued benefits of members who continued in Company employment after 30 September 2013 and so the change in your pension in this Scheme could be taken into account for Annual Allowance purposes.

If any money purchase pension savings in a registered pension scheme are drawn flexibly and income is taken, this will trigger the Money Purchase Annual Allowance (MPAA). If triggered, the MPAA restricts the total amount of contributions that can be paid to money purchase arrangements (without incurring a tax charge).

These allowances are subject to change and current allowances are listed on many websites. If you have concerns, you should seek independent financial advice.

GDPR – PROTECTING DATA PRIVACY



The General Data Protection Regulation (GDPR) came into effect on 25 May 2018. The legislation will continue to apply after "Brexit". These rules require the Pension Scheme to handle personal data according to specific guidelines and processes. These include far stricter mechanisms for obtaining consent for personal data sharing, for example with IFAs. The Trustees have issued a Privacy Notice to all members of the Scheme, setting out how members' personal data will be handled. This Privacy Notice can be viewed on the Martin-Baker Pension Scheme website at www.martinbakerpensions.com.

We will work on a continuing basis to ensure that all third parties with whom we share your data commit to compliance with GDPR.



INFORMATION TO MEMBERS



If you require any further information about the Scheme or your rights under the Rules, then this can be obtained from the Pensions Administrator c/o Martin-Baker Pension Scheme, Higher Denham, Nr. Uxbridge, Middlesex, UB9 5AJ, Email: pensions@martin-baker.co.uk. A copy of the Trust Deed and Rules, Scheme Accounts, Actuarial Reports and any other formal documents can also be inspected on application to the Pensions Administrator.

You should also be aware that there are outside bodies from whom you can seek either help or information in regard to your rights under the Scheme. This information is given below:

This information is given below:

1. A pension scheme tracing service has been set up by the Government to collect information about pension schemes which will enable individuals to trace their past pension rights. Information about the Scheme (including the address at which the Trustees may be contacted) has been given to the Service in accordance with the appropriate regulations.

The Service's contact details are:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
WOLVERHAMPTON
WV98 1LU

Tel. No. 0800 731 0193

Tel. No. from abroad +44(0) 191 215 4491

<https://www.findpensioncontacts.service.gov.uk>

2. The Scheme has a formal procedure in place for the resolution of disputes between members (and their dependants) and the Trustees. This procedure complies with legal requirements and details of the procedure can be obtained from the Pensions Administrator at the address given at the top of this page.

3. The Pensions Advisory Service is available to assist members and beneficiaries of the Scheme in connection with any difficulties which they may have experienced and failed to resolve with the Trustees or administrators of the Scheme. The Pensions Advisory Service may be contacted locally via offices of the Citizens Advice Bureau (which keeps a register of local advisers) or by contacting:

Money and Pensions Service
120 Holborn
London EC1N 2TD

Pensions helpline: 0800 011 3797

www.pensionsadvisoryservice.org.uk

4. The Government has appointed a Pensions Ombudsman, who may investigate and determine any complaint or dispute of fact or law in relation to occupational pension schemes which has been made or referred to him in accordance with relevant legislation. The contact details are:

Office of the Pensions Ombudsman
10 South Colonnade
Canary Wharf
London E14 4PU

Tel. No. 020 7630 2200

enquiries@pensions-ombudsman.org.uk

www.pensions-ombudsman.org.uk

Pension

Please note that any complaints should first be referred to the Scheme's own dispute resolution procedure and then to the Pensions Advisory Service (see above).

5. The Pensions Regulator, appointed under the Pensions Act 2005, has powers to intervene in the running of pension schemes where trustees, employers or professional advisers have failed in their duties. Its address is:

The Information Team
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex BN1 4DW

Tel. No. 0345 600 7060
wb@tpr.gov.uk
www.thepensionsregulator.gov.uk

The Pensions Regulator does not deal with queries about individuals' pension benefits. It has issued a number of Guidance Notes and Codes of Practice, which can be viewed on the website.



INCREASES TO PENSIONS IN PAYMENT

Statutory

Pension benefits arising from service after 5 April 1997 have been increased in payment by Limited Price Indexation (LPI), which is the annual change in UK inflation subject to a maximum. For service between 5 April 1997 and 5 April 2005, the maximum increase is 5%. For service after 6 April 2005, the maximum increase is 2.5%. The measure of inflationary change in September 2018 was 3.3%, so LPI increases were applied to pensions in January 2019.

Discretionary

The Trustees and Company wished to provide a discretionary increase on pensions earned before 6 April 1997, based on an agreed formula. This increase was applied with effect from 1 August 2019. Those members who were entitled to an increase were supplied with details of how their increase had been calculated.

A similar discretionary increase was implemented during 2015. Members entitled to that increase were supplied with details of how their increase was calculated.

PENSION INPUT PERIOD

The Pension Input Period for all UK registered pension schemes is aligned with tax years. This is only likely to be of relevance when a member is paying large contributions to another pension arrangement. Any member who makes large contributions to another arrangement should contact the Pensions Administrator for further information.



Martin-Baker Pension Scheme,

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Email: pensions@martin-baker.co.uk Web: www.martinbakerpensions.com

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