Journey
Royal Ordnance Pension Scheme
Annual Review 2019
Welcome to Journey, the Trustee’s 2019 annual review of the Royal Ordnance Pension Scheme (“the Scheme”).

I was delighted to accept the appointment as Chair of the Trustee Board at the beginning of this year. I join the Board in the capacity of a professional trustee taking over from Myles Westcott who stepped down from the Board at the end of 2018. I would like to take this opportunity to thank Myles for his dedicated service and contribution to the Scheme over the last seven years.

I look forward to continuing to work with the Board, sharing with my fellow Trustees experience gained both from a career of over 35 years in the pensions industry and as a Fellow of the Institute and Faculty of Actuaries. We are united in our focus of safeguarding benefits and serving the Scheme’s members into the future.

In the following pages you can read a summary of the Annual Report and Accounts for the year ended 31 March 2019, as well as an update on the Scheme’s funding position at 31 March 2019. Following the Trustee’s appointment of Hymans Robertson LLP in July 2018 to the role of Investment Consultant, Andrew Johnston provides us with an update on the investment performance of the Scheme’s assets over the year to 31 March 2019.

Finally, we include the latest pensions news, covering topical issues and developments that may be of interest to you.

We hope that you find this newsletter interesting and we are keen to hear your thoughts. If you have any comments or suggestions about what we can include in future communications, please get in touch using the contact details on page 12.
Who’s in the Scheme?

At 31 March 2019 the Scheme had a total of **12,922 members.**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-service members</td>
<td>378</td>
</tr>
<tr>
<td>Deferred members</td>
<td>3,085</td>
</tr>
<tr>
<td>Pensioners</td>
<td>9,459</td>
</tr>
</tbody>
</table>

Trustee Directors and Advisers

The Scheme’s Trustee Directors
Woodley Pension Trustees Limited
(Mrs Carol Woodley)
Chair of the Trustee Board
(appointed 1 January 2019)
Mr Tim Eardley*
Mr Gareth Edwards
(appointed 20 June 2019)
Ms Nicola Evans*
Mr Craig Fennell
Mr Murray Fullerton*
Ms Lorraine Gregson
Mr Eifion Pomeroy*

* Member Nominated Director

The Scheme’s Advisers

- **Actuary**
  - Mr Calum Cooper
  - Hymans Robertson LLP

- **Auditor**
  - Grant Thornton UK LLP

- **Legal Advisers**
  - Pinsent Masons LLP

- **Investment Consultants**
  - Hymans Robertson LLP

Myles Westcott and Katy Fox, both Company Appointed Directors, retired from the Board at the end of December 2018 and mid-November 2018 respectively. The Trustee would like to express its sincere gratitude to them both for their service to the Scheme. They have been replaced by Carol Woodley and Gareth Edwards.

Whilst Carol has introduced herself under the Welcome on page 2, Gareth joins the Board as Finance Director of the Maritime and Land UK business. Gareth joined the Group in 1997 on the finance graduate programme and his career experience has included a diverse range of finance roles across Group Treasury, Shared Services as well as roles overseas in Saudi Arabia.
Money in and money out

The table below is a summary of how the value of the Scheme’s assets changed during the year ended 31 March 2019.

<table>
<thead>
<tr>
<th>Income and expenditure</th>
<th>Period ended 31 March 2019 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund at the beginning of the year</td>
<td>1,575</td>
</tr>
<tr>
<td>Total income</td>
<td>57</td>
</tr>
<tr>
<td>Total outgoings</td>
<td>(70)</td>
</tr>
<tr>
<td>Excess of outgoings over income</td>
<td>(13)</td>
</tr>
<tr>
<td>Change in market value of assets</td>
<td>(8)</td>
</tr>
<tr>
<td>Fund at the end of the year</td>
<td>1,554</td>
</tr>
<tr>
<td>Net investments</td>
<td>1,548</td>
</tr>
<tr>
<td>Net current assets</td>
<td>6</td>
</tr>
<tr>
<td>Net assets of the Scheme at year end</td>
<td>1,554</td>
</tr>
</tbody>
</table>

Funding update

The 31 March 2017 triennial actuarial valuation project, which was completed in December 2017, showed that the Scheme had a funding surplus, i.e. the value of assets was expected to be sufficient to pay all benefits accrued (assessed on a prudent basis). The next valuation is due with an effective date of 31 March 2020.

On each anniversary of the valuation date, I carry out an update of the Scheme’s funding position. Please refer to the article on page 5.

“As at 31 March 2019 the funding position had improved slightly with the funding surplus increasing over the year.”
What happened to the funding level in the year to March 2019?

As at 31 March 2019 the funding position had improved slightly with the surplus increasing over the year from £84 million to £88 million, equivalent to a funding level of 106%.

This change is due to a variety of factors including changes in investment market conditions and ongoing contributions from BAE Systems.

<table>
<thead>
<tr>
<th>31 March 2019*</th>
<th>31 March 2018*</th>
<th>31 March 2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets**</td>
<td>£1,617m</td>
<td>£1,578m</td>
</tr>
<tr>
<td>Amount needed</td>
<td>£1,529m</td>
<td>£1,494m</td>
</tr>
<tr>
<td>to provide</td>
<td></td>
<td></td>
</tr>
<tr>
<td>benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus</td>
<td>£88m</td>
<td>£84m</td>
</tr>
<tr>
<td>Funding Level</td>
<td>106%</td>
<td>106%</td>
</tr>
</tbody>
</table>

*AVCs have been included in both the asset and liability figures shown.

**The asset values used in the Actuary’s calculations have been based on unaudited Scheme accounts and differ from those disclosed on page 4. This is due to the fact that the longevity swap is valued in different ways for accounting purposes compared to funding purposes.

I mentioned in last year’s newsletter that steps had been taken to move the Scheme’s assets from growth-seeking investment classes to ones that provide an income and whose value is more closely correlated with the Scheme’s benefit promises. This has had a positive impact on the Scheme as assets have been protected against movements in the financial markets. The Trustee and Company have also been working collaboratively over the year to identify a strategy for the Scheme that further secures the benefits of members.

What would happen if the Scheme had to be wound up?

Whilst there is no intention to wind up the Scheme, it is a statutory requirement to provide members with information on the Scheme’s position if that were to happen.

As part of the 31 March 2017 valuation, the Scheme Actuary estimated the cost of securing all members’ benefits with an insurance company to be around £2,223m. The Scheme’s assets at that time were valued at £1,584m, resulting in a shortfall (after allowing for expenses) of £639m. This is approximately the amount BAE Systems would need to pay into the Scheme if it had been wound up on 31 March 2017.

In the event of the Scheme having to be wound up because BAE Systems became insolvent and the Scheme having insufficient assets to provide a certain minimum level of benefits for members, compensation might be provided by the Pension Protection Fund (“PPF”).

Further information and guidance is available on the PPF’s website at pensionprotectionfund.org.uk

Or you can write to:
> The Pension Protection Fund, Renaissance, I2 Dingwall Road, Croydon, Surrey, CR0 2NA

There have been no payments to BAE Systems out of Scheme funds under section 37 of the Pensions Act 1995 (payment of surplus to an employer) during the year. The Pensions Regulator has not had to exercise any of its statutory powers in relation to the Scheme.
Investment update

Market background
It was a strong year for financial markets with both return seeking assets and government bonds delivering a positive return to investors. Having risen to record highs, equity markets fell steeply in the fourth quarter of 2018, before rebounding strongly in the first three-months of 2019 despite the escalation in US-China trade tensions. UK government bond yields peaked in October before falling sharply towards the end of the period amid concerns over slowing global growth. Global credit markets were also positive over the period.

Investment strategy
The Trustee’s investment strategy aims to ensure the Scheme has sufficient funds to pay benefits when they fall due. The Trustee decides, in consultation with the Company and advisers, how to invest the Scheme’s assets. The Statement of Investment Principles sets out the Trustee’s chosen investment strategy and the investment objectives for the Scheme.

The Trustee monitors the value of the Scheme’s assets and the performance of the investment managers on at least a quarterly basis, with the aim of achieving good investment returns relative to agreed benchmarks.

Asset allocation
The Trustee invests in a diverse range of assets across different geographic regions. The Scheme’s investments include private equities, property, corporate bonds and government bonds. The Trustee appoints specialist managers to invest in the different asset classes and holds them to account if they fail to meet the performance objectives set for them.

The Trustee has been de-risking the Scheme’s investment strategy as the funding level improves – moving from higher risk assets, such as equities, to lower risk instruments, such as government bonds. Following a period of strong investment returns over the year and improvements in the Scheme’s funding level, the Scheme reached its final de-risking trigger. On reaching this, the Trustee switched the Scheme’s remaining equity holdings into government bonds that better match the Scheme’s liabilities. The Trustee does maintain a small holding in higher risk assets, such as property and private equity, to provide returns that support the continued accrual of new benefits for active members.

The Scheme’s strategic benchmark is shown opposite.
The Scheme’s liability driven investment mandate seeks to hold assets that are better matched to the Scheme’s liabilities by increasing in value when the cost of providing benefits rises and decreasing in value when this cost falls. Investing in these types of assets provides additional security to members as they seek to reduce volatility by protecting the Scheme’s funding level. The evolution of the Scheme’s asset portfolio, over the year to 31 March 2019, can be seen in the table below:

<table>
<thead>
<tr>
<th>Spread of Investments at Strategic benchmark</th>
<th>31 March 2019</th>
<th>31 March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>0.0%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Property</td>
<td>1.9%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Private equity</td>
<td>3.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Sterling non-government bonds</td>
<td>31.3%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Global non-government bonds</td>
<td>14.7%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Gilts and liability driven investments</td>
<td>48.7%</td>
<td>46.9%</td>
</tr>
<tr>
<td><strong>Total (excluding AVCs)</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

The Scheme was slightly overweight to its ‘bond-type’ assets at 31 March 2019, compared to the strategic benchmark. Whilst this has been beneficial to the Scheme, as these assets have performed well over the year, the Trustee is currently reviewing this position.

**Investment performance**

The table below shows the performance of the Scheme’s assets against its benchmark for the one year, three years and five years to 31 March 2019.

<table>
<thead>
<tr>
<th></th>
<th>1 year %</th>
<th>3 years %pa</th>
<th>5 years %pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme</td>
<td>6.1</td>
<td>8.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Benchmark</td>
<td>5.1</td>
<td>7.0</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source for all tables: Northern Trust Global Services Limited.

Strong investment returns on the Scheme’s assets have resulted in an outperformance relative to the Scheme’s benchmark over all time periods considered in the table above. This has predominately been driven by the overweight allocation to government and corporate bonds with these investments delivering positive returns.
Is your ‘Expression of Wish’ form up to date?

A recent report suggests that as many as 750,000 people in the UK may risk leaving pension benefits to a former partner simply because they have not kept their scheme’s trustee up to date regarding changes in their circumstances.

Under the Scheme’s Rules, the Trustee has complete discretion when deciding who receives any lump sum benefit from the Scheme following your death. An Expression of Wish form allows you to tell the Trustee your wishes with regard to whom or where you would like any lump sum benefits to be paid in the event of your death.

In addition to any lump sum death benefit, a Dependant’s pension may also be payable. If you are married and living with your Spouse or Civil Partner, they are automatically assumed to be a dependant. If you are not married, or if you wish the Trustee to consider someone who is financially dependent on you other than your Spouse or Civil Partner, you will also be able to include this information on the Expression of Wish form.

To update the Trustee, regarding your wishes, simply go to the pensions website baesystemspensions.com and download an Expression of Wish form. Once completed you should send it to the Pensions Service Centre. Contact details for the Pensions Service Centre can be found on the Expression of Wish form.

Ban on pension cold calling

Since the beginning of 2019 companies that make unwanted and unsolicited phone calls to people about their pensions may face enforcement action, including fines of up to half a million pounds.

Pension fraud can be devastating, leaving victims without the means to fund their retirement. Scams frequently start with unsolicited calls offering free pension reviews, big returns, or using high-pressure tactics to sell complex investment structures. It is estimated that victims of pension scams in 2018 lost an average of £91,000 each to fraudsters, and research from the Financial Conduct Authority (“FCA”) estimates that over 10 million UK adults received an unsolicited pension offer in just one year. With cold calling being one of the most common methods used by scammers to commit pension fraud, it is good news that this practice has now been banned.

There are a couple of exceptions to this ban which should be recognised though, namely:

> if the caller is authorised by the FCA, or is the trustee or manager of an occupational or personal pension scheme, and
> the recipient of the call consents to calls, or has an existing relationship with the caller.

The cold calling ban is aimed at scammers trying to steal retirement pots and unregulated firms which persuade people to transfer their pension into unsuitable high-risk schemes. Campaigners warn that despite the ban scammers will use other means to contact people, including calling from overseas, to get round the UK law. It is therefore very important that you are still aware of this issue and you should be on your guard against such calls. If at any time you are thinking about making an important financial decision you should always consider seeking independent advice from an appropriately authorised financial adviser.
What should I do if I receive an unsolicited call?

If you receive an unwanted call from an unknown caller about your pension, get as much information from them as you can and report it to the Information Commissioner’s Office via their website:  
> ico.org.uk/make-a-complaint or by calling 0303 123 1113.

The importance of obtaining financial advice if you are considering transferring your benefits out of the Scheme

Your pension is likely to be one of your most valuable assets. The Trustee always recommends that you obtain financial advice if you need any support in relation to your retirement or financial planning.

In the event that you wish to consider transferring your benefits out of the Scheme, you will want to know that you are not going to be drawn into a pension scam. Pension scams are sadly on the rise but you can learn how to spot the signs of a scam at: fca.org.uk/scamsmart.

The view of the Pensions Regulator and the Financial Conduct Authority (“FCA”) is that transfers from final salary to defined contribution schemes are unlikely to be in the best interests of most members, although there are certain circumstances where they may be appropriate.

If you are considering transferring your benefits you will need to engage an Independent Financial Adviser (“IFA”) who will be able to help you understand your options. Indeed, if the transfer value of your benefits is more than £30,000 you must take advice from an appropriately qualified and FCA authorised adviser before any transfer value can be paid to a defined contribution arrangement.

An IFA will require some personal details about your finances and health in order to provide you with the right advice. To help you choose a suitable IFA, here are some things to think about:

> Only individuals qualified as a Pension Transfer Specialist can give advice on pension transfers. The adviser will need to be authorised by the FCA to carry out regulated activity in accordance with article 53E of the FCA’s regulated activities order (advice on the transfer of safeguarded benefits). You should check the adviser has this qualification.

> Consider the level of experience the adviser has. Look at the service they offer and think about how they will interact with you.

> Ask them how many transfers from defined benefit pension schemes they have advised on, how many they recommended proceed compared to those that they recommended should not. If they have recommended to all their clients that they should proceed with a transfer of their benefits this should ring alarm bells.

> Are you clear on how the IFA will charge for their advice? What would be the fee if you do not go ahead with the transfer, compared with the fee if you do go ahead with the transfer? Will there be any ongoing supplementary fees after the transfer is made?
It will be important to ensure that the fees you pay are reasonable. A guide to financial advice fees can be found on the Money & Pensions Service website at moneyadviceservice.org.uk, under the Pensions & Retirement section.

Before proceeding with a transfer, it is important that you understand all of the options available to you. For example, you could buy an annuity, take all your pension savings as a one-off cash sum, or choose to take income over a period of time. Your adviser should provide you with a written recommendation as to whether you should transfer, and if they think that you should do so, which option they recommend for you, along with details as to how they have reached their recommendation.

You are also encouraged to look at a video recently produced by the FCA which outlines the process that financial advisers should follow when providing transfer advice. It highlights the key information that you should be provided with and the questions you should ask. You can view the video at: play.buto.tv/bnTn7.

Future pension ‘dashboard’

The pension industry has recognised how helpful it would be for individuals to be able to see the data about their multiple pension arrangements, managed by different providers or employers, in one place. So an industry-led group has been set up to design, deliver and implement an on-line Pension Dashboard that, in time, will be available to all individuals with UK based pension funds.

It is hoped that this easy access in one place, alongside appropriate guidance or advice, will help people make the best choices for their investments and retirement. At launch the Pension Dashboard will not include the State pension, but it is anticipated that a link to an existing site will allow individuals to check their State pension.

The industry-led group will be responsible for how the Pension Dashboard will function but the Department for Work and Pensions will stipulate the principles that will underpin the service. Importantly these principles will include security of individuals’ data.

Providing data and populating the Pension Dashboard will be a huge task for the pension industry and the time frames for different pension schemes joining the Dashboard will vary. It is anticipated that the process will commence later this year, with the aim that the majority of schemes will be on-boarded within three to four years from the first Pension Dashboard being made available to the public.

We will be following the development of the Pension Dashboard closely and will keep you updated with regards to timescales in future communications.
This newsletter provides some information on the Scheme. However, it is the Rules of the Scheme that set out the legal basis for the Trustee’s administration of the Scheme and which override any provisions of this newsletter with which they are inconsistent. Copies of the Rules are available from the Pensions Service Centre. References to external websites are given for information only. No responsibility is accepted for the content or accuracy of the information provided through these sites.

More information

MyPension
You can log into the MyPension service at:
> baesystemspensions.com/mypension

If you cannot access this service, please contact Member Web services free on:
> 0800 917 9567 or > +44 121 415 0816 if calling from overseas.

Useful documents
Below is the list of documents that provide further information about the Scheme. If you would like a copy of any of these, or have any other questions, please get in touch with the Pensions Service Centre.

Statement of Investment Principles
Explains the investment strategy of the Scheme.

Statement of Funding Principles
Explains how the Scheme will be funded.

Schedule of Contributions
Shows how much money is being paid into the Scheme to cover the cost of the benefits.

Annual Report and Accounts of the Scheme
Shows the Scheme’s income and expenditure in the year to 31 March 2019.

Actuarial Valuation Report
Includes details of the Scheme’s financial position at 31 March 2017.

Annual Funding Update
Includes an estimate of the Scheme’s financial position at 31 March 2019.

Read more information on the pensions website:
baesystemspensions.com
Getting in touch

Need some help with understanding pensions?

Those involved in the Scheme can give you information about your benefits in the Scheme, but they cannot give you financial advice. However, there are many independent sources of information that you can draw upon.

Money and Pensions Service
The Money and Pensions Service was created from three respected providers of financial guidance: Pension Wise, The Pensions Advisory Service and the Money Advice Service.

It’s core functions include:
> Pension guidance
> Debt advice
> Money guidance
> Consumer protection

w: moneyandpensionsservice.org.uk

Money Advice Service
Money guides, tools and calculators to help improve all your finances.

w: moneyadvice.service.org.uk

The Pensions Ombudsman
The Pensions Ombudsman has the legal powers to settle complaints and disputes. Their service is free, fair and impartial.

w: pensions-ombudsman.org.uk

If you are not sure what to do, you can speak to an independent financial adviser. You will find one in your area on this website:

w: unbiased.co.uk

Contact us
The Pensions Service Centre is available if you have got any questions or you need to update your contact details:
> Freephone: 0800 917 9568
> If calling from overseas: +44 121 415 0891
> Email: fulwood.pensions@equiniti.com
If you want to write to us our address is:
> Royal Ordnance Pension Scheme, Pensions Service Centre, PO Box 1194, Crawley, West Sussex, RH10 0FZ

For more information visit
BAE Systems pensions website

w: baesystemspensions.com