MOTT MACDONALD

The Mott MacDonald Pension Scheme

Newsletter to Members 2021

Chairman's report

Welcome to this newsletter for members of the Mott MacDonald Pension Scheme.

Another year on and we continue to live with COVID-19. Fortunately, there does seem to be some prospect now of a return to a more normal life in the near future. It is pleasing to note that Mott MacDonald has been able to deliver a strong performance in a challenging operating environment, whilst the scheme has proven resilient and continues to provide for and deliver the benefits at retirement of all members as they fall due. We are grateful for the continuing excellent service provided by the scheme administrator, XPS, whilst of course working from home.

We have set out on page 7 of this report the results of the triennial actuarial valuation of the scheme as at 1 January 2021. Despite cash contributions to the scheme from the company of some £50 million over the past three years, the deficit has persisted, with the benefits of both contributions and strong performance from the investments offset by the adverse impact of falls in market interest rates over this period which has the effect of increasing the assessed value of the liabilities. The deficit at 1 January 2021 was £110 million.

In light of the results of the valuation, the trustees and the company have discussed the funding arrangements for the scheme, having regard to the company's own financial position and prospects, and agreed a recovery plan which is intended to restore the funding level to 100% by 31 December 2024.

This is a modest extension of ten months in the period of the recovery plan from that previously in place. Under the recovery plan, the company will make total cash contributions to the scheme over the period to 31 December 2024 of £113 million, comprising £19.5 million in each of the years 2021, 2022, 2023 and 2024 and a special contribution of £35 million in 2021.

The trustees are pleased to note the continuing strong support for the scheme which the company is providing.

You will find further information about the scheme in this newsletter, including a summary of the **Scheme Accounts on page 4**, which shows that the value of the scheme's assets increased during the year to £672 million. On **page 5**, we provide information on the **investment strategy** for the scheme and how this is expected to evolve as the scheme becomes fully funded. Overall, investment markets were favourable and the actual return on the scheme's investments was +13.6% (albeit a significant proportion of the returns arose on the liability hedging arrangements, which match a corresponding increase in the scheme's liabilities). Some additional information that may be of interest is set out on **page 9**, including a reminder about the **Member Portal** which I would encourage you to visit.

Many of you will know Keith Howells from his long service with the company until he retired from his role as chairman in 2019. Keith has also served with distinction as a trustee of the pension scheme since 2007, and played an important part over these many years in the development of our funding, investment and governance strategies. Now that the 2021 valuation and funding plans have been concluded, Keith has decided to retire from the trustee board. He does so with the appreciation of the board for his wise counsel and relentless focus on improving the security of members' benefits.

The other members of the trustee board and our advisers are set out on **page 3**. I would record my thanks for the work that the board and our advisers do on behalf of you, the members of the scheme.

We are always pleased to hear from our members so if you have any comments about the newsletter, or if there is a topic you would like us to cover in a future issue, please get in touch with the administrator, for whom contact details can be found on **page 10**.

Charles Coase
Chairman of the trustees

The trustees and our advisers

There are currently six trustees of the scheme, of whom the chairman, an independent professional pension trustee, and two others are appointed by the company and three have been elected by scheme members. Once appointed, all trustees rank equally and all serve solely in the interests of the members of the scheme as a whole.

The trustees are responsible for managing the scheme in line with its trust deed and rules and with pensions law. We maintain an up-to-date knowledge of pension-related matters and appoint professional advisers to support us in areas where specialist expertise is required. We meet regularly throughout the year to discuss how the scheme is progressing, monitoring and supervising the work of our advisers and taking action as required to protect and deliver members' benefits.

The current trustees are:

Name	Role	Date of appointment
Charles Coase	Independent chairman	November 2014*
Peter Ede	Member-elected trustee	January 2011
Mike Haigh	Company-appointed trustee	September 2014
James Harris	Company-appointed trustee	April 2020
Clare Rhodes-James	Member-elected trustee	July 2019
Kevin Stovell	Member-elected trustee	July 2016**

Keith Howells retired from the trustee board on 16 June 2021.

Stephen Pearn is secretary to the trustees.
The principal advisers to the trustees are:

Actuary	James Miller (Aon)
Administrator	XPS Administration Limited
Auditor	KPMG LLP
Investment adviser	Lane Clark & Peacock LLP
Legal adviser	Baker McKenzie LLP

*appointed chairman on 26 September 2018
**also served as a trustee from December 2010 to September 2014

Summary of the scheme accounts

for the year ended 31 December 2020

Scheme membership

There were 3588 members in the scheme on 31 December 2020, of whom:

- 363 are in service with the company
- 1323 have left the company but not yet started to receive their scheme pension
- 1902 are receiving a scheme pension (includes dependants of deceased members).

Fianancial summary		£'m
This summary of the accounts has been extracted from the trustee's annual report and financial statements, which have been given an unqualified audit report by KPMG. You can access a copy of the trustees' annual report including the full report and accounts by contacting the administrator (see **page 10** for contact details).	**Value of the scheme's assets at 31 December 2019***	608.2
	Received by the scheme:	
	Company contributions**	17.3
	Investment income	3.7
	Total income	21.0
	Paid from the scheme:	
	Benefits	(29.0)
	Payments in respect of leavers	(5.1)
	Administration and investment expenses	(1.4)
	Total expenditure	(35.5)
	Increase in the value of investments	78.2
	Value of the scheme's assets at 31 December 2020*	671.9

*The assets of the scheme include members' additional voluntary contributions with a value at 31 December 2020 of £0.9 million (31 December 2019 - £1.0 million). The scheme holds certain annuity policies in respect of certain pension benefits payable which are not included in the assets shown above on the grounds that they are not material.

**The contributions from the company include £0.8 million in respect of the expenses of running the scheme (other than the investment managers' charges).

Investment review

Strategy
The trustees determine the investment strategy for the scheme, after receiving advice from our investment adviser Lane Clark & Peacock. The overall investment objective of the trustees is to achieve the return required to keep the recovery plan on target at an acceptable level of risk, through a prudent, carefully planned and well executed investment strategy.

The investment strategy is consistent with this goal, and has the principal aim of delivering a return of 2.0% per annum in excess of UK government securities ("gilts") with a limited degree of risk over the next few years, reducing to 0.9% per annum above gilts from the start of 2025.

The current strategic asset allocation, designed to deliver the investment strategy, is set out in the table below. There is a diversified portfolio of return-seeking assets together with a liability-driven investment mandate (LDI), as described below. By 2025, it is expected that the holdings in return-seeking assets will have been reduced to 15% of the total assets, with the balance held in the LDI portfolio (likely with a continuing allocation to short-duration credit if circumstances allow).

Asset	Investment Managers	Strategic Asset Allocation	
		Current %	2025 %
Diversified growth funds	Baillie Gifford and Ruffer	**13**	**10**
Emerging markets multi-asset	Legal & General	**5**	**-**
Private credit	Hayfin and M&G	**7**	**-**
Short-duration credit	BMO	**6**	**6**
Liability-driven Investment	BMO	**69**	**84**
Synthetic equities*	BMO	**(15)**	**(5)**
Synthetic credit*	BMO	**(12)**	**-**
Total		**100**	**100**

Our return-seeking assets include "diversified growth funds" (which invest in global equities, bonds and other assets as determined by the investment manager) and more specialised funds focused on emerging market investments (both equities and bonds) and lending to companies (called "private credit"), combined with an investment in global equities achieved on a "synthetic" basis by holding futures on global equities equivalent to 15% of scheme assets and a similar synthetic allocation to global credit investments equivalent to 12% of total assets (both mandates managed by BMO).

In 2020, a new mandate, called "short-duration credit" was introduced, seeking to achieve a modest level of additional return on surplus collateral held in respect of the LDI portfolio.

The LDI element of the strategy seeks to protect the scheme against the impacts of changes in interest and inflation rates. Over the latter part of 2020 and the start of 2021, hedging levels against interest rate and inflation risks have been increased to a target level of 95%.

As at 31 December 2020, the actual asset allocation was not materially different from the strategic asset allocation.

*The synthetic equity and credit mandates by their nature do not form part of the strategic asset allocation of physical assets.

Environmental, social and governance ("ESG") factors and stewardship
The trustees recognise that a part of their responsibilities is to ensure that appropriate consideration is given to ESG factors relating to the scheme's investments (which include, among other things, the possible impacts of climate change). The trustees take these factors into account when determining the investment strategy for the scheme and expect the investment managers to take account of financially material ESG factors, including climate change, to the extent that is appropriate given the nature of the investment mandate awarded by the trustees.

The trustees recognise their responsibilities as owners of capital on behalf of the scheme beneficiaries and believe that good stewardship practices, including monitoring and engaging with investee companies and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The trustees do not engage directly with the companies in which the scheme holds investments. They expect the investment managers to exercise ownership rights, including voting rights, and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the trustees from time to time, taking into account the long-term financial interests of the scheme beneficiaries. The trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the trustees review how these are implemented in practice.

Performance
In assessing the performance of the scheme's investments, the trustees use two measures – the current long-term return of gilts plus 2.0% and a shorter-term "market-based" benchmark (since markets do not deliver the expected long-term returns in a smooth path).

There was significant volatility in financial markets during 2020, with sharp falls in many asset classes at the end of March in response to the impact of the pandemic on the global economy, follow by an equally sharp rebound in response to stimulus and support provided by governments and central banks and, latterly, the development and roll-out of vaccines. Overall, investment markets were favourable and the actual return on the scheme's investments was +13.6%, in excess of the long-term target of +12.2% and a little ahead of the market-based benchmark of +13.4%. A significant proportion of the returns arose on the liability hedging arrangements, which match a corresponding increase in the scheme's liabilities.

Summary funding statement

The trustees are pleased to present their Summary Funding Statement as at 1 January 2021, including the results of the triennial valuation of the scheme as at that date.

Actuarial valuations
One of our main objectives as trustees is to ensure, in conjunction with the company, Mott MacDonald, that there is enough money in the scheme to pay pensions now and in the future. To assist us in this aspect of our work, an independent expert called an actuary carries out a detailed check on the level of funding in the scheme every three years (the "triennial actuarial valuation") and complements this with an interim valuation update in the intervening years.

This process provides information on the cost of providing the pension benefits that members have built up in the scheme (the "liabilities") and the funding in place to support these benefits (the "assets"), with the difference representing the surplus or deficit in the scheme. When there is a deficit, the trustees and the company agree on the level of contributions that the scheme needs to resolve the deficit over a period of time.

The latest funding position
The table on the right shows information from the formal triennial valuations as at 1 January 2021 and 1 January 2018, together with the position shown by the interim valuation updates in the intervening years:

	As at 1 Jan 2021 £'m	As at 1 Jan 2020 £'m	As at 1 Jan 2019 £'m	As at 1 Jan 2018 £'m
The value of the scheme's liabilities:	781.8	706.8	673.4	692.8
The value of the scheme's assets*:	671.8	608.0	559.7	594.9
Shortfall in assets relative to the liabilities ("deficit"):	(110.0)	(98.8)	(113.7)	(97.9)
The funding level (the assets as a % of the liabilities):	86%	86%	83%	86%

Over the course of the last three years, since the 2018 valuation, the company has made total contributions of some £50 million and the assets have delivered returns of £94 million in excess of the returns anticipated back in 2018. The size of the deficit has increased, from £98 million to £110 million attributable, principally, to the adverse impact of falls in market interest rates over this period which has the effect of increasing the assessed value of the liabilities.

*The scheme's assets shown above exclude the value of members' AVC contributions but include a value placed by the actuary on annuities held by the Scheme.

Support for the scheme from Mott MacDonald
In light of the results of the valuation as at 1 January 2021, the trustees and the company have discussed the funding arrangements for the scheme, having regard to the company's own financial position and prospects, and agreed a recovery plan which is intended to restore the funding level to 100% by 31 December 2024.

This is a modest extension of ten months in the period of the recovery plan from that previously in place. Under the recovery plan, the company will make total cash contributions to the scheme over the period to 31 December 2024 of £113.0 million, comprising £19.5 million in each of the years 2021, 2022, 2023 and 2024 and a special contribution of £35 million in 2021. This latter contribution has now been paid into the scheme. In addition to these contributions, the company meets the expenses associated with running the scheme (other than the investment managers' charges) and any payments to the Pension Protection Fund.

The funding position if the scheme came to an end

The funding position set out above has been calculated on the basis that the scheme will continue (the "ongoing" basis). However, as part of the triennial valuation process, the actuary is required to look at the funding position if the scheme had been discontinued and wound up on the valuation date – the "full solvency" basis.

In this theoretical scenario, the scheme would need to buy insurance policies to provide members' benefits in full. This would cost more than providing members' benefits on an ongoing basis because insurance companies seek effectively to eliminate risk and therefore invest in assets that are likely to give lower investment returns. Their policy prices will also include administration charges and a profit margin.

As at 1 January 2021, the estimated cost of buying out members' benefits in this way was £914 million and the deficit on the full-solvency basis at that date was £242 million.

It is important to note that the trustees are required to report this full-solvency funding position to you, but this does not mean that the company intends to wind up the scheme. Furthermore, if the company did decide to wind up the scheme, it would have to pay whatever the scheme needed to buy the insurance policies for members. If the company could not do this – for example because it was insolvent – the Pension Protection Fund ("PPF") might step in and administer the scheme and pay pensions to members, albeit with some curtailment of benefits in certain circumstances. Further information about the PPF is available on its website at **www.ppf.co.uk**.

Other matters

The trustees confirm that no payments have been made to the company out of the scheme's funds since our previous summary funding statement.

We can also confirm that the Pensions Regulator has not needed to use any of its powers to intervene in the running of the scheme.

Bulletin board

MyPension – scheme member portal
MyPension.com is a member web portal provided by the scheme administrator XPS to give our scheme members 24/7 access to MMPS information and data. For example, from within the portal members can:

- View personal details and pension in payment.
- Update contact and nomination details.
- View member and scheme documentation.

To register for MyPension:

- Go to **www.mypension.com/mottmacdonald** and enter your username and password. Contact the helpdesk via email to **mottmac@xpsgroup.co.uk** or call +44 (0)191 814 2756 if you need a reminder of your username and password.
- You'll need to enter your date of birth, postcode and NI number to find your record.
- Enter your email address on-screen when asked and you'll receive a registration email. Click on the link in the email to complete your registration.
- Use the link in your registration email to set your own password.

Additional voluntary contributions
A small number of members have in the past paid AVCs. We would remind members who have an AVC holding periodically to monitor and adjust your investment strategy if required. Relevant members will receive a statement of holdings each year.

GMP equalisation
Guaranteed minimum pensions ("GMPs") were set by HMRC as the minimum pension that must be paid by a pension scheme that was "contracted out" of the second state pension. You may recall that certain pension schemes (including the MMPS) are now required to take action to equalise for the effects of the different GMPs accrued by men and women in the period from 17 May 1990 to 5 April 1997, when under the then prevailing legislation the GMPs for men and women were not the same. If you built up a GMP during this period, this might result in an increase to your benefits – most typically any increase would be relatively small and is more likely to affect those members who are male.

The trustees are continuing to work with the company and our advisers to determine how best to implement the required changes and expect to contact affected members with further information before the end of 2022. Be assured that no one will have to pay back any pension already received because of these changes.

Remember to keep your contact details 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. If you are happy for us to contact you by email, it would be helpful if you could provide your email address. The contact details for the scheme administrator are set out on **page 10**.

Please also make sure that we hold an up-to-date "expression of wish" form for you in our records. This important form tells us who you would like to receive any benefits that may become payable in the event of your death.

The trustees have the final say over who receives the benefits, but we will carefully consider beneficiaries named on your form when we make our decision. To make changes to your expression of wish, please log on to the member portal or contact the scheme administrator.

Transition to communications on the member portal, with email notifications
We have completed our transition to electronic communications and are now making the annual newsletter, including the summary funding statement, and other scheme documents available to members on the member portal, supported by an email notification to members when new documents are uploaded. It is important that members keep your email address in the scheme records up-to-date. You can check by logging on to the member portal or by calling the administrator. You can also change the method by which you receive scheme documents by contacting the administrator.

Finding out more

If you need information
If you have any questions about the scheme or your benefits, please use the member portal at **www.mypension.com/mottmacdonald**. If you are not able to find the answers to your questions, please contact the scheme administrators, XPS Administration Limited:

Address for correspondence:
XPS (MMPS Administration)
Wellbar Central
Gallowgate
Newcastle upon Tyne NE1 4TD

T +44 (0)191 814 2756
E **mottmac@xpsgroup.co.uk**

If you need advice
As trustees, our aim is to provide you with clear information about the scheme and your benefits. Under law, neither the trustees nor the scheme administrators are permitted to give advice to you. If you need advice about your pension arrangements, we encourage you to speak to an independent financial adviser.

If you want advice and you do not have an IFA, you can find details of advisers in your area on the Financial Conduct Authority website at **www.unbiased.co.uk**. Be aware that you will have to pay a charge for any advice you receive from an IFA.

Further reading
This newsletter provides only summary information about the scheme. If you want to know more, there are several formal documents available to you:

- The **Trust Deed and Rules**, which is the legal document governing the scheme.
- The **Annual Report and Financial Statements** for the year ended 31 December 2020, which includes the full accounts and membership figures of the scheme, statements from the Actuary and the Auditor, an update on the scheme's investments and details of the trustees and our advisers.
- The triennial **Actuarial Valuation** as at 1 January 2021.
- The **Statement of Funding Principles**, which explains how the trustees plan to manage the scheme so it can continue to provide members' benefits.
- The **Recovery Plan**, which shows how the deficit as at 1 January 2021 is to be closed.
- The **Statement of Investment Principles**, which explains how the trustees invest the assets of the scheme.
- The **Schedule of Contributions**, which shows how much the company is paying into the scheme. It includes a certificate from the actuary showing that this is sufficient to meet the requirements set out by law.

Copies of these documents are available to you on the scheme member portal at **www.mypension.com/mottmacdonald**. No password or login is required for the document library. Otherwise copies can be provided by contacting the scheme administrator.

Date of Issue: June 2021