MMC UK PENSION FUND ("THE FUND")

Member FAQ covering market volatility

Throughout 2022, we have seen some significant volatility in investment markets, resulting in large movements in both equity and bond markets as well as other types of investments. We recognise that this may be unsettling for members, particularly when you see it resulting in a fall in the value of your pension savings.

While the Trustee continues to monitor the situation closely, we are mindful of the typically long-term nature of investing for your retirement. We also note the renowned difficulty of trying to make tactical investment decisions in the short-term (particularly when market volatility is at heightened levels).

We will periodically review the range of investment options made available to you as a member to ensure they continue to be in line with best practice design. We would also encourage you to regularly review your investment choices (particularly as you get closer to your preferred retirement date) to ensure they remain aligned with how and when you intend to access your pension savings.

Please see a range of frequently asked questions below relating to the ongoing market volatility that we hope will be helpful to you.

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MMC UK Pension Fund

1

Why is my DC savings pot falling in value?

A defined contribution (DC) pension fund is a vehicle that provides you with the opportunity to grow your savings to help support your income needs in retirement. In order to achieve growth in your pension savings (particularly above inflation over the long term), a degree of investment risk needs to be taken. It is normal for the value of DC pensions to go up and down over the short term. This is because your pension is likely to be invested in company shares and other assets that also carry risk.

Unlike money held in a bank account, investments tend to go through periods of upwards and downwards price movements, including the potential for sudden changes over the short term. This type of risk is known as volatility.

Issues like the state of the global economy, the rising price of goods and services, international political developments like Russia's invasion of Ukraine, and the continuing impact of Covid-19 have all contributed to greater market volatility throughout 2022.

2

I am invested in the Fund's default option, should I be concerned about the ongoing volatility in investment markets?

The default investment option is designed for all members who intend to flexibly withdraw their savings to support their income needs in retirement (often referred to as 'income drawdown').

The aim of the default investment option is to give you the long-term investment growth needed to build your pension savings and then gradually reduce the level of risk before you start to draw on them.

The default investment option (where your pension savings will be invested if you do not actively select something else) is a diversified investment strategy that provides members with exposure to a wide range of different investments from across the world.

We encourage you to periodically review how your savings are invested to ensure they continue to align with your goals (e.g. how you want to access your savings in retirement), time horizon (e.g. when do you plan to retire or begin accessing your pension savings) and attitude to risk (your tolerance to fluctuations in the value of your pension savings).

You should seek authorised financial advice if you are in any doubt about the ongoing suitability for how your pension savings are invested.

MMC UK Pension Fund

3

Do I need to do anything as a result of recent market volatility?

You do not have to take any action if you are comfortable with your current investment choice. The Trustee would however like to remind you to periodically consider whether your fund choice is right for your circumstances and your investment time horizon. For many people, pension saving is long-term and it may be detrimental to your final pension pot if you make snap decisions based on day to day changes in the value of your pension savings.

4

What is inflation?

Over time, the prices of products and services can change - some items become more expensive over time while other items become cheaper. Inflation is when the prices of goods and services increase. When calculating the average increase in prices, the prices of products and services we spend more money on are given a higher weight relative to those that we spend less money on (e.g. a big price change in electricity will have a greater impact on inflation relative to a big price increase in matches).

Inflation causes a decline in the purchasing power of our money i.e. it's costing you, as a consumer, more money over time to purchase the same goods or services.

5

Is inflation bad and how does it happen?

It is important to note that some small level of inflation can be good for economies. If we have the opposite, and prices fall, consumers tend to defer making purchases until prices are cheaper in the future (this is what happens during deflationary periods e.g. the global financial crisis). The issue from an economic standpoint is when we have "stagflation", where there is slow economic growth but prices are still increasing.

Inflation is in part created by strong demand for products and services. This strong demand happens when the overall economy is doing well and there is strong economic growth as consumers have jobs, are being well-paid and feel confident about their prospects for the future. In the case of stagflation, there are numerous possible causes such as, but not limited to, supply shocks, commodity price shocks e.g. a sudden increase in oil prices, or poor economic policies.

Member FAQ covering market volatility

6

How does inflation affect pension savings?

As outlined above, inflation causes the value of a pound to decline over time. This can be a significant issue for those saving for retirement. Without any investment growth, the purchasing power of one pound put away today does not equal the purchasing power of one pound in the future, which means the real value of savings is reducing over time.

In order to achieve growth in your pension savings (particularly above inflation over the long term), a degree of investment risk needs to be taken. Typically, younger members will have a higher tolerance to this type of risk versus those closer to retirement but the importance of ensuring your savings are not eroded by inflation over longer time periods remains a key consideration.

7

I am 30+ years away from retirement and given the cost of living crisis, I am minded to stop / reduce contributions to my pension.

Although you are reasonably far from the date at which you hope to retire, the money you save earlier in your life has a significant impact on your pension pot.

Every £100 invested 30 years from retirement would be worth c£324 when you retire in 30 years' time assuming it makes an annual rate of return of 4%* (not allowing for the impact of inflation). If you wait 15 years you would need to invest £180 in order to save that same £324 at retirement (assuming the same annual rate of return of 4%). It is also important to remember that, due to the current tax advantages of saving into your pension, £100 invested today would cost you much less in practice.

While we recognise the cost of living pressures are significant, it is important to consider the short and longer term impact of a decision to reduce your pension contributions will impact your final pension pot when you come to retire.

*4% has been used as an illustrative figure and is not a guaranteed annual rate of return.

8

Why has my inflation-linked gilt fund value fallen when inflation is at all-time highs?

It's normal for the value of defined contribution pensions to go up and down over the short term. This is because your pension is likely to be invested in assets that carry risk. Unlike money held in a bank account, investments tend to go through periods of upwards and downwards price movements, including the potential for sudden changes over the short term. This is known as volatility.

Specific to inflation-linked gilts, there are two main reasons for the recent fall in value, both of which are quite technical.

Firstly, inflation-linked gilts tend to go up and down in price based on inflation expectations (i.e. what people think inflation will do in the future) rather than what inflation is right now. For example, through 2021, we saw inflation-linked gilts go up in price due to the (correct) expectation that inflation would be higher in 2022.

The expectation that inflation will come down in the future has contributed to the fall in value. Secondly, inflation-linked gilts are sensitive to changes in interest rates so the recent rise in interest rates has had a large negative impact on the price of inflation-linked gilts.

Inflation-linked gilts are sometimes (but not always) invested in to achieve a return consistent with the move in inflation-linked annuity prices. An annuity is an income for life, typically purchased from an insurance company. The price of inflation linked annuities has also fallen, which means the amount of annual income you are able to purchase (via an annuity) should be broadly the same as before the value of the inflation-linked gilt fund dropped.

9

I'm in the annuity lifestyle and I'm close to my selected retirement date, why is my pension fund falling in value?

As you move closer to retirement, your pension has been moved into assets that are aligned to using your pension savings to purchase an annuity. The objective of the Mercer Pre-Retirement Fund introduced as you approach retirement in the annuity lifestyle is to achieve a return consistent with the movements in prices of level annuities.

The fund invests in government and corporate bonds which have fallen in value but the price of these level annuities has also fallen. This means the amount of annual income you could purchase via an annuity should be broadly the same as before the value of the fund dropped.

An annuity is an income for life, typically purchased from an insurance company.

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10

I'm close to my selected retirement date and my pension fund is falling in value, what should I do?

The Trustee and our advisers are unable to offer you financial advice which is specific to your personal circumstances. It is important to note that opting to switch your savings from any fund that has been losing value will crystallise those losses but you should seek authorised financial advice if you are in any doubt about the ongoing suitability for how your pension savings are invested.

If you're thinking of making investment changes, you should consider seeking authorised financial advice from a regulated financial adviser. You can find one using the **MoneyHelper website**.

It's important that your pension investments match your goals and attitude to risk and that you periodically review their ongoing suitability for your particular needs and preferences.

11

I wonder if it is wise to put more money into something which has fallen in value?

It's normal for the value of defined contribution pensions to go up and down over the short term. This is because your pension is likely to be invested in company shares and other assets that also carry risk.

It is important to remember that a pension fund is a vehicle that provides you with the opportunity to grow your savings over time to help support your income needs in retirement. In order to achieve growth in your pension savings (particularly above inflation over the long term), a degree of investment risk needs to be taken.

If you are considering reducing or stopping your regular contributions into the pension plan, it is important to recognise the Company contributions and tax advantages of saving into a pension that you may be missing out on. In addition, while falls in the value of your pension over the short term can be unsettling, history has shown that (while not guaranteed) investment markets do recover and can go on to deliver positive returns over the longer term.

We encourage you to periodically review your pension investments to ensure they continue to align with your goals (e.g. how you want to access your savings in retirement), time horizon (e.g. when do you plan to retire or begin accessing your pension savings) and attitude to risk (e.g. your tolerance to fluctuations in the value of your pension savings).

You should seek authorised financial advice if you are in any doubt about the ongoing suitability for how your pension savings are invested.

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MMC UK Pension Fund

12

The news has said that pension funds could become insolvent, how does this affect my DC savings?

The situation being reported in the news was specific to final salary or "defined benefit" pension schemes which invest in specialist financial instruments called Liability Driven Investments (LDI). Your DC savings doesn't invest in LDI so was not affected in the same way that some defined benefit pension plans were.

13

I am also a member of the Fund's Defined Benefit section. Should I be concerned given recent coverage in the media relating to defined benefit pensions?

The Trustee has been monitoring the situation very closely in conjunction with our professional advisors. The Fund's DB section uses Liability Driven Investments (LDI) as a risk management tool and we are pleased to confirm that the Fund has navigated the recent heightened uncertainty well and your DB pension entitlements from this section remain very secure.

14

Does current market turmoil impact my ability to transfer / switch investments / take as retirement?

There are currently no restrictions on transfers / investment switches / or retirement transactions.

15

Where can I find out more about the range of investment funds available to me for selection?

To find out more about the investment funds available to you, please visit the **Fund website** where you will find an Investment Guide and Fund Factsheets for the individual funds available.

16

How do I find out more about where my DC pension savings are invested in the MMC UK Pension Fund?

DC members of the Fund can log into OneView, which is the online system provided by Mercer (the Fund Administrators) for you to view details of your Fund Account and where your savings are invested as well as make investment choices in the future. If you are an active member, you can login to OneView via the single sign on link in the My Quick Links section on **Colleague Connect**.

If you have any queries regarding your benefits, please contact the Administrator at **contact.mercer.com**

Important Notes

This update is provided for information only and does not constitute financial advice. Whilst the Trustee can provide you with information about the options available, we cannot give you advice. The value of investments can go down as well as up, so you could get back less than you invest. Past performance does not guarantee future results.

If you are aged over 50 you can obtain free and impartial guidance from a government service Pension Wise, **https://www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise**

If you need advice based on your personal circumstances you should speak to an authorised financial adviser.

You can find the details of how to obtain advice at **fca.org.uk/consumers/finding-adviser** or **https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser**

You should check which types of financial advice any adviser specialises in, as well as the cost of their advice before appointing them. Please note that we are not recommending you use any specific adviser.