STMicroelectronics (Bristol) Retirement Benefit Scheme

Welcome to the latest edition of the Trustee's newsletter for members of the STMicroelectronics (Bristol) Retirement Benefit Scheme ("the Scheme").

In the following pages we have included the usual round up of information providing an update of the Scheme's funding position, a review of the Scheme's investment performance, a summary of the money in and out of the Scheme, news on the defined contribution section and wider pensions news. We also invite you to register interest and questions for a potential 'Town Hall' style meeting in 2017 in line with those we have held in recent years.

This newsletter is intended to help you, as a member of the Scheme, understand what's happened in the Scheme over the last year. You do not need to take any action unless you have any comments, suggestions or questions for the Trustee or you would like to update your details or your nomination for who should receive benefits in the event of your death.

If you would like to get in touch, a summary of contact details can be found on the back page or you can email the Scheme's Administrators at STMpensions@kpmg.co.uk.

For and on behalf of the Directors of the STMicroelectronics (Bristol) Pension Trust Limited

Board of Trustee Directors

Current Board of Trustee Directors:

Phil Morris (Chair)	Company Appointed
Jonathan Edwards	Company Appointed
Andrea Talpo	Company Appointed
Jon Frosdick	Member Nominated
Tony Gore	Member Nominated
Trefor Southwell	Member Nominated

There have been no changes to the board of Trustee Directors over the year. A reminder of the current Trustee Directors is set out opposite.

Member nominated trustee directors typically serve for a period of four years before their position is reopened for new nominations. Tony Gore's term of office is due to expire on 31 October 2017. We expect to run a nomination process for his position in the summer of 2017.

As Trustee Directors whether Member Nominated or Company Appointed, we are all appointed to represent Scheme members. As such, we all have equal functions and responsibilities for the Scheme and the party that we are appointed by does not affect this role.

'Town Hall' meeting 2017

We understand that members continue to have questions about various issues around both the Scheme and pensions more generally. We therefore want to invite proposals for topics of discussion at a potential 'Town Hall' meeting in 2017.

We have previously received positive feedback from these sessions which aim to provide an open meeting in which to give members an update on the Scheme and to address member questions on various aspects of the Scheme (attendance is voluntary).

Hosting these events however does incur some cost to the Scheme and so it is important for us as a Trustee that the meeting goes ahead only if there is sufficient demand from members.

Please get in touch using the details below to express interest in attending such an event and set out any topics that you are interested in.

Similar to previous Town Hall meetings, we may not be in a position to answer all of members' questions where legislation and confidentiality requirements do not permit us to.

This would be a Trustee session and all current Trustee Directors would be in attendance.

Action required

Register your interest and send questions to

STMpensions@kpmg.co.uk

by 27 January 2017

Money in and money out

Once a year we produce a legal document called the Scheme's ***Annual Report and Accounts*** which summarises all the money that is paid in and out of the Scheme and a range of other useful information about the Scheme. This allows us to make sure nothing untoward has occurred in the Scheme during the year and provides the information we need to manage the Scheme's finances in the future.

This year's Annual Report and Accounts (at **31 March 2016**) have now been completed and reviewed by the Scheme's auditors, PKF Cooper Parry Group Limited (formerly Clement Keys LLP). A summary of the key information is set out below. Please contact us if you would like to read a full copy of the report. This can be provided by post (but there may be a small charge for copying) or by email.

Membership as at 31 March 2016	
Members with deferred benefits	776
Pensioner members including dependants	170
Total	**946**

Fund Account	**£000**
Net assets of the Scheme at 31 March 2015	**114,174**
Plus income:	
Contributions received	2,007
	2,007
Less expenditure:	
Benefits payable (Pensions & Lump Sums)	(1,586)
Payments in respect of leavers and transfers out	(2,318)
Administration expenses (including levies)	(529)
	(4,432)*
Plus returns on investment:	
Investment income	86
Change in market value of investments	(3,029)
Investment managers' fees	(210)
	(3,153)
Net assets of the Scheme as at 31 March 2016	**108,595***

**Items do not sum due to rounding*

We can confirm that there have been no payments to ST R&D or any other group company from the Scheme's assets in the last 12 months.

31 March 2016 Funding Update

At least once every three years our Scheme Actuary carries out a full ‘actuarial valuation’. This gives a snapshot of the Scheme’s financial health. The next valuation is at 31 March 2017 and we are already starting to make preparations for this.

In years where there is not a full actuarial valuation, the Scheme Actuary reviews the financial position of the Scheme, so that we can understand how changes in market conditions are affecting the Scheme. To produce these assessments the Actuary updates the results of the last full actuarial valuation in an approximate way, allowing for the effects of changes in market conditions as well as any material known events.

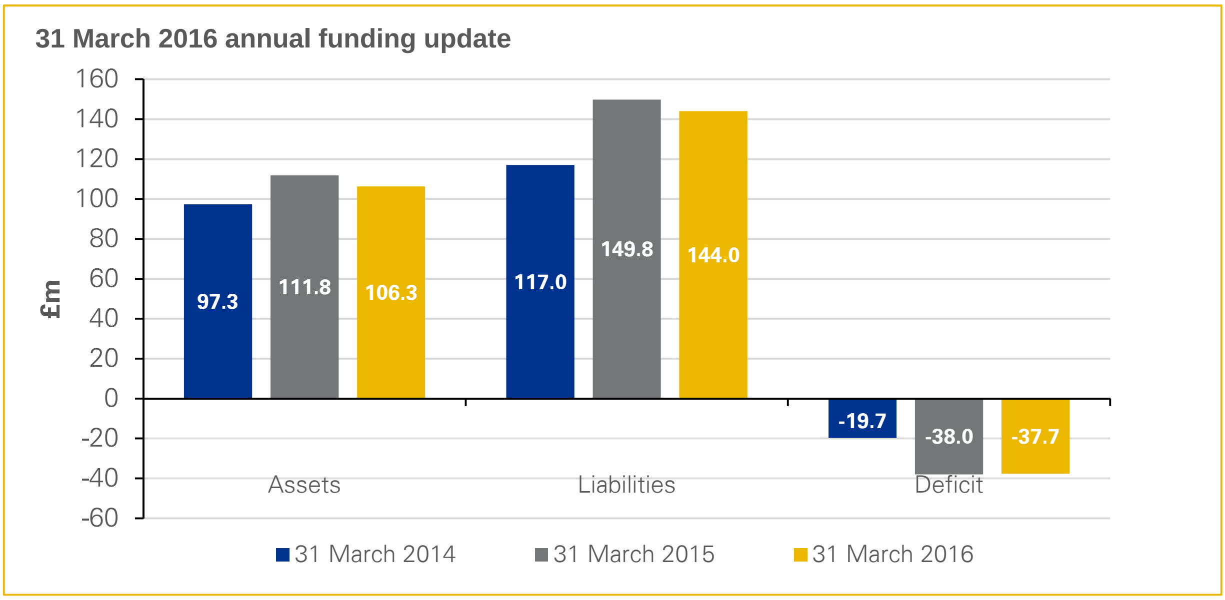
Update as at 31 March 2016

Our Actuary’s assessment of the Scheme as at 31 March 2016 showed that we need an extra £37.7m to be able to pay everyone their benefits in the future. This is a funding level for the Defined Benefit (‘DB’) section of 74%. This represents a reduction in the funding position since the 31 March 2014 valuation, but little change in deficit since the 31 March 2015 update.

The value of the Scheme’s assets reduced over the year – this was in part because the amount of benefits paid out in the year (which includes pensions, tax free cash and transfers out) was more than the amount of contributions paid into the Scheme, and part due to asset losses. Remember as the Scheme matures we expect to pay out members’ benefits and therefore expect the amount paid out to be more than the amount paid in.

The value placed on the Scheme’s liabilities also reduced over the year – this was in part from the amount of benefits paid out over the year (which includes pensions, tax free cash and transfers out), and in part due to lower than expected inflation.

However, the funding position has worsened following the “Brexit” vote, as it has for the vast majority of pension schemes. The Trustee Directors are keeping this situation under review in the run-up to the 2017 actuarial valuation and we have concluded that no further action is required at this time.



Source: KPMG calculations

Contributions into the Scheme

The Company, ST Microelectronics Research & Development, continues to pay contributions of £1.8 million a year which will increase each year in line with the Consumer Prices Index. This amount includes an annual allowance of £250,000 to cover the expected expenses of running the Scheme. The Company will pay the Scheme's Pension Protection Fund levies in addition to the contributions above.

The Company will continue to pay these contributions unless we agree an alternative contribution plan.

The latest estimate of the funding position means that it is likely that the Scheme will need more money from the Company. We will review the contributions again at the next full actuarial valuation scheduled for 31 March 2017. Extra contributions will be agreed if needed.

The cost of insuring members' benefits

The Trustee is not aiming for the Scheme to be fully funded on this basis nor is the Trustee considering buying out any of the Scheme's DB pensions with an insurer.

Whilst there is no intention to pass the Scheme onto an insurance company, it is a requirement to provide members with the information on the Scheme's position if this were to happen.

At the time of the last full actuarial valuation at 31 March 2014, our Actuary estimated that we would have needed an additional **£45.8m** on top of our assets to insure all of our members' benefits with an insurance company.

We do not carry out this calculation between formal valuations but will update this figure as part of the 31 March 2017 actuarial valuation.

Compensation from the PPF

In the event of the Scheme having to be wound up because ST R&D (the Scheme's sponsor) became insolvent, and if the Scheme had insufficient assets to provide a certain minimum level of benefits for members, compensation might be provided by the Pension Protection Fund (also known as the "PPF"). In this circumstance, the compensation payable by the PPF may be less than your Scheme pension.

- Details on the compensation that could be paid can be found at:

  www.pensionprotectionfund.org.uk.

- Or you can write to the PPF at:

  Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

We provide this information so that you fully understand the pension benefits that you could get in all situations. Please note, however, that this does not mean that we think ST R&D is likely to cease to exist.

By law, we are required to confirm whether any payment has been made to the Company out of the Scheme's assets since the last summary funding statement. We must also tell you if the Scheme has been modified by The Pensions Regulator or whether The Pensions Regulator has made any directions regarding the Schedule of Contributions or how Scheme benefits are valued.

We can confirm that none of these events have occurred.

Investment update – DB Section

Defined Benefit Section assets

The management of the money that the Scheme holds to pay everyone's benefits (known as the Scheme's assets) is the responsibility of the Trustee Board. This includes deciding where best to invest the Scheme's assets in a responsible and efficient manner. Because the Trustee Directors are not financial experts we employ a number of investment professionals to help us with day-to-day and longer term investment decisions.

The assets of the DB section of the Scheme are invested with the goal of making sure there is enough money to be able to pay all of the benefits required by the Scheme's Rules in the future. The Trustee aims to achieve this by placing the Scheme's assets in investments that we expect will increase in value in the future but will not expose the Scheme to too much risk.

Investment managers

The Trustee employs the following investment managers to make investment decisions on our behalf. In brackets is the type of investment the Scheme's assets are placed in by these managers:

- Legal & General Investment Management (corporate bonds)
- BlackRock Investment Management (UK) Limited (property)
- Standard Life Investments Limited (diversified growth funds)
- Majedie Asset Management Limited (UK stocks and shares)

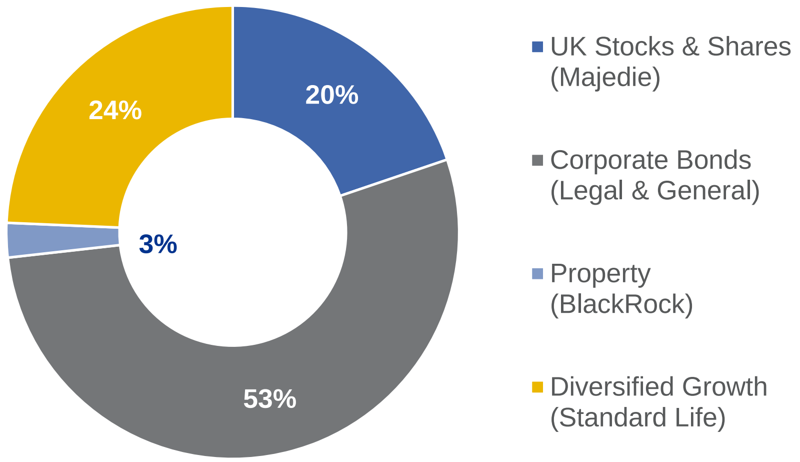
Reminder:

Diversified growth funds

Diversified growth funds invest in a range of different asset classes through a single investment vehicle. They aim to create an investment portfolio that seeks returns in line with that achieved on stocks and shares, but with lower risk of significant investment losses.

Asset Distribution as at 31 March 2016

The Scheme's DB assets, as a whole, are split across the following types of investments:



How have the Scheme's DB assets performed?

The year to 31 March 2016 was a challenging one for most types of investment. Investors' concerns over the year about geopolitical impacts on companies has resulted in volatility particularly in the equity markets. These concerns included fears of the impact of a Greek exit from the Eurozone, slowing Chinese economic growth and falling oil prices. However, these concerns eased over the second half of the year.

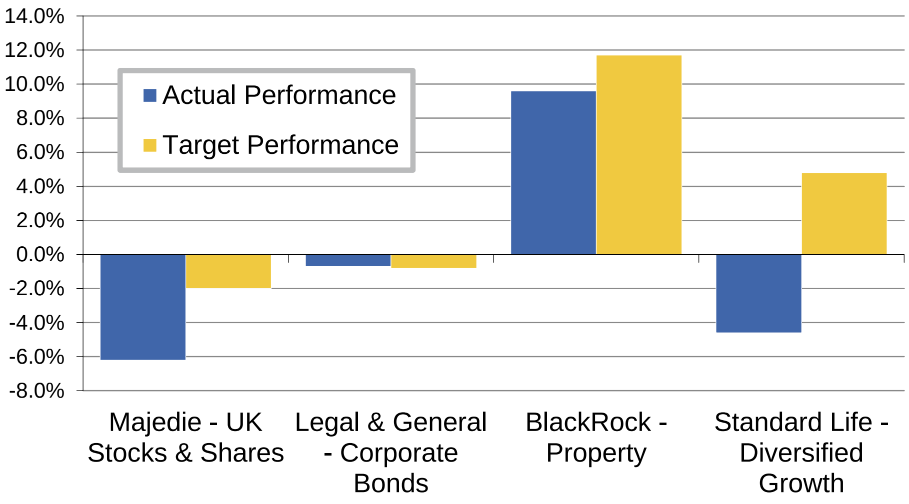
Against this difficult backdrop, the Scheme's overall asset value decreased, returning a loss over the year of 3.1%. Each investment manager is set a target return. Because of the challenging environment this year, where losses were observed in most asset classes, that target return was to achieve better than a loss of 0.5%. The investment managers fell short of their targets this year.

The 12 month period to 31 March 2016 was an uncertain time – and perhaps there is even greater uncertainty now. We continue to regularly assess the performance of the Scheme's assets with our investment advisers, who carry out due diligence on the funds we invest in. We consider short term performance (like the 12 month period above) as well as the longer term performance and expectations.

We are undertaking a full review of the investment strategy to make sure it remains fit for purpose in the current times.

The performance of the assets of the DB section from 1 April 2015 to 31 March 2016 (after fees) is shown below:

Asset Performance - 12 months to 31 March 2016



Source: Investment managers & KPMG calculations

Reminder

Legal & General's investment goal, or "target", is to achieve performance in line with a market index of investments. A market index is a group of investments which represent a summary of all the investments of that type that are available in the market.

Because Legal & General invests in similar assets to the market index, we expect it to achieve performance broadly in line with its target every year – which it has done in the past and has done again this year.

Majedie and Standard Life have been set different goals which means they have more control over where they can invest the Scheme's assets.

This means that they are more likely to perform differently from the targets that they have been set, compared to Legal & General. In some years they may over perform and in some years they may underperform, as is the case this year.

Defined contribution section

Asset performance

Some members of the Scheme who were building up benefits in 2004 have Defined Contribution (or DC) benefits. This means that each member built up their own account in the DC Section of the Scheme which is then invested to provide an income when they retire.

Individual accounts are invested in a range of funds with Legal & General Investment Management Limited that are designed to perform in line with a market index of investments. The indices can be linked to the performance of stocks and shares, bonds or cash. Each member chooses the funds in which their individual account is invested.

As with the DB investments held with Legal & General, we expect the Scheme's DC assets to meet their target performance every year. The global equity fund slightly underperformed against its target return whilst the bond and cash funds met their target return (as shown in the table below).

	Fund return	**Target return**
Global equity fund ("stocks and shares")	(3.0%)	(2.9%)
Bond fund	1.3%	1.3%
Cash fund	0.4%	0.4%

Return for 12 months to 31 March 2016
Source: Legal & General & KPMG calculations

Pensions news

Pension increases applied at 1 July 2016

If you are currently paid a pension from the Scheme you will know that increases to your pension are considered each year and, if applicable, applied from 1 July. The Scheme's Rules say how much each different part of your pension should increase by every year, dependent on when you built up the pension.

Most parts of your pension increase in line with the Consumer Prices Index ("CPI") which is published by the Government in the September before the increase is applied. CPI was negative in the year to September 2015 and therefore no increases were awarded at 1 July 2016. Note that although inflation was negative, your pension has not been reduced!

CPI inflation was 1.0% over the year to September 2016. This means that we do expect to pay modest increases to pensions in July 2017. Increases will be applied in line with the Scheme's rules. The actual increase you get will depend on when you built up your pension. It is anticipated that no discretionary increases will be paid on benefits built up before 1 July 1993.

Pension scams

Scammers use a variety of methods to get their hands on people's savings. Often they will convince members to transfer the benefits they have built up to a new scheme offering 'incentives' and 'loopholes' which in reality don't exist. Examples include claims that members will be able to access their money before age 55, or to offer guaranteed investment returns. These claims are not true.

We continue to remind members who may be considering transferring out of the Scheme that you are expected to take the appropriate steps to make sure you are transferring into an approved Scheme including taking independent financial advice.

"Don't be next, predators are after your pension"

The Pensions Regulator has produced materials on this topic which are available to members and can be found at

www.tpr.gov.uk/pension-scams.aspx

DWP guidance on saving and planning for retirement

The Department for Work and Pensions have published three advice papers aimed at different groups of people, providing support around retirement planning and saving. These may be of interest to members and can be found at:

- **Saving for retirement** if you're aged 16 to 50 - www.gov.uk/guidance/saving-for-retirement-if-youre-aged-16-to-50
- **Planning for retirement** if you're aged 50+ - www.gov.uk/guidance/planning-for-retirement-if-youre-aged-50-or-over
- **Retirement planning** for current pensioners - www.gov.uk/guidance/retirement-planning-for-current-pensioners

Pensions news (continued…)

Brexit

On 23 June 2016 the UK voted to leave the EU. The Brexit vote has created uncertainty for the UK economy and is likely to affect UK and European business activity for the next 2 to 5 years.

At present very little is known about what this will mean for the Scheme. The potential impact on pensions is wide ranging and resulting considerations range from direct impacts on assets and liabilities, to potential legislation changes. While much of the EU legislation is already enshrined in UK law, consideration will need to be given to the impact of regulator change in managing pensions.

The Trustee will continue to consider factors which have the potential to affect the Scheme following Brexit as more information becomes available. It is important to note the impact of Brexit will be different for all pension schemes and employers, and at the moment too little is known to make a judgement on how it may affect this Scheme.

US General Election

On Tuesday 8 November Donald Trump was elected as the next US president. As president of the largest economy in the world, his policies and actions in office can be expected to have a global economic impact. You may have noted in the news, short term volatility in global asset markets followed the result due to market uncertainty. However the longer term implications of the vote are much harder to discern.

The Trustee Directors will monitor news coming out of the US to make sure that appropriate action is taken within the Scheme, if necessary.

New DC code of practice

The Pensions Regulator's revised DC Code of Practice became effective from July and applies to all of the Scheme's DC arrangements. The Trustee, with assistance from its advisers, continues to make sure that our DC arrangements comply with the Code's provisions and are appropriate.

Pension flexibilities for defined contribution benefits

Pension freedoms introduced last year mean the current generation of retirees with defined contribution funds have more options to choose from than before – taking lump sums, withdrawing pension income more flexibly over time, using your fund to provide a secure regular income for life through an insurance company, or leaving funds in place for your beneficiaries after your death.

These flexibilities are not available in the Scheme. If you want to access these flexibilities you will need to transfer your Individual Account out of the Scheme and into an alternative defined contribution arrangement.

The government set up Pension Wise – a free and impartial service that gives guidance at retirement to members with defined contribution savings. You can seek guidance from Pension Wise face to face, online or over the phone.

- Visit www.pensionwise.gov.uk or call 0800 138 3944 for further information.

Alternatively you may wish to seek your own independent financial advice.

New Lifetime ISA

The 2016 Budget had a strong focus on incentivising people to save. One of the main announcements was the introduction of the Lifetime ISA, known as LISA, which will take effect from April 2017.

This will be an ISA which can be opened by anyone who is between 18 and 40 years old. Individuals can pay into the LISA until age 50. The holder can save up to £4,000 a year and will receive a 25% top up on savings each year from the government.

These savings can be used with a whole or partial tax free withdrawal in any of the following scenarios:

- From age 60
- On first home purchase (in the UK, with property value up to £450,000) as long as the LISA has been open for at least 12 months.
- On terminal ill health.

Other withdrawals may be made but holders lose any government bonus received and any interest earned on the bonus. They will also be liable to pay a 5% penalty on the withdrawal.

At present limited information has been given on how the new LISA will work in practice and consultation with the industry is ongoing.

Reminders

Expression of Wish Forms

When you die, there may be benefits due to your dependant(s). You are able to nominate who you would like these benefits to be paid to by completing an Expression of Wish Form. We will take your nomination into account when deciding who to pay your death benefits to, although we will consider other available information too to make sure that our decision is as robust as it can be.

Please contact KPMG if you would like to complete a new Expression of Wish Form.

Change of personal details

It is essential that we hold accurate records so that we can pay your benefits when they are due. Please let us know if any of your personal details change, such as your name, address, email or other contact details.

If you need to update your details, or would like to check the details that we hold, please contact KPMG using the details given below.

Transfer values

Members who have yet to retire are able to request to transfer their benefits out of the Scheme to an alternative pension arrangement. The Trustee can provide you with a transfer value quotation on request (once per year without incurring a charge up until you are within a year of normal retirement age after which a charge is payable).

If you would like a transfer value quotation please contact KPMG using the contact details below.

Professional advisers

The Trustee receives advice from professional advisers to make sure the Scheme is run smoothly:

Actuary: Robert Watkin of KPMG LLP

Administration: KPMG LLP

Investment advisers: KPMG LLP

Legal advisers: Burges Salmon LLP

Auditors: PKF Cooper Parry Group Limited

Bankers: Lloyds Bank plc

There has been a ‘change’ in auditors over the year, with Clement Keys becoming PKF Cooper Parry Group Limited as part of a merger.

Future communication

In the future we would like to distribute the newsletter and other matters by email in order to reduce costs to the Scheme and increase the frequency of communication with all our members. If you have an email address, please let us know by emailing the Scheme administrators at: **STMPensions@kpmg.co.uk**.

When emailing KPMG you will need to tell them your name and national insurance number so that they can identify you.

To date we still only have a limited of members’ email addresses which means it is still not feasible to send Scheme communications by email. But if we are able to collect more email addresses then electronic communication may be possible in the future.

Contact

If you need further information about the running of the Scheme or if you have any questions, you can contact the Trustee in writing or via email at the addresses below:

STMicroelectronics (Bristol) Pension Trust Ltd
c/o Martin Bevitt
Atlas House, Third Avenue
Globe Business Park
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Bucks
SL7 1EY

Phil Morris (Chairman of the Trustee)
philip.morris@st.com

Andrea Talpo
andrea.talpo@st.com

Jonathan Edwards
Siliconjon48@gmail.com

Tony Gore
tony@aspen.uk.com

Trefor Southwell
stp@tdlj.net

Jon Frosdick
jonathan.frosdick@gmail.com

Alternatively, please contact the Scheme Administrators:

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E: STMPensions@kpmg.co.uk