



STMicroelectronics (Bristol) Retirement Benefit Scheme

The legal bit

This communication provides information about the STMicroelectronics (Bristol) Retirement Benefit Scheme and is not to be construed as advice under the Financial Services and Markets Act 2000 or otherwise

Neither the Trustee of the STMicroelectronics (Bristol) Retirement Benefit Scheme or any of its advisers can provide individuals with any advice

KPMG LLP is authorised and regulated by the Financial Conduct Authority for investment business activities

All references to legislation are to UK legislation and are based on current understanding of current UK law and HM Revenue and Customs practice which may change at any time

All comments in this communication are based on current understanding – In the case of discrepancies, the underlying Trust Deed and Rules and legislation will prevail

If you are unsure as to any aspect of what to do with your pension you should obtain independent financial advice

You can contact an independent financial adviser in your area by looking at the IFA Promotions Website www.unbiased.co.uk

We request that members of the audience do not record any part of this communication – The Trustee will provide a formal follow up to this meeting for all members in due course

Purpose of the meeting between the Trustee and members

To maintain open dialogue with members

To provide an update on the Scheme

To answer some of the common questions asked by members

Where you see a speech bubble – this means a member has sent in the question!

Agenda

-  Introductions
-  Trustee duties
-  Actuarial Valuation at 31 March 2017
-  Investment update
-  Update on the DC Section
-  Pre 93 Benefits
-  Other Questions
-  Scheme membership update
-  Communication

Trustee Board - Introductions

Trustee = STMicroelectronics (Bristol) Pension Trust Limited

Run by six Trustee Directors

All Trustee Directors have equal power and responsibility



Phil Morris

Company Appointed
Deferred member



Jonathan Edwards

Company Appointed
Pensioner member



Maurizio Micale

Company Appointed
No benefits in
Scheme



Jon Frosdick

Member Nominated
Pensioner member



Ian Pearson

Member Nominated
Pensioner member



Brendan O'Connor

Member Nominated
Pensioner member

The term of office for Andrea Talpo and Trefor Southwell expired on 31 October 2018.

Andrea and Trefor have been replaced by Maurizio Micale and Brendan O'Connor as Company nominated director and member nominated director respectively.

Quorum - The Trustee can only take a decision when there are a minimum of two member nominated and two Company nominated directors present. A decision can therefore never be taken by only Company or only member nominated directors.

Advisers - Introductions

The Trustee is advised by KPMG who will support the Trustee in presenting this session



Mark Westmore
Scheme Actuary



Sophie Catt
Consultant



Sophie Bennett
Consultant

Some Definitions:

The “**Scheme**” refers to the STMicroelectronics (Bristol) Retirement Benefit Scheme

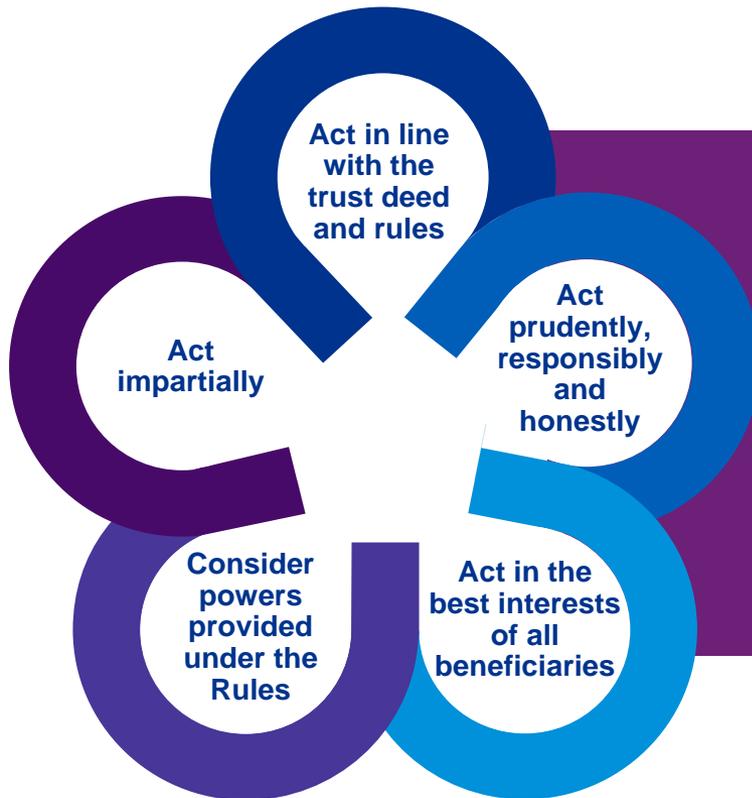
“**ST R&D**” refers to STMicroelectronics (Research and Development) Limited

“**ST NV**” refers to STMicroelectronics NV

The “**Company**” refers jointly to ST R&D and ST NV collectively

Duties of trustees

A reminder...



Key role: To make sure there is enough money to pay the pensions required by the Scheme's Rules as and when they need to be paid

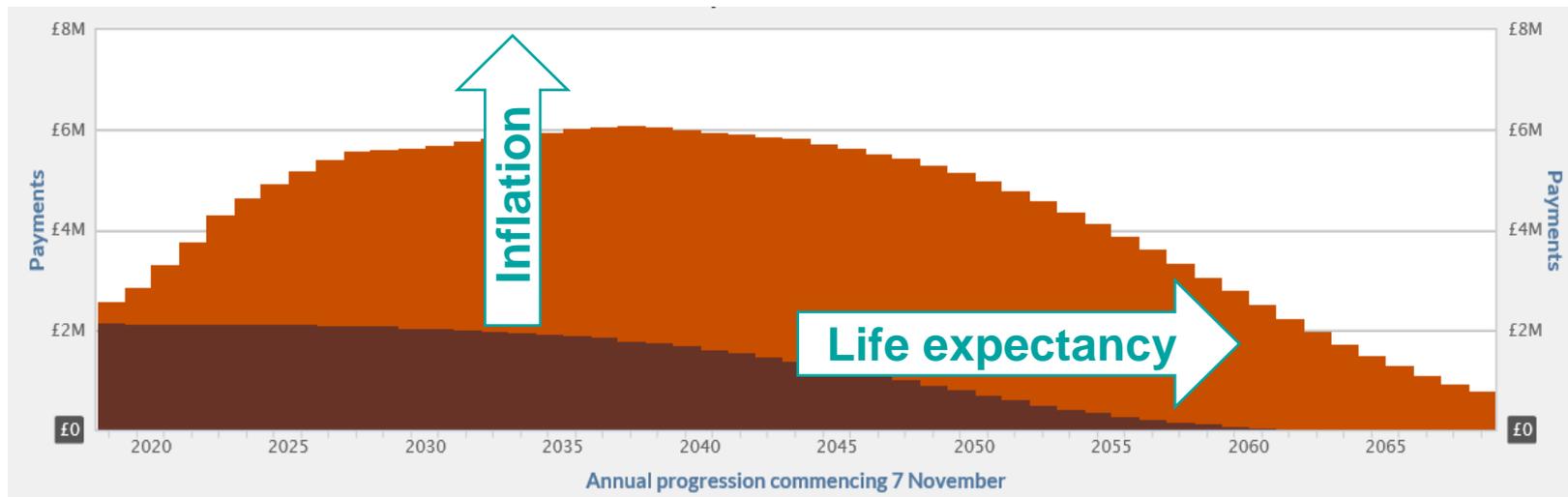
Note – The Trustee does not have the sole power to run the Scheme nor does it have the power to control the actions of other parties such as the Company or the Pensions Regulator

31 March 2017 Valuation

The Scheme must complete a full actuarial valuation every three years.

A full valuation is due at 31 March 2017, and the statutory deadline was 30 June 2018.

Question 1: What are the projected benefit payments?



Source: KPMG Fusion

Question 2: How much money needs to be held today in order to be able to pay out the projected benefits as and when they fall due?

- What returns are anticipated on the money currently held and future contributions?

Why have the Scheme liabilities increased significantly in recent years?

Legal Relationships

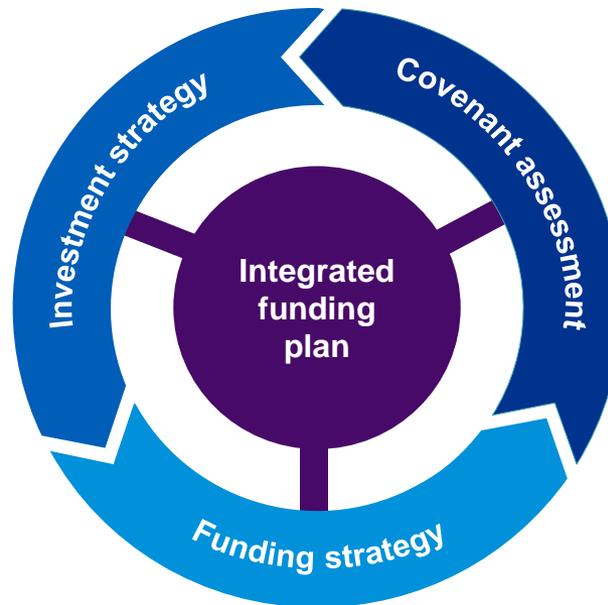


How on a regular annual basis, can STM R&D become profitable enough to support the Scheme pension contributions?

Pensions Regulator's Guidance

The Pension Regulator's 2018 statement continues sending a message to trustees that they should be improving funding positions and reducing risk. Trustees should be carrying out the valuation in line with the Pensions Regulator's ("TPR") Integrated Risk Management guidance.

Set investment strategy to balance desire for growth against risk (losses) that can be supported by the legal covenant



What is the legal covenant to support the scheme?

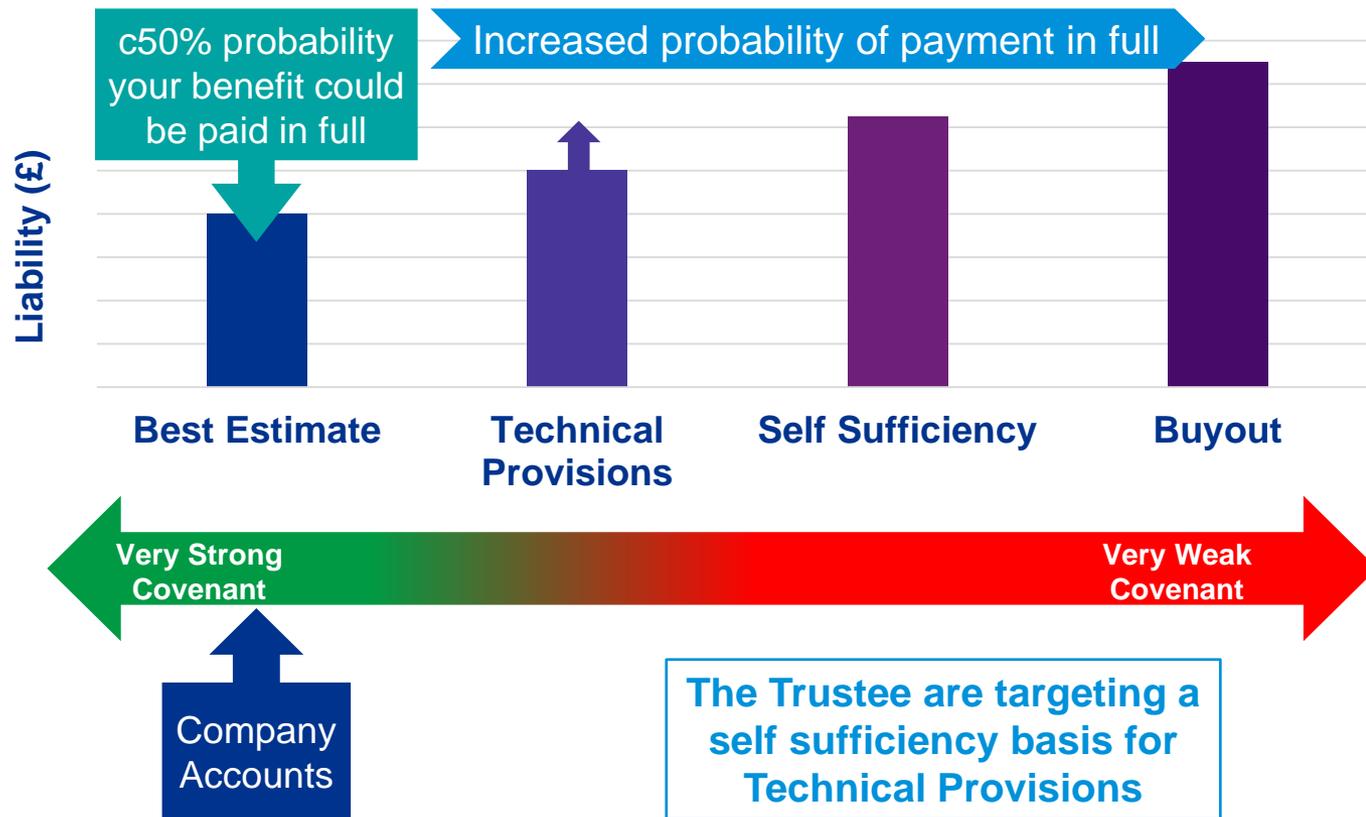
Set valuation assumptions to get as much money in now rather than rely on investment returns

Setting the assumptions

What proportion of the scheme deficit arises as a result of the weak covenant?

Different funding measures

There are a number of different measures on which the funding level of the Scheme can be illustrated.



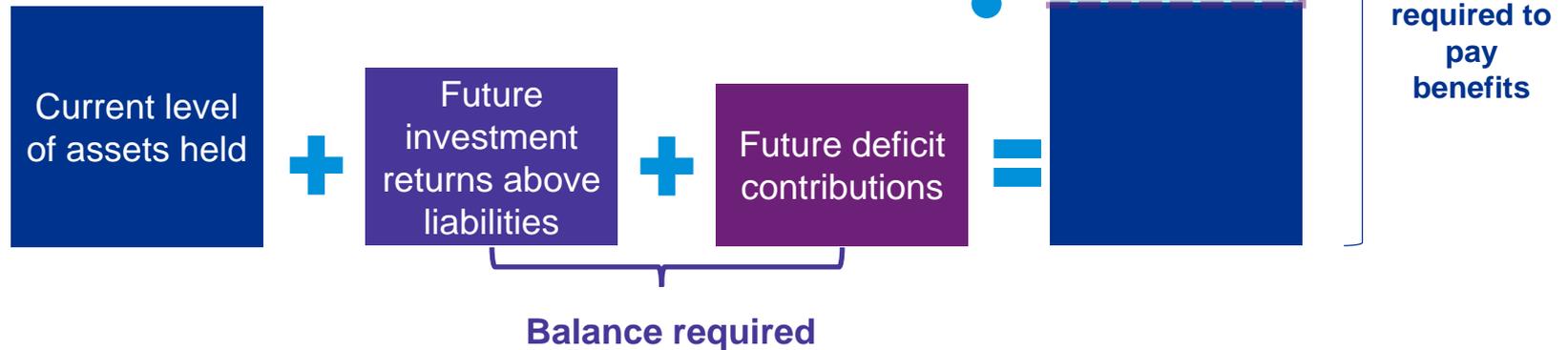
Recovering the deficit

Increasing the investment risk
(to target higher returns) may reduce
the expected level of deficit
contributions required to fund the
deficit

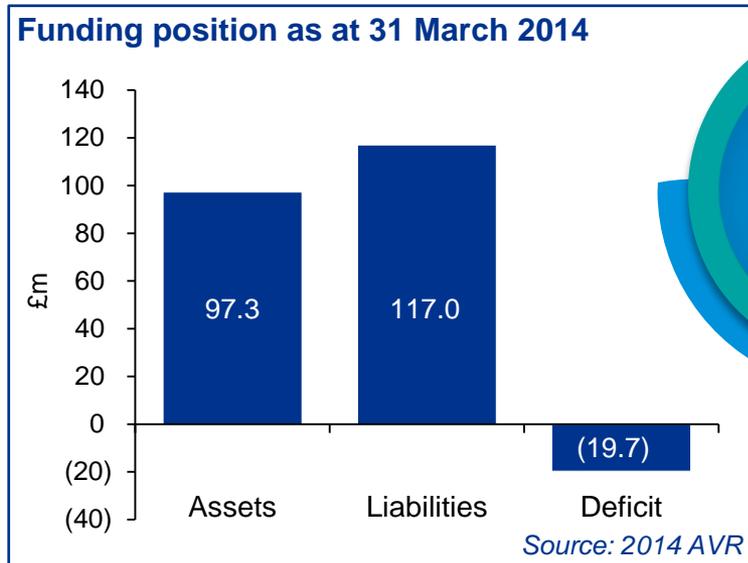
BUT

This results in greater volatility in the
funding position

Isn't the cautious investment
strategy a contributory factor
to the deficit? If so what
proportion of it relates to this
strategy?



Recap: 31 March 2014 Valuation agreement



Pensions Regulator raised no questions

Extra margins of prudence in the valuation as at 31 March 2014

A joint review of the investment strategy

ST NV purchased £16 million of newly issued shares in ST R&D

ST R&D directly pay Pension Protection Fund (PPF) levies

ST R&D pay £1.8 million a year into the Scheme, increasing with the Consumer Prices Index

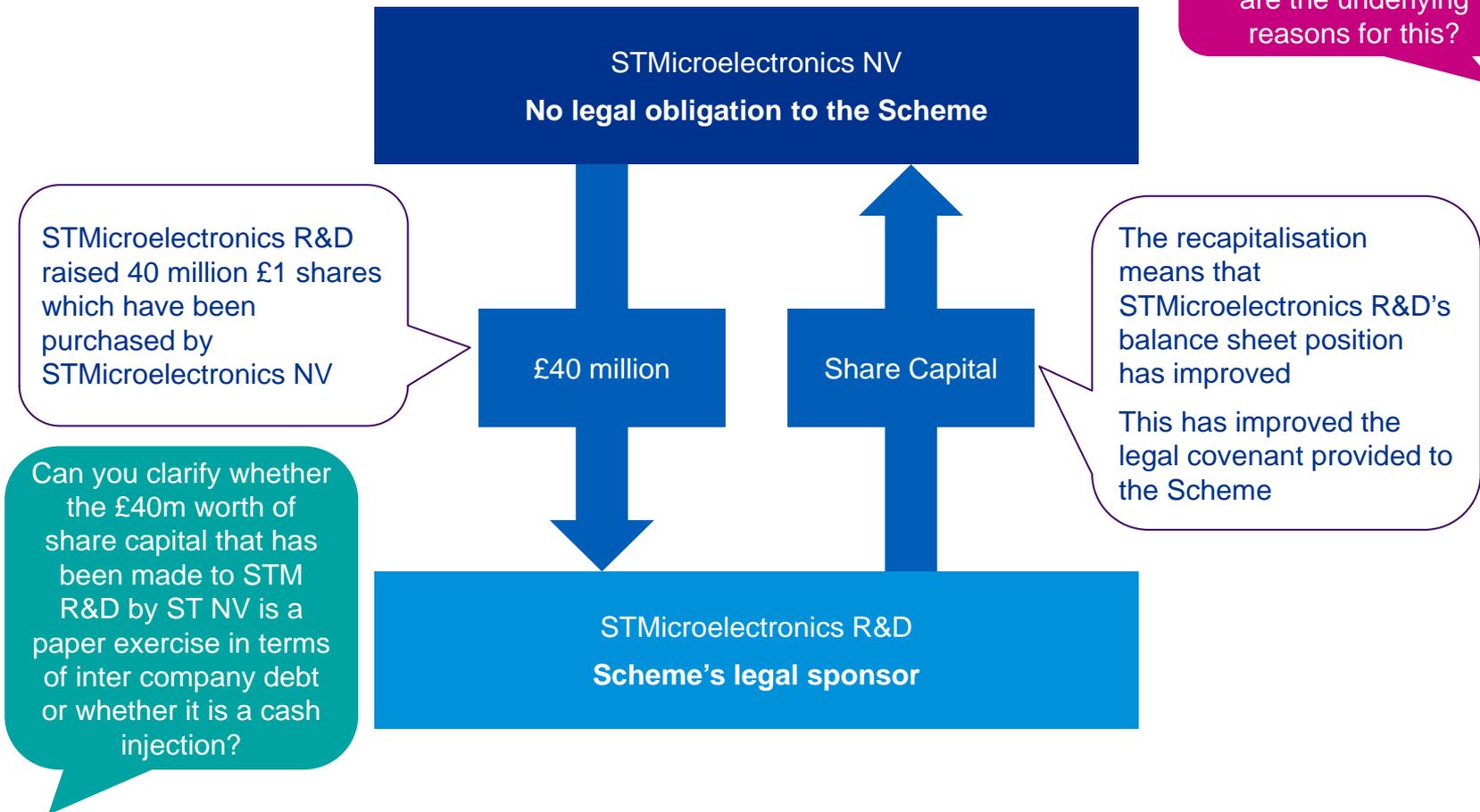
31 March 2017 Valuation agreement

Once again the triennial Actuarial Valuation at 31 March 2017 has not been provided to the Pensions Regulator within the statutory timescales. Why is this?

- The Trustee first wrote to the Company with their initial proposal in November 2017. This would normally provide sufficient time to complete negotiations ahead of the statutory deadline.
- Changes in senior management came into effect at ST NV from June 2018. Following initial discussion with the Company, the Trustee believed waiting for the new management would allow them to reach a more beneficial agreement for the Scheme.
- The Trustee have set clear deadlines for The Company throughout and have kept the Pensions Regulator updated on progress. The Company have been slow to respond and has frequently missed the required deadlines. The ability of the Trustee to change the Scheme investment strategy without agreement from the Company has been used to apply pressure to the Company and encourage their timely response.
- The Trustee now believe they are close to agreement and expect the valuation will be submitted to the Regulator by the end of 2018.

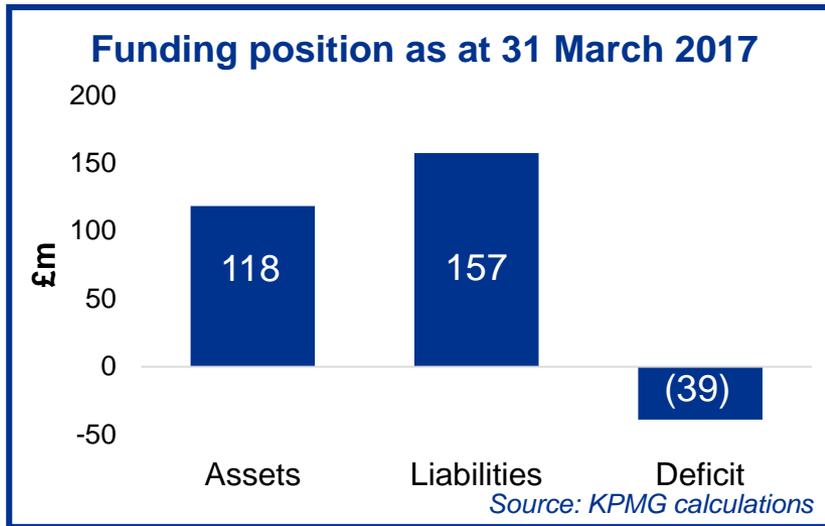
31 March 2017 Valuation agreement Recapitalisation of STMicroelectronics R&D

We notice that a further recapitalisation of R&D has taken place. What are the underlying reasons for this?



31 March 2017 Valuation agreement

Broad outline of the agreement we are close to finalising (pending formal confirmation):



Letter of comfort from ST NV making their commitment to the Scheme firmer

Further £6m recapitalisation of ST R&D

Implement a new investment strategy which maintains expected return and reduces risk

Deficit reduction contributions increased to around £4m per annum increasing in line with inflation each year

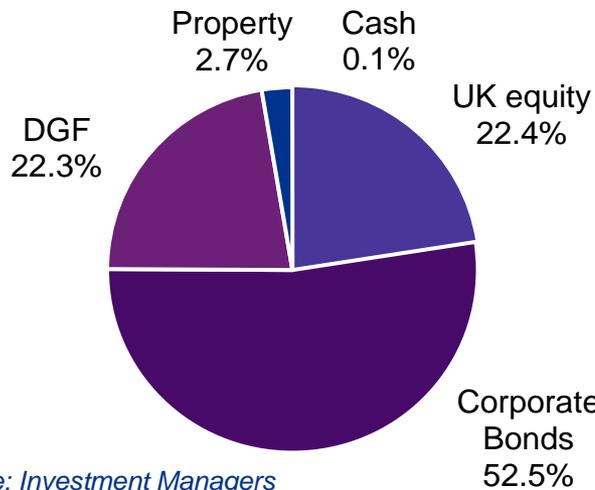
This should result in the deficit being removed in 6 years

The Scheme's investment strategy

Aim to make sure that sufficient assets are available to pay members' benefits as and when they arise.

The current strategy is consistent with the Trustee's target to be fully funded and in a de-risked investment strategy by 2030.

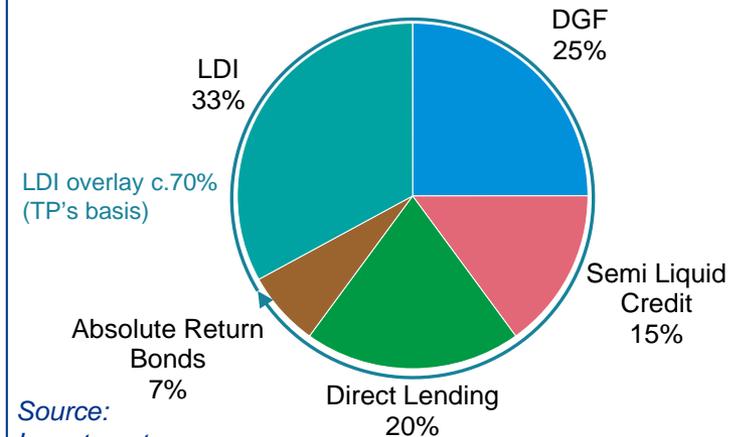
Distribution of Assets as at 30 September 2018



Source: Investment Managers

**Market value of invested Scheme assets:
£115.4m**

The Trustee is looking to implement a new investment strategy following the valuation. This strategy looks to use newer asset classes to reduce risk in the Scheme while maintaining the expected level of return.



Source: Investment Managers

As part of the previous agreement with the Company (R&D & ST NV) a joint review of Investment Strategy was due to take place. What was the outcome?

Other Questions on Investment

Do the Trustees have any ethical standards / restrictions / policy on investment e.g. sustainable and responsible investment (SRI).

Given the recent Intergovernmental Panel on Climate Change (“IPCC”) report on climate change with the clear message that fossil fuel use must be cut massively to avoid a catastrophe & the likelihood of fossil fuel companies being left with a very high amount of stranded assets resulting in over-valued stock prices, what plans does the trust have to divest from fossil fuel investments?

The Defined Contribution Section

Defined Contribution (DC) Benefits were only built up in the Scheme between 2004 and 2006.

There are c£2.5m of assets in respect of the DC Section.

This compares to c£115m of assets in respect of the DB Benefits.

What's changed? There are far greater governance requirements for DC Schemes than there have been in the past.

And we only expect the requirements to increase!

What do these requirements mean if the DC Section is maintained within the Scheme?

- The Trustee will have to comply with the new governance requirement in full
- This results in higher advisory costs for the Scheme

In line with other Schemes, the Trustee is therefore looking at options for the DC Section going forward.

The Defined Contribution Section

As part of their review of the management of the DC Section, the Trustee obtained legal advice on the rights of DC members under the Scheme Rules.

This advice highlighted that the running costs of the DC Section should be passed to the members under the Scheme Rules.

Historically the Scheme has met the costs of administration of DC benefits. This draws on assets held to meet DB benefit obligations.

The cost of managing the Section is increasing and so maintaining this practice can no longer be justified.

The Trustee concluded they would have to introduce an administration charge on DC funds.

The Defined Contribution Section

In light of these changes, the Trustee believes members could receive better value in relation to their DC Section benefits if these were outsourced to another provider.

This provider would be either an Insurance Company or another Trust known as Master Trust. The DC Section would then be managed completely separate from rest of the Scheme going forward.

Advantages to members:

**Economies of Scale
result in lower cost per
head**

**More investment
options for members**

**Specialist DC Trustee
managing funds**

**Higher quality DC
specific
communications**

**Access to pension
flexibilities on
retirement**

The Defined Contribution Section

The Trustee requires the agreement of the Company to do this as it requires a change in the Scheme Rules. The Trustee has written to the Company on this matter.

The Company have yet to provide their response as all focus has been on the actuarial valuation.

The Trustee are looking to minimise the impact of the management change on members.

SMPI Statement

SMPI statements at 31 March 2018 have not been issued to members. It was hoped these could be completed once the DC Section changes had been agreed to reflect these and aid communication with members.

These will be issued to members in the new year, irrespective of whether any further progress is made on these changes.

A Further change following the Legal advice:

The Scheme will stop the administrative practice of allowing members to take their DC fund as pension commencement lump sum before commuting their DB lifetime pension.

Increases to pre 93 pensions

Has the pre-93 increases situation been taken up with the Company in the past year? If so, what was the outcome?

The Trustee's ability to pay discretionary increases is covered by the Scheme's provisions for benefit augmentations

Augmentations – Current policy for payment

Augmentations to benefits can only be awarded if all of the following conditions are met:

1. The Company agrees that an augmentation is appropriate
2. The Company provides explicit funding for that augmentation
3. The Trustee is satisfied that the benefits required to be paid under the Scheme's Rules are already sufficiently secure

Trustee's duty

To act in line with the Scheme's Trust Deed and Rules

Trustee's role

To seek to make sure there is enough money to pay the pensions required by the Scheme's Rules as and when they need to be paid

Other Questions

What actions do the Trustee & its advisers take when the sponsoring employer breaks UK laws/regulations?

How are the current EU withdrawal arrangements likely to affect the security of the Scheme and the relationship of both R&D, and the Scheme, to ST NV?

The Financial Times reports that the Pension Protection Fund has “concerns” over the rescue deal for Johnston Press which allowed Johnston Press to shed its pension liabilities onto the PPF. What lessons do the Trustee and its advisers take from this, and what steps are they taking to ensure that such an event can never take place with regard to R&D?

As part of the previous Agreement with the Company (R&D & ST NV) a joint review of “The Way the Scheme is run” was due to take place. What was the outcome?

Pensions News: Longevity

UK life expectancy growth rates are lower than many other countries and growth is slowing in the UK. How will this effect the Scheme?

Given the news headlines in August that "UK life expectancy growth falls faster than other leading nations" and "Rise in life expectancy slowing down in the UK", please could you explain what impact this might have on the Scheme and what plans you have for when things turn out better than the very conservative actuarial predications.

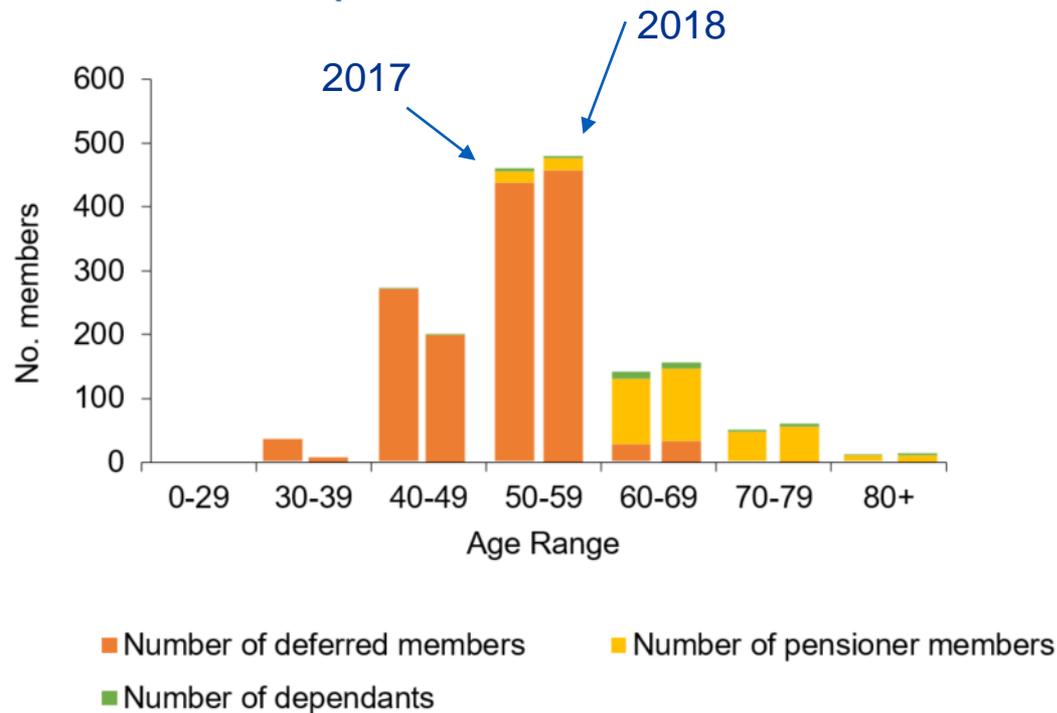
The Scheme liabilities are valued using standard life tables and models produced by the actuarial profession in the UK. These are regularly updated for new data.

The Trustee has updated the valuation assumptions used at 31 March 2017 to use the most recent mortality data available up to 31 December 2017 (CMI 2017).

This reduces the liability compared to the value which would have resulted from using earlier data, and so reduces the funding deficit.

Scheme membership

Scheme Membership



2017 (left)
Total members:
935

2018 (right)
Total members:
920

In 2007 there were 37 pensioners aged over 70. How many are there now, and how many of the 37 have passed away?

Note: Includes both DB and DC membership
Source: KPMG

Communication

We appreciate move to communication by email. Would you highlight regularly how members not receiving e-mailed information can be added to your database?

Please let us know!
Email STMPensions@KPMG.co.uk
We include a reminder in our annual member newsletter

How quickly are responses supposed to be sent from questions to the Trustee?

We endeavour to reply as quickly as possible. Where the Trustee need to discuss a response, this can take time due to Trustee availability. When this is the case, we appreciate your patience and will keep you informed of progress.

Some members have not received recent communications. Are records of members' addresses up to date?

We always use an up to date address list for member mailings! If you believe you are not receiving communications please let our administrators know. We may hold an out of date email address on your record and be attempting to email you communications.

Where an email address does bounce, we automatically update the members record and follow with the communication by other means.

Cash Equivalent Transfer Values

To request a quote please email:

STMPensions@KPMG.co.uk

You may only transfer your pension to a registered pension scheme.

You can transfer your Defined Contribution pot or AVCs separately to your Defined Benefit Pension.

You must seek independent financial advice to transfer your defined benefit pension out of the Scheme.



Thank you



Q&A



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