

The Aerospace Employees' Retirement Plan

Frequently Asked Questions (FAQ)

Introduction

The Aerospace Retirement Benefits Committee (the “Committee”) has both investment and administrative oversight of the plan and engages experts to assist it in fulfilling its duties. The Committee has engaged NEPC, an independent investment consultant, to provide advice and recommendations on a variety of investment matters, including strategy, asset allocation, investment managers and performance.

Because the AERP provides retirement benefits to participants for their lifetime, the AERP’s investment strategy begins with a long-term strategic asset allocation that allows the AERP to maximize returns within prudent levels of risk. There may be short-term spikes in volatility which do not alter the long-term strategy. The AERP assets are invested in a diversified set of asset classes and strategies selected for long-term growth and capital preservation, focusing on the ability to pay all benefits when due, while seeking to preserve the inflation-adjusted purchasing power of plan benefits and maximizing returns.

Each year, you receive a statement of the AERP’s funded status, which is a reflection of the AERP’s ability to pay all benefits when due.

How does the AERP work?

Under the AERP, you accrued both fixed benefits and variable benefits during your career. Your fixed benefit can increase every year by a Cost of Living (COLA) adjustment of up to 2% (based on the consumer price index). The variable benefit (related to both the number of units you've earned during your career and the unit value) changes every year (up or down) depending upon the investment return on the AERP assets.

The variable unit value has generally increased about 3% on an annualized basis since fiscal year 2009. (Benefits that increase during retirement through COLA or unit value increases are not a common feature in corporate pension plans although they can increase the value of your pension benefit). The variable unit value increased from \$9.07 in 2013 to \$10.57 in 2023 (16.5% overall), even when accounting for a significant reduction experienced in 2023 due to negative market performance in both the bond and stock markets.

The AERP benefit structure was designed to both mitigate downside risk by providing a portion of the benefit that increases over time (via the fixed benefit) and to allow for growth potential albeit with some downside risk (via the variable benefit). While not guaranteed, the structure has worked as designed, with the average retiree seeing annualized historical growth of 3% - 4% in their benefit payments over time. There will be some fluctuation, either positive or negative, in benefit payments on a year-over-year basis due to the variable benefit.

The AERP unit value increases or decreases each year based on the return on assets in the variable benefit portfolio of the AERP trust (as of 9/30) in excess of or less than 4% (the "hurdle rate"). A hurdle rate in this range is a common feature of variable benefit plans of this nature and is one of the components of plan design.

Why did the value of the Variable Benefits go down so much in 2022 (lowering my pension payments in 2023)?

The returns were impacted by poor markets in both stocks and bonds. The S&P 500 was down -15.5%, International Equity was down -25.2%, and U.S. Bonds were down -14.6%. Although the variable portion of the benefit went down, overall performance was in the top 1/3 pension plans – 1, 3, 5 and 10 years.

How does the Hurdle Rate impact the AERP Variable Benefit?

Variable plan benefits increase or decrease annually depending on the actual returns of the underlying investments. The hurdle rate is 4% for the AERP plan and has been

part of the benefit formula since inception. Hurdle rates are a common part of plan designs for variable pension plans and help ensure long term funded status.

Retirees receive an increase in their pension payments when investments returns are above 4% and decreases when returns are below 4%.

How are AERP contributions for the company determined?

The company is required to meet the ERISA minimum required contribution and determines its contributions in accordance with these rules.

How does the AERP value change when interest rates change?

Interest rate fluctuations impact the funding levels of the AERP by affecting both liabilities and assets. Generally, the AERP's liability moves in the opposite direction of the interest rate changes. As interest rates rise, the discount rate used to assess the AERP's liabilities increases, which typically decreases the liabilities. In contrast, as interest rates decrease, the AERP's liabilities increase. This interest rate sensitivity is taken into account when determining the asset allocation for the AERP's investment strategy. As the plan seeks to meet a variety of risk and return objectives, the asset portfolio does not match the liability moves on a 1 to 1 basis.

What funds do we have in the AERP?

The asset classes and funds in the Plan as of March 2023 are noted below, but are subject to change over time:

Investment Manager	Strategy
U.S. Equity	
BlackRock, Inc	S&P 500 Index Fund
Pzena Investment Management	U.S. Mid Cap Value Fund (active)
Northern Trust Asset Management	U.S. Extended Market Index Fund
Northern Trust Asset Management	U.S. Small Cap Growth Index Fund
International Equity	
Baillie Gifford Investment Management	Int'l Developed Market Growth Fund (active)
BlackRock, Inc	Int'l Developed Market Value Index Fund
Northern Trust Asset Management	Int'l Developed Market Index Fund
Dimensional Fund Advisors	Int'l Emerging Markets Fund (quasi index)

Fixed Income

Pacific Investment Management Co. (PIMCO)	U.S. Intermediate Duration Fund (active)
BlackRock, Inc	U.S. Intermediate Duration Index Fund
Fidelity Investments	Global Multi-Credit Fund (active) Northern
Trust Asset Management	U.S. Short Duration Index Fund
NISA Investment Advisors	U.S. Long Duration (active)

Real Estate

Morgan Stanley Investment Management	Prime Property Fund (active)
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Cash

Northern Trust Asset Management	Collective Short-Term Investment Fund
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Does the AERP invest in any Environmental, Social and Governance (ESG) Theory stocks?

At this time, the AERP's investment strategy does not include risk and return objectives for ESG as the focus is on financial performance. However, there may be indirect exposure to ESG stocks through market-based index funds like the S&P 500, but ESG is not the criteria for the fund selection.

How are investment managers selected and how long do they stay in the fund? How do you monitor performance and who has accountability?

The Aerospace Retirement Benefits Committee (ARBC) is responsible for the investment strategy, the selection of investment managers and overall investment performance. The ARBC uses NEPC as an expert investment advisor with respect to the investment of the AERP assets. NEPC provides quarterly updates on performance against overall portfolio and asset strategy class benchmarks. Performance and market trends are monitored continually by NEPC. The investment policy is reviewed annually, and investment manager duration is generally based on performance.

What investment measures have been taken to hedge against adverse market fluctuations?

The AERP mix of investments is diversified and balanced. Investments include equities, fixed income and real estate to take advantage of market trends, while mitigating risks associated with investing too much in any one asset class.

How do the investment returns for the AERP compare with appropriate benchmarks? What are the benchmarks used and what is the current allocation?

Beyond standard comparisons of specific fund performance against similar investments (e.g., Large Cap Funds), overall performance is also compared against other corporate pension plans. We also look at the variable unit value over time against inflation.

The investment results fluctuate above or below the respective benchmarks each quarter and year but tend to average out over longer periods. The AERP plan employs only conventional asset classes, including U.S. equities, international equities, fixed income and real estate. Both passive and active investment strategies are used.

The current asset allocation targets or benchmark for the AERP’s Variable and Fixed components are:

<u>Variable as of 4/1/23</u>	<u>Fixed as of 4/1/23</u>
<ul style="list-style-type: none"> • 51% Equity <ul style="list-style-type: none"> ○ 31% U.S. Equity ○ 20% International Equity • 44% Fixed Income • 5% Real Estate 	<ul style="list-style-type: none"> • 49% Equity <ul style="list-style-type: none"> ○ 30% U.S. Equity ○ 19% International Equity • 46% Fixed Income • 5% Real Estate

The Committee periodically reviews the asset classes and allocations and will make appropriate changes consistent with its long-term investment strategy.

Why doesn’t the AERP’s variable benefit portfolio return track closer to the S&P 500?

The AERP’s variable benefit portfolio invests in much more than just the S&P 500. As stated above, the AERP invests in multiple asset classes to create a diversified portfolio. The S&P 500 is a passive investment strategy comprising a single asset class - large cap U.S. equities. While the AERP invests in large cap U.S. equities, it also invests in mid cap and small cap U.S. equities. International equities, fixed income and real estate are also components of the diversified portfolio and both passive and active investment strategies are used.

Where can I find more information about AERP?

Active Employees: Benefits [website](#)

Retired Employees: Retirees’ [website](#)