IN FOCUS

Selex
Pension Scheme

Issue 20 | September 2015

In this issue of InFocus we provide you with information about the following:

Actuarial Valuation 5 April 2014

The Selex Pension Scheme Trustee and the Company have agreed the basis for the 5 April 2014 Actuarial Valuation.

The results showed that the Scheme has a funding surplus of £79.2 million (in relation to benefits earned up to 5 April 2014) and a funding level of 118%. However, it also showed that the cost of future pension provision has increased significantly by 5.9% p.a. of earnings between 5 April 2011 and 5 April 2014.

Member contributions will remain the same (with reductions in contributions for some members in the Main Section as part of the Career Salary benefit changes, see opposite).

When agreeing the future service contribution rate, the Company and Trustee have taken into account the Career Salary and contracting-out changes which come into effect in April 2016.

The Company will continue to pay contributions at 15.2% p.a. of earnings until March 2016. From April 2016, the Company will pay an additional National Insurance contribution of c.0.7% p.a. of earnings following the cessation of contracting-out so its contribution to the Scheme will be 14.5% p.a. of earnings, thereby maintaining its current overall cost.

The remaining future service cost will be supported by using a proportion of the Scheme's funding surplus, including the additional surplus associated with the Career Salary change.

Contact details change

Scheme Administration contact details

The address used for Selex Pension Scheme correspondence is changing to ensure the Scheme Administrator, Aon Hewitt, can deal with your communication in the most efficient way. Please send all future Scheme correspondence to the address below.

A minor change is also being made to the Scheme telephone number as part of a consolidation exercise, across Aon Hewitt, to move to numbers starting with '03' (which are charged as local calls).

Selex Pension Scheme

Aon Hewitt
PO Box 196
Huddersfield
HD8 1EG

0345 603 5660

selex.pensions@aonhewitt.com

All Scheme forms are in the process of being updated to reflect the new contact details.

Trustee and PCC changes

Thank you to our retiring Trustee Director

We would like to thank our retiring Trustee Director, Dave Evans, for his valuable contribution to the management of the Scheme. Dave has served as a Trustee since 2005. His professional and pragmatic approach to the role of Trustee will be missed by the Trustee Board and we wish him all the best.

Welcome to our new Trustee Director

We welcome Craig Porter to the Trustee Board as a Company Nominated Director. Craig is Finance Director for Selex ES Ltd based in Basildon. Craig will sit on the full Trustee Board and on the Investment Sub-committee.

Welcome to our new PCC representative

We are pleased to announce that the PCC vacancy in Edinburgh has been filled by the appointment of Stephen Park. Stephen is an Industrial Engineer, Supply Chain Logistics.

Career Salary benefit changes and member roadshows

The 2014 valuation results highlighted a need to address the increasing future service contribution rate (i.e. the cost of providing your pension for the future). The Company has now completed a formal consultation process with active members of the Scheme and the Pensions Consultative Committee.

To address some Scheme design issues and reduce risk, it was concluded that the Scheme will move to a Career Salary benefit basis from 6 April 2016. Career Salary will continue to provide a Defined Benefit (DB) pension and is based on a member's earnings over the course of his/her career, rather than at the point of retirement.

There will now be a transitional period whilst the Scheme's administration systems are re-programmed with the new benefit basis. This will restrict the pension quotations Aon Hewitt are able to provide for retirements beyond 6 April 2016 until our systems are updated. For active members of the Scheme, the 2015 Benefit Statements will show your accrued pension to 5 April 2015, but will not show a pension illustration projected forward to Normal Retirement Date. The 2016 statements will show your Normal Retirement Date projection.

The Scheme's Pensions Management Department will be providing a series of roadshows, on various Selex sites, throughout the autumn to help members understand how the new benefit structure will work. Look out for Company communications providing further information on when the roadshows will be held.

Career Salary modeller

We have also developed a Career Salary 'net pay' modeller which provides an illustration of how much Career Salary pension your contribution may buy each year, and how much membership of the Scheme will cost you. The modeller can be found in the new Career Salary section of the website at **www.selexpensions.co.uk/168/career-salary**.

Online access to State Pension information

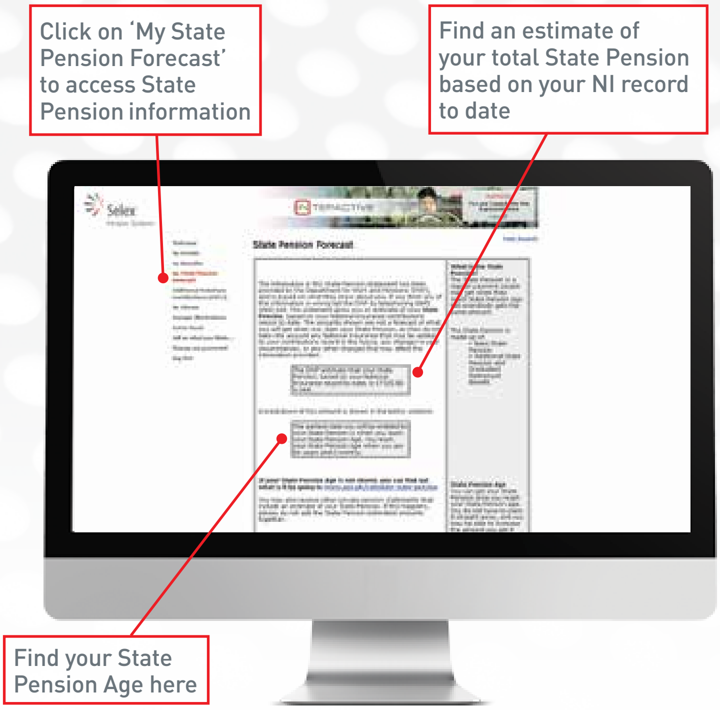
We are pleased to be able to offer active members online access to information about your State Pension through Pensionline.

The Pension Service, part of the Department for Work and Pensions, has provided us with information about the State Pension you have earned to date. This is based on the National Insurance record they hold for you and this information will be updated on an annual basis.

You can also see the split between:

– Your Basic State Pension; and
– Additional State Pension (known as SERPS or the State Second Pension) and Graduated Retirement Benefits (if any).

Please note, if you are a deferred or pensioner member of the Scheme, your State Pension information is not available on Pensionline.



Keeping your Expression of Wish Form up to date

We have explained in previous articles the importance of keeping your Expression of Wish Form (EOW Form) up to date.

This is strongly advised for all active, deferred and pensioner members. While your EOW Form is not binding on the Trustee, it does indicate who you would like to be considered for benefits which are payable on your death, in certain circumstances.

We are pleased to confirm that Pensionline has been updated to show the date on which you completed your current EOW Form.

We recommend that you renew your EOW Form regularly, even if your circumstances have not changed, so the Trustee can be sure that it has an up-to-date indication of your wishes. When completing your form, please remember to also include your own details on the form.

If your Will provides for a different outcome to your EOW Form, we would recommend that you explain this in your EOW Form. For example, your Will may leave all your assets to your spouse, but your EOW Form may indicate that your children should benefit on your death. If the Trustee does not have an explanation for why you have chosen beneficiaries, they may rely on the most recent document to give an indication of your wishes.

EOW Forms can be downloaded from the 'Forms' section of the Scheme website at **www.selexpensions.co.uk**.

Please note, to improve administration efficiency, we are in the process of moving to electronic storage of EOW Forms, rather than holding them in paper format.

Keeping up to date

Increased flexibility for Defined Contribution and Cash Balance benefits from 6 April 2015

As you may have seen in the press, a number of changes offering 'freedom and choice' for Defined Contribution (DC) and Cash Balance benefits came into force on 6 April 2015.

The Selex Pension Scheme offers predominantly Defined Benefit (DB) pensions; therefore these 'freedom and choice' changes have less of an impact on you. However, if you have Voluntary Savings (such as AVCs, SBS or 100+ Retirement Account), additional choices are now available to you.

Taking your Voluntary Savings

From 6 April 2015, the Scheme will allow you to take your Voluntary Savings:

- As part of your Pension Commencement Lump Sum (known as your 25% tax-free cash sum); or
- To purchase an annuity or drawdown product with a third party provider; or
- As a one-off cash lump sum known as an Uncrystallised Funds Pension Lump Sum (UFPLS). In summary, this option provides 25% tax-free, and the remaining 75% taxed at your highest marginal rate, in that year.

If you are considering taking your Voluntary Savings in a flexible form, you need to be careful if you intend to make more contributions in future. An Annual Allowance tax charge may apply if your Voluntary Savings contributions exceed the £10,000 limit. Company contributions to the 100+ Retirement Account count towards this £10,000 Annual Allowance.

Additional information (and some potential tax implications) is set out in the updated AVC/Retirement Account/ SBS Guides which are available at **www.selexpensions.co.uk**.

Further information is provided by **www.pensionwise.gov.uk**. This is a free and impartial service provided by the Government, to those over age 50, to help you understand your retirement options.

The Trustee also strongly recommends that you take independent financial advice when considering how to take your Voluntary Savings.

Right to transfer Voluntary Savings at any time

The new legislation gives you the right to transfer all of your Voluntary Savings out of the Scheme to an external pension arrangement (provided you stop paying into the relevant Voluntary Savings fund). You can continue to earn DB pension within the Scheme even after exercising this transfer option.

Transferring DB pensions

Members with DB pensions are able to transfer out all their benefits from the Scheme to a DC arrangement in order to access these greater flexibilities. Please note, there are very important differences in the nature of the benefits provided in a DB arrangement (like the Selex Pension Scheme), and those in DC arrangements. You would need to consider this carefully before taking such a decision.

Any member wishing to transfer benefits (valued at £30,000 or more) in this way must provide evidence to the Trustee that they have taken advice from a qualified Independent Financial Adviser (IFA). This evidence must take a certain form, prescribed by law. Further details will be provided if you enquire about a transfer. Even if your benefits are valued at less than £30,000, the Trustee strongly recommends that you still obtain independent financial advice.

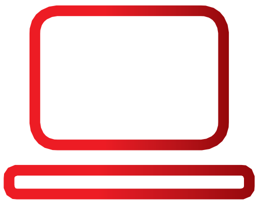
AVC and 100+ Retirement Account investment choices and reduction in charges

In light of the increased flexibility, the Trustee has reviewed the investment options available to AVC savers and 100+ members through Old Mutual Wealth.

- The final fund in the Lifestyle Strategy, known as 'Retirement Protection', has changed to more accurately reflect the different retirement choices available. The fund will now aim for a 25% allocation to capital preserving assets, 37.5% in assets expecting to move broadly in line with annuity prices and 37.5% in a diversified mixture of assets expected to provide some growth with low volatility.
- We have changed the name of the 'Pre-Retirement Wealth Builder Fund' to the 'Cautious Growth Fund' and revised the way we assess its performance.
- We are also pleased to confirm we have been able to agree a reduction in the investment charges levied on all of the Blend Funds offered to you.

You can find more information about these investment options in the AVC and Retirement Account guides.

Please note, SBS funds are invested with the core DB Scheme assets, rather than with Old Mutual Wealth.



For all the up-to-date information go to: www.selexpensions.co.uk

Pension changes announced by the Government in the 2015 Summer Budget

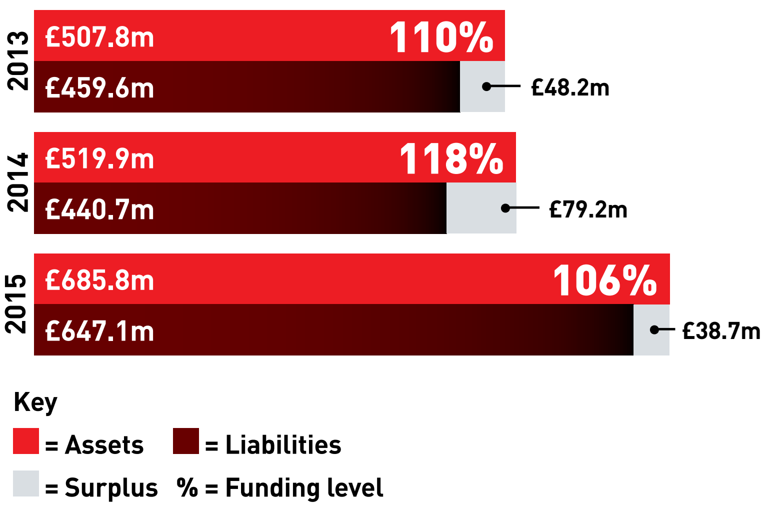
The Chancellor presented the Government's Summer Budget on 8 July 2015. A summary of the pensions headlines is set out below (all of which are subject to confirmation in the final legislation). Full details are available on the HMRC website at www.gov.uk/government/topical-events/budget-july-2015.

- There will be a full consultation on the future of pension tax relief. This ranges from maintaining the current system (giving tax relief on pension contributions and investment growth, and taxing pensions at retirement), through to switching to an ISA type regime (taxing pension contributions up front, and giving tax relief on investment returns and pension benefits at retirement). The Government consultation will run until 30 September 2015.
- The Lifetime Allowance, which sets out the overall amount of pension benefit you can save before an additional tax liability is incurred, will reduce from £1.25 million to £1 million from 6 April 2016.
- A new 'tapered Annual Allowance' will apply from 6 April 2016 affecting those with incomes (including pension contributions) in excess of £150,000. The £40,000 allowance is reduced by £1 for every £2 of income above £150,000 until it reaches a minimum of £10,000 (at earnings of £210,000).
- The period over which pension savings are tested against the Annual Allowance will be aligned with the tax year from April 2016 (the Selex Pension Scheme already uses this date). Transitional measures provide for two 'mini tax years' in 2015-16, resulting in an Annual Allowance of up to £80,000 (rather than the current £40,000). In effect, individuals have a new £40,000 Annual Allowance for the period 9 July 2015 – 5 April 2016, in addition to their pension savings from 6 April 2015 – 8 July 2015.
- The Government will actively monitor the growth of Salary Sacrifice schemes and their effect on tax receipts. The 'Smart' system through which the majority of our members pay their pension contributions is a Salary Sacrifice scheme.
- The Government is still planning a secondary annuities market (i.e. existing pensioners selling their annuity for a cash value) but implementation will be delayed until 2017 to ensure there is support for consumers in making their decision.

Selex Pension Scheme Summary Funding Statement

This is your update on the funding position of the Scheme which the Trustee is required to provide you with each year.

Set out below are details of the Scheme's funding position as at 5 April 2014 (the date of the most recent formal funding valuation of the Scheme), together with the interim funding valuations as at 5 April 2013 (the position shown in the last Summary Funding Statement) and 5 April 2015.



Definitions

Assets: The amount of money held by the Scheme in various forms. This includes cash, equities, bonds, swaps and other investments.

Liabilities: The amount of money the Scheme is estimated to need to pay all of its future benefits.

Funding level: The value of the assets, expressed as a percentage of the value of the liabilities.

Surplus: The amount by which the Scheme's assets exceed its liabilities.

Change in funding position since last Summary Funding Statement

In the last Summary Funding Statement, a surplus of £48.2 million was disclosed as at 5 April 2013. The surplus increased to £79. 2 million as at 5 April 2014 (the date of the most recent formal funding valuation of the Scheme). This was mainly due to changes in the relevant interest rates and inflation rates over the period, as well as salary inflation for active members being, on average, lower than expected.

Since the 2014 valuation date, the surplus has reduced from £79.2 million (at 5 April 2014) to £38.7 million (at 5 April 2015), equivalent to a fall in the Scheme's funding level from 118% to 106%. This is mainly due to falls in interest rates, which have caused the value of the Scheme's liabilities to increase by more than the value of the Scheme's assets over this period.

The value of the liabilities as at 5 April 2014 (the date of the most recent formal funding valuation of the Scheme) was calculated using updated assumptions agreed as part of the Actuarial Valuation by the Company and Trustee, after taking advice from the Scheme Actuary. The assumptions used to value the liabilities as at 5 April 2015 are consistent with those for the Actuarial Valuation as at 5 April 2014, but reflect changes in the relevant interest and inflation rates.

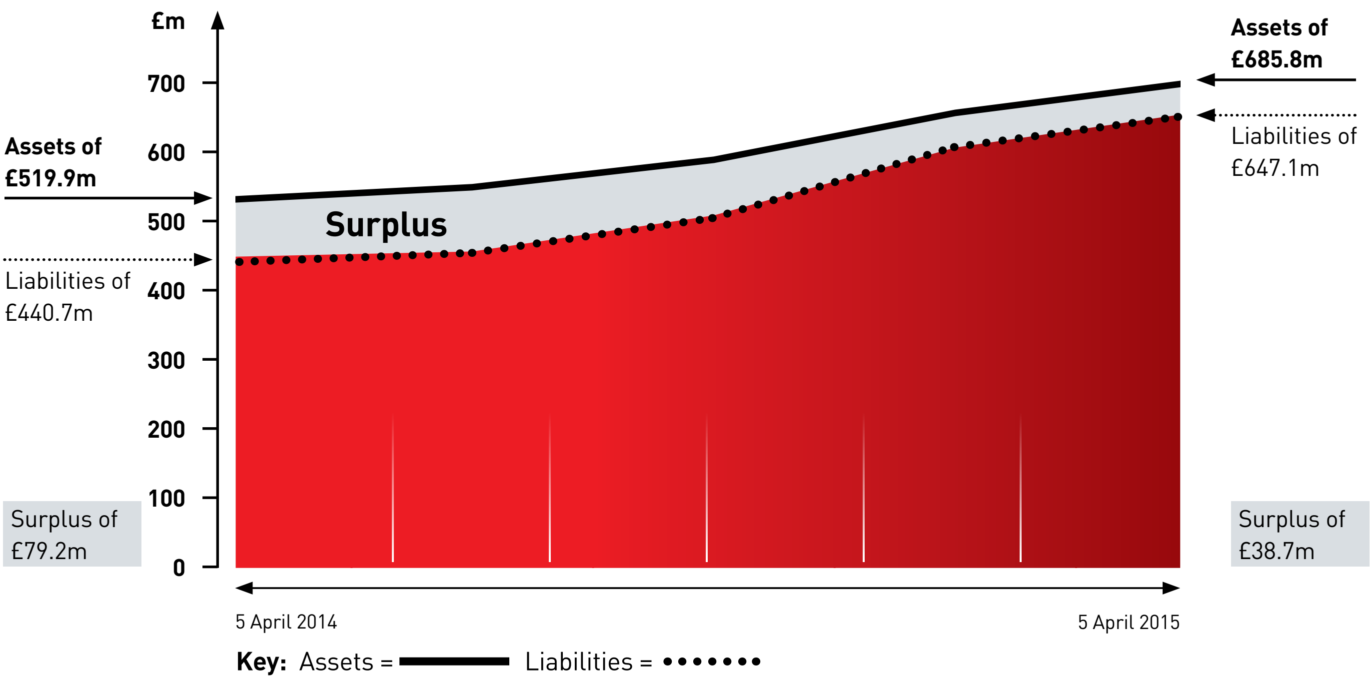
Development of funding position over time

The next detailed calculation of the Scheme's funding position will occur as part of the formal Actuarial Valuation as at 5 April 2017. The Trustee does, however, monitor the funding of the Scheme on a regular basis and will take action between formal valuation dates if necessary. The graph below shows approximately how the funding position has fluctuated between 5 April 2014 and 31 March 2015.

Buyout/discontinuance basis

When the valuation was carried out at 5 April 2014, the Actuary also valued the Scheme on a discontinuance basis. This is the amount of money needed to buy an insurance policy to pay your benefits. This would only be relevant if it was decided to wind up the Scheme. The Actuary valued the Scheme at 100% funded on a discontinuance basis, which is equivalent to a £27.9 million improvement in the funding position since the last formal discontinuance valuation (as at 5 April 2011). The main reason for this increase is that a significant portion of the liabilities has grown in line with salary inflation over the period, which has been lower than the deferred revaluation that was assumed on the discontinuance basis. It is a legal requirement to produce these discontinuance figures and it does not mean that there is any intention to wind up the Scheme.

Fluctuation in funding position



How is my pension funded?

Active members and the participating employers pay contributions to the Scheme based upon members' Pensionable Salaries. The Scheme holds the money in a common fund from which it pays members' pensions when they retire.

If you pay Voluntary Contributions to the Selected Benefits Scheme (SBS) then these contributions are also held in this common fund. Other AVC and 100+ Retirement Accounts are held separately with Old Mutual Wealth.

How is the amount of money the Scheme needs worked out?

The Trustee obtains regular valuations of the benefits earned by members. Using this information and recommendations from the Scheme Actuary, the Trustee and the Company must agree on the future contributions that are required to ensure there is sufficient money in the Scheme to pay the benefits.

Which funding basis is used?

The ongoing funding basis is used to assess the amount needed to ensure the Scheme is adequately funded and to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that Selex will continue in business and support the Scheme.

The discontinuance basis is not used as it assumes that benefits will be secured by buying insurance policies. Insurers need to make a profit and therefore charge more to insure pensions than it costs the Scheme to provide benefits. This basis would be relevant if the Scheme wound up and the benefits needed to be insured.

What would happen if the Scheme started to wind up?

We are legally required to tell you what would happen if the Scheme were to wind up. This does not mean that there is any intention to wind up the Scheme in the foreseeable future.

If the Scheme were to start to wind up, Selex is required to pay enough into the Scheme to enable the members' benefits to be insured with an insurance company. If Selex is not able to pay the deficit (if any), the Pension Protection Fund (PPF) might be able to take over the Scheme and pay some compensation to members.

The PPF's main function is to provide compensation to members of eligible DB pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover the PPF level of compensation.

Other information

The law requires the Trustee to inform you that no payments have been made from the Scheme to any participating employers in the last 12 months. If you are thinking of leaving the Scheme for any reason, you should consult a professional independent financial adviser before taking any action. If you require any further information about the Scheme then please contact the Pension Administrator, Aon Hewitt, using the details on the back page.

Report and Accounts

Each year we are required to publish a report and audited accounts for the Scheme. The summary below is based on the accounts for the year to 5 April 2015.

The audit work has been completed by our independent auditors, Ernst & Young LLP. We are due to sign the accounts shortly and the figures are not expected to change in any material respect before signature.

If you would like to see a copy of the full annual Report and Accounts, a copy will be placed on the Scheme's website, **www.selexpensions.co.uk**.

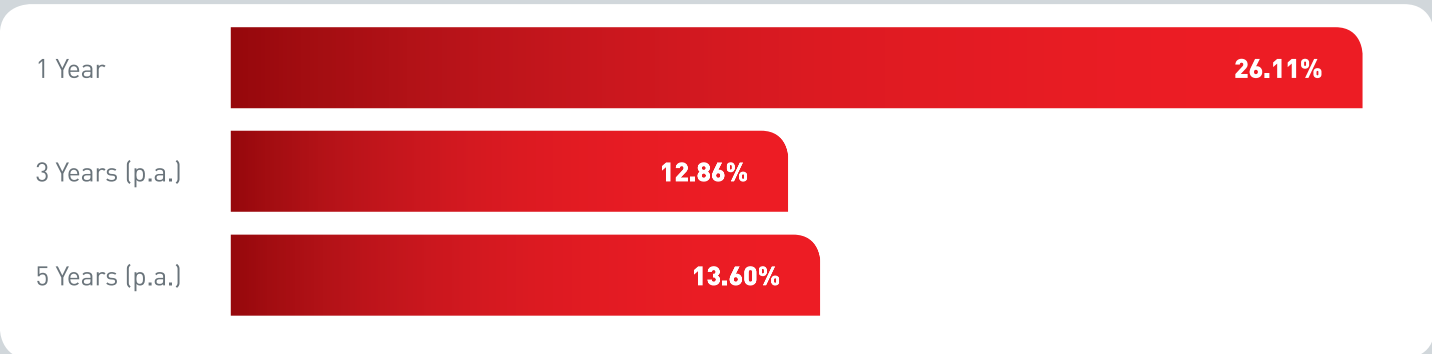
Scheme assets

Since the Scheme's inception, its assets have grown to £696 million. Further information is set out below:

	Assets of the Scheme as at 5 April 2014	**£530m**
+	**Income** (Company contributions, member contributions and other income)	£32m
-	**Outgoings** (Pensions, lump sums, death in service insurance and administration expenses)	(£7m)
+	**Net return on investments** (Market value of investments after allowing for expenses) made up of: • An increase in the derivatives value, including swaps, of £44m; • An increase in other asset values (encompassing investment expenses and an increase in gilt values, TIGS and DC funds) of £90m; and • Investment income of £7m	£141m
=	**Assets of the Scheme as at 5 April 2015**	**£696m**

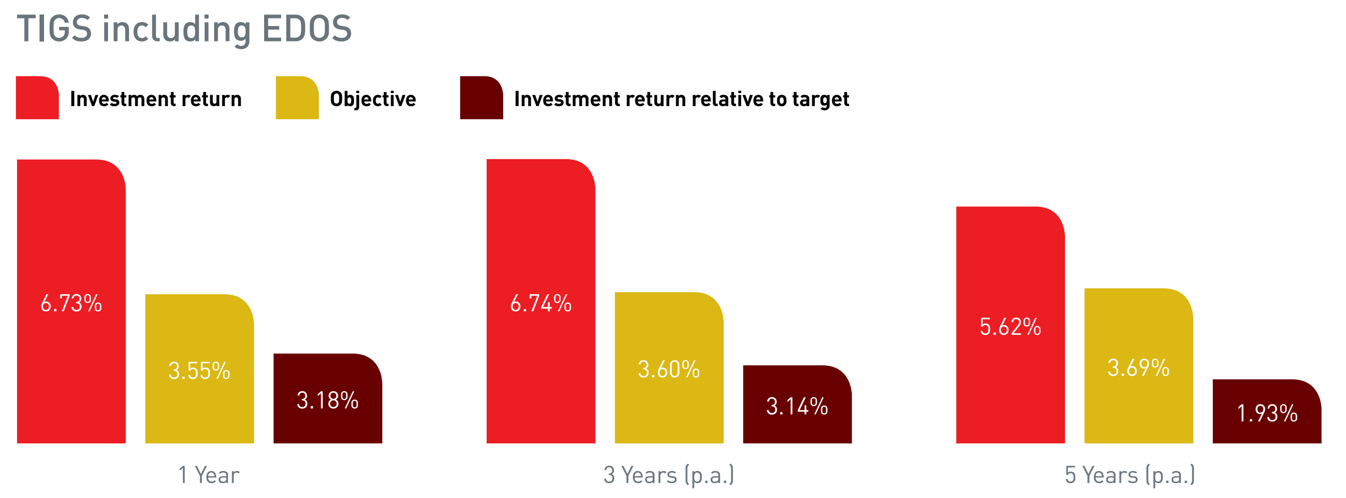
Overall investment performance

The performance of the Scheme's total investment strategy (including liability hedging and Total Investment Governance Solution (TIGS)) as at 5 April 2015 has been positive as set out in the graph below:



Total Investment Governance Solution (TIGS) investment performance

The performance of the Scheme's return-seeking assets has been positive over the year to 5 April 2015, outperforming its investment objective as follows:



What's EDOS?

EDOS stands for Equity Derivative Overlay Strategy, which is a type of investment held by the Selex Pension Scheme.

Investing the assets of the Scheme

The year ended 5 April 2015 saw positive performance for both the Scheme's return-seeking assets and the total portfolio return (which includes the performance of the swaps). The Scheme's investment manager, P-Solve, has worked closely with the Trustee, keeping the investment strategy under review and seeking investment opportunities.

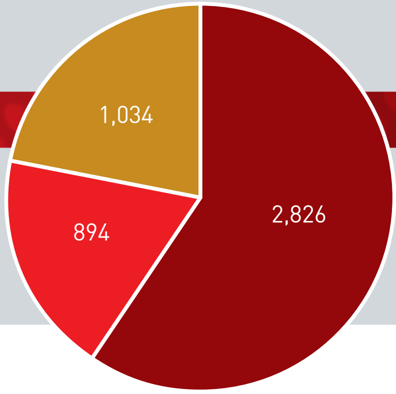
The positive performance of the Scheme's assets has been a significant factor in maintaining a funding surplus, which stood at an estimated £39 million at the end of the year. The investment outperformance, and the liability hedging portfolio, has assisted in protecting the Scheme against the full impact of reductions in long term interest rate expectations, which increases the Scheme's pension liabilities. Against this there remains concern at the cost of future service benefits, which has increased further over the last 12 months, and is significantly above the rate assumed during the last Actuarial Valuation in 2014.

The Scheme's swaps portfolio has undergone some restructuring during the year and a number of changes were made to the return-seeking investment portfolio to benefit from market opportunities and to control risk. Following the Company's confirmation of the benefit change to a Career Salary structure from 6 April 2016, the Trustee is working with the Company and P-Solve to refine the investment strategy so it reflects the new benefit structure and liability profile of the Scheme.

The Scheme's investment strategy is set out in the Statement of Investment Principles, a copy of which is available on request from the Pension Administrator, Aon Hewitt.

Membership numbers

The dynamics of the Scheme membership are changing as our deferred and pensioner numbers increase. However, the majority of our members are current employees who are paying contributions and building up benefits. This chart shows that out of a total of 4,754 members, 59% are employed (active) members.



Employed (active) members **Pensioners** **Deferred pensioners**

Liability hedging portfolio (gilts and swaps)

The liability hedge is designed to protect the Scheme from adverse movements in long-term interest rates and inflation, which directly impact the value of the Scheme's liabilities.

The value of the gilts that are part of the hedging portfolio tends to move in line with the Scheme's liabilities when interest rates and inflation rates change. Similarly, the swaps in the hedging portfolio are designed such that, if interest rates fall significantly (and so the liabilities rise in value), the bank pays the Scheme to cover the rise in the value of the liabilities.

Conversely, if the value of the liabilities falls due to interest rate and inflation changes, the Scheme pays the bank (under the swap contracts) an amount that is in line with this fall in liabilities.

The mark-to-market value of the swaps contracts as at 5 April 2015 was £23 million (5 April 2014: - £1.3 million). A positive mark-to-market value of the swaps represents a rise in the value of the swaps from the Scheme's perspective. However, this rise will have been offset by a rise in value of the Scheme's liabilities and so the impact on the Scheme's finances will (as intended) have been broadly neutral.

Return-seeking portfolio (TIGS)

The majority of the assets of the Scheme continue to be invested in the Total Investment Governance Solution (TIGS) provided by P-Solve.

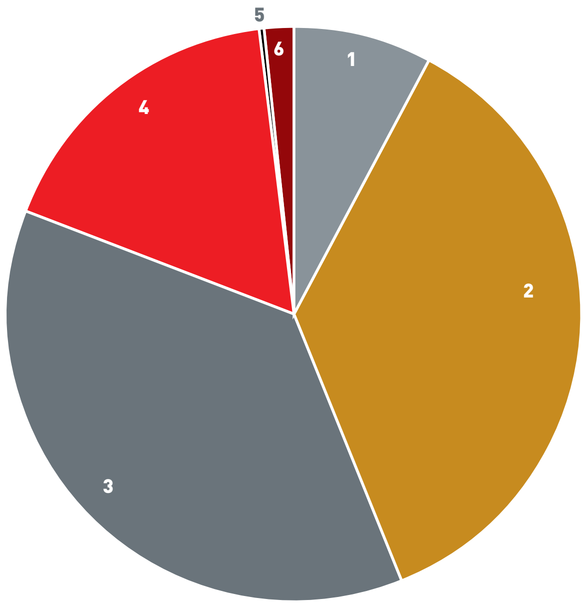
TIGS is a fully delegated service designed to deliver performance in excess of a client specific target through exposure to diversified investment arrangements. P-Solve invests and manages the Scheme's assets on the Trustee's behalf.

The service reduces the risks and costs of decision delay and provides access to a broad range of asset classes and increased investment specialisation, such as commodities, high yield bonds, leveraged loans and other alternative asset classes, as well as currency hedging. In addition to the delegated responsibility for dynamic asset allocation, P-Solve is also responsible for selecting, monitoring and replacing fund managers.

As set out above, the TIGS portfolio performed well and exceeded the return objectives over the year to 5 April 2015.

TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2015:



1 UK equities	**7.9%**
2 Overseas equities	**36.0%**
3 Global bonds	**37.2%**
4 Alternative asset classes	**17.0%**
5 Property	**0.3%**
6 Cash	**1.6%**

Contact details

You can contact the Selex Pension Scheme Administrator, Aon Hewitt, by:

Telephone: 0345 603 5660

Email: selex.pensions@aonhewitt.com

Pensions Website: www.selexpensions.co.uk

Address: Selex Pension Scheme
Aon Hewitt
PO Box 196
Huddersfield
HD8 1EG

Aon
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REMEMBER, IF YOU MOVE HOUSE, PLEASE KEEP THE PENSION ADMINISTRATOR INFORMED SO YOU CAN CONTINUE TO RECEIVE UP TO DATE INFORMATION.