

**PENSIONS CONSULTATIVE COMMITTEE  
REPORT TO MEMBERS FOLLOWING THE MEETING ON 12 JULY 2016**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 12 July 2016.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the Selex Pension Scheme. There are currently thirteen representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Jane Murphy	Basildon	
Stephen Park	Edinburgh	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Scott Wallace	Edinburgh	
Andrew Letton	HR – Selex ES	
Lucy Astbury	HR – Selex ES	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	
Susan Smith	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 28 June 2016.

Quarterly Funding Update to 31 March 2016

The quarterly funding update showed that the Scheme had an estimated surplus of £80 million at 31 March 2016. The surplus had decreased over the quarter, primarily due to an increase in the value of the liabilities caused by falls in interest rate and inflation rate expectations. The value of the hedge increased due to changes in interest rate and inflation rate changes, however this increased by slightly less than the liabilities.

The cost of new benefit accrual has increased significantly, due to changes in long term interest rate and inflation expectations, and the cost is higher than the contributions being paid to the Scheme. Whilst some surplus is allocated to support future service costs, the total cost of accrual is now 12.4% p.a. ahead of the rate agreed at the 2014 valuation (which means that the cost of providing pensions is significantly higher than the cost set at the last valuation, and the surplus is being used at a faster rate than was anticipated).

This is an estimated funding position. The figures will need to be refined following completion of the 'Block 1' calculations as part of the Career Salary benefit changes.

### Confirmation of annual Benefit Statement assumptions

The assumptions used in the calculations for the 2016 benefit statements have been approved, as recommended by the Scheme Actuary. The key assumptions remain the same as they were in 2015.

The assumptions for the AVC/Retirement Account projections were set by the joint DC investment committee. These are fund specific return assumptions.

### Career Salary Implementation

Phase 1 of the Career Salary project has now been successfully completed. This phase included finalising the new Scheme Rules, producing actuarial calculation specifications, building the IT systems to program the administration system, implementing the SBS to AVC transfer and launching the new Buy Up option.

Work on Phase 2 is now well underway which includes calculating the Block 1 pension values for all active members, administering day-to-day cases under the Career Salary pension, and relaunching the Pensionline Modeller. Phase 2 will complete with the issuing of the Block 1 benefit statements and relaunching the modeller in the Autumn. A detailed project plan is in place with regular project board calls.

Punter Southall are undertaking a sample audit of the Block 1 calculations being calculated by Aon Hewitt. They are also reviewing the 'first case' of each Career Salary calculation type in each section to ensure these are being correctly administered.

### *Pensionline Modeller and pension benefit illustrations*

As previously communicated to members, the Pensionline Modeller for the Selex Pension Scheme will be unavailable until the Autumn, whilst it is being reconstructed to reflect the new Career Salary benefit structure. There is a significant amount of work involved in the calculation of the Block 1 values which feed into the Modeller, and we anticipate this will be re-launched in the Autumn, once the required pension calculations have been performed. We appreciate your understanding during this time.

If you have a firm date for leaving the business, and wish to take your pension within the next 9 months, please contact Aon Hewitt for an illustration of your Selex pension benefits. For all other longer term illustrations, until the new benefit design has been fully programmed, any illustrations will be less accurate and therefore less useful to members. We will therefore not be issuing longer term illustrations at this time, and would advise you to wait until the Modeller is re-launched.

We apologise for any inconvenience caused during these necessary changes and would like to assure members that all parties involved with the management and administration of the Scheme are doing everything possible to keep this transitional period to a minimum, and provide a good service to members during this transition process.

### *Member booklets and Career Salary newsletter*

New member booklets have been issued to all active members, along with a special edition of the InFocus newsletter. These have also been published on the Scheme website.

## 2016 Benefit Statements

The Trustee has been working with the Scheme advisers on the format and content of the 2016 Benefit Statements, which will include details of the Block 1 pension figure and any transitional uplift. These statements will be issued in the Autumn.

## Investment Performance

- The market value of the total assets of the Scheme at 31 March 2016 was £730 million.
- Investment performance of the return-seeking assets over the quarter had been 0.4% which was 0.5% behind the objective. It was a difficult quarter for investment return. In the longer term the assets were -5.7% behind the objective over twelve months and 0.7% per annum behind over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned -3.5% behind the benchmark (which looks at the change in the Scheme's liabilities). Over 12 months, 3 years and 5 years the total portfolio is behind the liability benchmark (due primarily to falls in long term interest rates, and underperformance of the investment fund in some quarters).

## Allocation of Assets

At 31 March 2016 the Trustee held 72% of the Scheme's assets "on-risk" and 28% "off-risk". On-risk assets are those seeking to generate an investment return (e.g. equities, commodities, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (e.g.: Government gilts, cash).

## Annual Accounts – new Statement of Recommended Practice (SORP)

The Scheme will be adopting the new SORP in the 2016 accounts process, and this requires additional disclosures on Scheme investments to provide additional transparency. P-Solve have categorised the Scheme's investments as required by the SORP (which splits investments down into categories depending on how their value is determined). There are also new risk disclosures in relation to the Scheme's investments.

## Implementation of EU Referendum Result

The Trustee discussed the implications of the EU Referendum vote in which the UK had voted to leave the European Union. The asset portfolio had been defensively positioned on the lead up to the vote on 23 June 2016, which had a positive impact for the portfolio. The Scheme uses currency hedging within the investment portfolio to help protect against relative movements in Sterling and other currencies. The levels of currency hedging are being reviewed and adjusted to reflect current conditions. There is expected to be a long period of uncertainty whilst the future of the UK's relationship with Europe is determined.

## Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 19 May 2016. The Selex benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

Most of the P-Solve 'blend funds' (which make up the default fund in the DC investment strategy) had out-performed their long term targets over the quarter and also since the inception of the funds.

### *Future Prospects*

The committee have reviewed the future prospects of the DC investment strategy, and it has been confirmed that the 'inflation plus' return targets of the blend funds remain realistic.

### *Investment Award*

FuturePlanner has been successful as the DC Scheme of the Year for 2016 in the awards run by 'Portfolio Institutional' magazine. These awards are for excellence in institutional investment and recognise in particular:

- The introduction of a 'fiduciary management' approach to the growth phase of our DC investment strategy.
- Innovation and excellence in our shared governance which has enabled this strategy to be extended to the DC assets held by members of our DB schemes.

### *Charges*

The maximum charge for auto-enrolment investment funds is 0.75% from April 2015. The Selex funds remain comfortably within this cap and the measures taken to control charges have been effective. A 'value for money' report on these charges has been undertaken and commentary will be provided in the 2016 Scheme Report and Accounts.

### *Update on 'pick & mix' funds*

The two gilt funds in the 'pick & mix' options have been closed and replaced with two new 'annuity protection' funds which track annuity price changes. The transition was completed on 1 July 2016 and communicated to members on the Scheme website, and with an individual letter to those members with contributions in the gilt funds.

### *Auto enrolment*

Every three years employers are required by law to auto-enrol employees into a qualifying pension scheme. This means that any employees not in either the Selex Pension Scheme or FuturePlanner are required to be auto enrolled into FuturePlanner every three years. The first auto enrolment exercise was first undertaken in 2013 and this was repeated on 1 June 2016. Within the Selex business, 99% of eligible employees participate in a pension arrangement.

### Date of the Next Meeting

The next meeting of the PCC is scheduled for 1 November 2016.

## Contact Details

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