

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 19 APRIL 2016**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 19 April 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
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	
Paul Wilton	Southampton	
Colin Wylie	Edinburgh	
Andrew Letton	HR – Selex ES	
Lucy Astbury	HR – Selex ES	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 22 March 2016.

Financial Covenant Monitoring

Every six months, the Trustee's covenant adviser, Ernst & Young, provides a review of the financial strength of Selex ES Ltd and Finmeccanica SpA. At 31 December 2015, the financial position was deemed strong, with the covenant having remained stable and improved slightly since the last report.

Quarterly Funding Update to 31 December 2015

The Scheme Actuary has refined his funding calculations to allow for more accurate Career Salary 'transitional uplift' information and updated basic salary information. This remains an estimated funding position.

The quarterly funding update showed that the Scheme had an estimated surplus of £85 million at 31 December 2015. The surplus had increased marginally over the quarter, primarily due to higher than assumed returns on Scheme assets (excluding the hedge).

The cost of new benefit accrual is higher than the contributions paid to the Scheme. Whilst some surplus is allocated to support future service costs, and the cost had fallen slightly over the quarter, the total cost of accrual is still 8% 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).

Confirmation of annual rates 2016

The Trustee set the following annual rates:

- Credited Interest rate (used for SBS return and Basis 3 calculations) of 6.75%.
- Main Section Underpin (Protected Rights and Individual Pension Account) Revaluation Factor of 0.3%.
- Shadow Earnings Cap of £151,200.

Voluntary Savings exercise

Selected Benefits Scheme (SBS) for Retirement Benefits

The transfer of SBS for Retirement Benefits has taken place in February 2016, with 175 members electing to transfer their SBS for Retirement Benefits to the AVC arrangement.

Buy Up

563 members have elected to contribute for a higher pension accrual rate by Buying Up from 6 April 2016.

Confirmation letters have been issued to all members who made changes to their voluntary savings. Your April 2016 payslip will show the changes, including the ceasing of SBS for Death in Service benefits. Please check your payslip carefully to ensure it correctly reflects your voluntary savings decision.

Career Salary update

Rules

A new set of Rules was signed by the Employer and the Trustee on 31 March 2016. These Rules came into force on 5 April 2016 and implement the agreed Career Salary benefit changes.

Pensionline Modeller and pension benefit illustrations

As previously communicated to members, the Pensionline Modeller for the Selex Pension Scheme will be unavailable until further notice, whilst it is being reconstructed to reflect the new Career Salary benefit structure. There is a significant amount of work involved in re-programming the administration system which feeds into the Modeller, and we anticipate this will be re-launched towards the end of 2016, once the required pension calculations have been performed and the new benefit structure has been fully programmed. 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 6-9 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 provide a good service to members during this transition process.

Member booklets

New member booklets are currently being drafted to provide details of the Career Salary benefit structure. These will be published on the website in due course.

PCC Training

The PCC received training on a number of areas including benefits during unpaid absence and benefits in respect of deferred members who have a preserved pension.

Auditor

Following a tender and review panel process, the Trustee has appointed RSM UK Audit LLP as the Scheme Auditors. The previous Scheme Auditor, Ernst & Young, had been in place as Auditor for 10 years, since the inception of the Scheme. RSM (formerly Baker Tilly) are the 7th largest professional services firm in the UK, with 15 years of pension sector focus. The Selex Scheme audit will be managed from their Bristol and London offices and RSM have prior experience of working with all the Scheme's key advisers. We look forward to working with RSM through the 2016 Scheme Audit.

Investment Performance

- The market value of the total assets of the Scheme at 31 December 2015 was £666 million.
- Investment performance of the return-seeking assets over the quarter had been 2.94% which was 2.05% ahead of the objective. In the longer term the assets were -2.95% behind the objective over twelve months and 0.73% per annum ahead over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned -0.20% behind the benchmark (which looks at the change in the Scheme's liabilities). Over 12 months and 3 years the total portfolio is behind the liability benchmark (due to falls in long term interest rates and underperformance of the investment fund in previous quarters).

Allocation of Assets

At 31 December 2015 the Trustee held 67% of the Scheme's assets "on-risk" and 33% "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).

P-Solve have developed a new performance attribution analysis to assist the Trustee in monitoring how P-Solve are performing in terms of the return they are generating on the Scheme's assets.

Expression of Wish forms

Aon Hewitt will be storing Expression of Wish forms electronically in future. It is also now possible for Aon Hewitt to receive Expression of Wish Forms by scan and email to selex.pensions@aonhewitt.com. Aon Hewitt do not need original hard copies of the form, provided your scan is of a sufficient quality to enable all information to be easily readable.

If your circumstances have changed since you last completed an Expression of Wish form please complete and return a new form (which is available from the Selex Pension Scheme website at www.selexpensions.co.uk/54/expression-of-wish-form).

State pension forecasts

The DWP have announced their Combined Pension Statement service closed at the end of March 2016. It is therefore no longer possible for the Scheme to provide you with State Pension information through the Aon Hewitt Pensionline website. In future, you will need to access the DWP website directly to obtain an estimate of your State pension. Links to the relevant Government website have been uploaded on the Scheme website and Pensionline.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 10 March 2016. The Selex benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

It had been a good quarter and all of the P-Solve 'blend funds' (which make up the default fund in the DC investment strategy) had out-performed their long and short term targets since the inception of the funds.

Charges

The maximum charge for auto-enrolment investment funds is 0.75% from April 2015. P-Solve have taken additional measures to ensure the Selex fund charges continue to meet the cap.

Investment changes

A change to replace the Cash fund with the Sterling Liquidity fund took place in Q1 2016. This fund is more liquid, better diversified and more focused on capital preservation than the previous 'cash' fund.

The replacement of the two gilt funds with 'annuity matching' funds will be effected through two Legal & General pre-built annuity funds. An implementation plan is now being put in place with the change expected to take place during the second quarter of 2016.

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 the next one will happen on 1 June 2016.

98% of Selex employees are already in the Selex Pension Scheme or FuturePlanner so this will not affect many employees. Any employees who are auto enrolled to FuturePlanner but who wish to decline membership can do so via the FuturePlanner website. Further communications will follow to those employees who are in this category.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 12 July 2016.

Contact Details

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