

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

A meeting of the Pensions Consultative Committee (PCC) took place in London on 19 January 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 twelve 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	
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 8 December 2015.

Quarterly Funding Update to 30 September 2015

The quarterly funding update showed that the Scheme had an estimated surplus of £100 million at 30 September 2015 (on the Career Salary benefit structure basis). The surplus had decreased over the quarter by £28 million, primarily due to lower than assumed investment returns on Scheme assets (excluding the hedge) and the cost of new benefit accrual being higher than the contributions paid to the Scheme. While some surplus is allocated to support future service costs, the total cost of accrual had increased over the quarter and the cost is 8.9% 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).

This is an estimated funding position, allowing for an approximate transitional uplift value. It is not possible to accurately reflect the impact of the Career Salary changes until after 6 April 2016.

Scheme Factor review

It is good governance to review the various Scheme factors after completion of each actuarial valuation process and the Scheme undertakes a factor review on a three yearly basis. The Actuary has recommended that one change is made to marginally improve the early retirement factors for deferred members of the 2000 Section. All other factors remain unchanged at this time.

Auto-enrolment qualifying scheme review

The Scheme must provide a minimum level of benefit to meet the test as a 'qualifying scheme' for the auto-enrolment legislation. The Actuary has confirmed that the auto-enrolment test has been checked and that the Scheme still satisfies the test.

Investment Performance

- The market value of the total assets of the Scheme at 30 September 2015 was £664 million.
- It has been a challenging quarter for investment markets and performance of the return-seeking assets over the quarter was -4.18%, which was -5.07% behind the objective. In the longer term the assets were -4.68% behind the objective over twelve months and 0.46% per annum ahead over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned 12.02% over 12 months which was -9.72% behind the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is -1.63% per annum behind the change in liabilities.

Allocation of Assets

At 30 September 2015 the Trustee held 65% of the Scheme's assets "on-risk" and 35% "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).

Voluntary savings

Selected Benefits Scheme (SBS) transfer

The Trustee has communicated with members who have an SBS voluntary savings fund, and offered them the opportunity to transfer this fund to the Scheme's AVC arrangement.

Buy Up costings

The Trustee has set the Buy Up rates for the 2016/17 tax year and published Buy Up Guides on the Scheme website (www.selexpensions.co.uk). Members have received communications setting out their voluntary savings options.

The Buy Up rates will next be reviewed (taking into account market conditions at the time) for the 2017/18 year and annually thereafter.

Career Salary Update

Work is progressing on the updates to the Scheme Rules and the calculation specifications to reflect the new Career Salary benefit structure.

The Company has discussed some further points of detail with the PCC, and sought their feedback on some areas which have been raised by the drafting of the Scheme Rules.

Due to the scale and importance of the Career Salary implementation, a Project Manager at Aon Hewitt is supporting the project, with overall responsibility for delivering the calculation programming and administration aspects of the implementation.

Pensionline Modeller and pension benefit illustrations

The Pensionline Modeller for the Selex Pension Scheme for retirement dates after 5 April 2016 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 cause during these necessary changes

Benefit Statements

The 2015 Benefit Statements for active members were issued during September 2015. Deferred Benefit Statements were issued during December 2015.

Expression of Wish forms

Aon Hewitt will be storing Expression of Wish forms electronically in future.

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).

Scheme Auditor

A review of the Scheme Auditor is in progress and Pensions Management are shortlisting a panel of Auditors for consideration.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 24 November 2015. This committee was established to enable the Trustees of Finmeccanica FuturePlanner, the Selex Pension Scheme and the AgustaWestland UK

Pension Scheme to jointly review investment matters for their defined contribution benefits. The Selex benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

The majority of the P-Solve 'blend funds' (which make up the default fund in the DC investment strategy) had out-performed their long term targets since the inception of the funds although they had underperformed over the quarter.

Charges

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

Investment issues

P-Solve have reviewed the range of pick and mix funds available to members with AVCs and 100+ Retirement Accounts, and recommended two changes:

- To replace the current Cash fund with the Sterling Liquidity fund (already used by FuturePlanner).
- To replace the two gilt funds with explicit annuity matching funds, since these asset classes are included in the fund range for this purpose.

The amendment to the Cash fund has been implemented. The implementation of the gilt fund changes will be communicated in due course.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 19 April 2016.

Contact Details

Name	Location	Email Address	Phone Number
Jim Cull	Edinburgh	James.Cull@selex-es.com	0131 343 8768
James Fordyce	Edinburgh	James.Fordyce@selex-es.com	0131 343 4658
Martin Johnson	Basildon	Martin.h.Johnson@selex-es.com	01268 887074
Tony Kingsbury	Capability Green	Tony.Kingsbury@selex-es.com	01582 886052
Scott McMillan	Basildon	Scott.McMillan@selex-es.com	01268 887094
Stephen Park	Edinburgh	Stephen.Park@selex-es.com	0131 3435105
Stuart Rushworth	Capability Green	Stuart.Rushworth@selex-es.com	01582 886258
Phil Slade	Capability Green	Phil.Slade@selex-es.com	01582 886580
Scott Wallace	Edinburgh	Scott.Wallace@selex-es.com	0131 343 4134
Paul Wilton	Southampton	Paul.Wilton@selex-es.com	02380 316775
Colin Wyllie	Edinburgh	Colin.Wyllie@selex-es.com	0131 343 8136
Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	