



Selex

Pension Scheme

Issue 18 | April 2014



Would you prefer to receive your InFocus newsletter electronically?

Did you know this newsletter is available electronically? If you are currently receiving InFocus through the post, you can choose to receive it by email instead.

Signing up to receive InFocus electronically means:

- You will receive InFocus as a link via email;
- You will receive it quicker than in the post;
- It will help reduce the amount of paper that is wasted on unwanted printed documents; and
- You will help us to reduce print and postage costs.

It couldn't be easier, simply visit the 'sign up' page on our website at www.selexpensions.co.uk/162/sign-up. You will need to enter your National Insurance number and date of birth because we use these details to verify that you are a member of the Selex Pension Scheme.

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

- ➡ The Scheme valuation which is due on 5 April 2014
- ➡ The results of the Trustee elections
- ➡ Notification of a reduction in the tax allowances applicable to pension saving
- ➡ Details of how to manage your AVC & 100+ Retirement Accounts using our online pension facility
- ➡ How to change your Target Retirement Age applicable to AVC & 100+ Retirement Account savings
- ➡ A guide to our investment advisers and providers
- ➡ The Credited Interest rates for 2014/15
- ➡ The annual Selex Pension Scheme Summary Funding Statement as at 5 April 2013

The Scheme's Actuarial Valuation is due

The next actuarial valuation of the Scheme is due on 5 April 2014. The valuation process is normally carried out every three years and is akin to a financial health-check to ensure there is enough money in the Scheme to pay members' pension benefits when they retire.

The Scheme Actuary will calculate how much money the Scheme needs to be able to meet all its pension liabilities and compares this with the assets currently held by the Scheme and the contributions being paid. The results of the valuation are expected towards the end of the year.

Results of the Trustee elections

In October 2013, the Pensions Consultative Committee (PCC) held elections to appoint four representatives to stand as Member Nominated Directors (MNDs) on the Trustee board.

Three of the existing MNDs, Jim Cull, Martin Johnson and Stuart Rushworth, were re-elected. Jim Thomson did not stand for re-election and Scott Wallace was appointed as the fourth MND. As featured in the September 2013 edition of InFocus, the PCC were required to elect two MNDs to serve for a three year period and two MNDs to serve for a six year period. The outcome was as follows:

Three year term of office:

**Jim Cull and
Stuart Rushworth**



Six year term of office:

**Martin Johnson and
Scott Wallace**



Thank you to our outgoing Trustee director

We would like to thank the outgoing Trustee director, Jim Thomson, for his valuable contribution to the management of the Scheme. Jim has served as a Trustee and a PCC representative since the inception of the Scheme in 2005. His enthusiasm and experience will be missed by the Trustee board and we wish him all the best for the future.



Welcome to our new Trustee director

We welcome Scott Wallace to the Trustee board. Scott joined the Company as a Technician Apprentice in 1981, transitioning through the various Company changes to Selex ES Ltd. Scott works on the Edinburgh site in the Commercial Department as a Senior Commercial Officer. He has served as a representative on the PCC since the Selex Pension Scheme's inception in 2005.

Keeping up to date

Changes to the Annual Allowance and Lifetime Allowance

In April 2014, changes are due to come into effect to two of the tax allowances applicable to pension savings.

Annual Allowance:

A limit set by the Government on the amount of pension savings that you can make **tax-free** into any registered pension schemes that you are a member of in each tax year. The Annual Allowance is **reducing to £40,000** in the 2014/15 tax year.

Lifetime Allowance:

A limit set by the Government on tax-free pension saving. The total value of your private and workplace pensions (but not state pensions) which you can save **tax efficiently** is limited. Your pension is tested against the Lifetime Allowance limit when you retire. The Lifetime Allowance is **reducing to £1.25m** in the 2014/15 tax year.

The vast majority of members will not be affected; however, if you require further information we have published two factsheets on the Scheme website at www.selexpensions.co.uk/64/member-guides.

Manage your AVC & 100+ Retirement Accounts online!

We are pleased to announce that our interactive pension facility, Pensionline, has been enhanced to enable Additional Voluntary Contributions (AVCs) and 100+ Retirement Accounts to be viewed and managed online. Online investment switching is also now available.

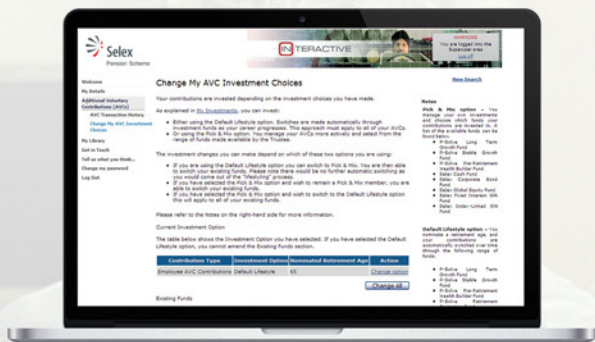
The online tool is accessible via the Scheme website at www.selexpensions.co.uk/4/pension-modeller. Pension members who have AVCs or 100+ Retirement Account funds will have received a letter with further details on the enhanced functionality.

Within the AVC & 100+ Retirement Account pages of Pensionline, you can:

- View your fund value and how your funds are currently invested;
- View your contribution history;
- Interactively request an investment switch which the administration team will action, with no need for any paperwork to be completed; and
- Change your Target Retirement Age (see below).

In addition to the above enhancements, if you are an active member, for your core benefits you can:

- Browse your personal benefit statement information;
- Use the pension illustration tool to obtain an estimate of what your pension might be when you retire; and
- Contact the administrators directly about queries relating to your details and pension information.



Do you need to review your Target Retirement Age?

If you have paid Additional Voluntary Contributions (AVCs) or have a 100+ Retirement Account and you have chosen to invest in the Scheme's **default lifestyle strategy**, you will have a Target Retirement Age. A Target Retirement Age is the date you hope to retire and if you do not choose an age the default age of 65 will have been used.

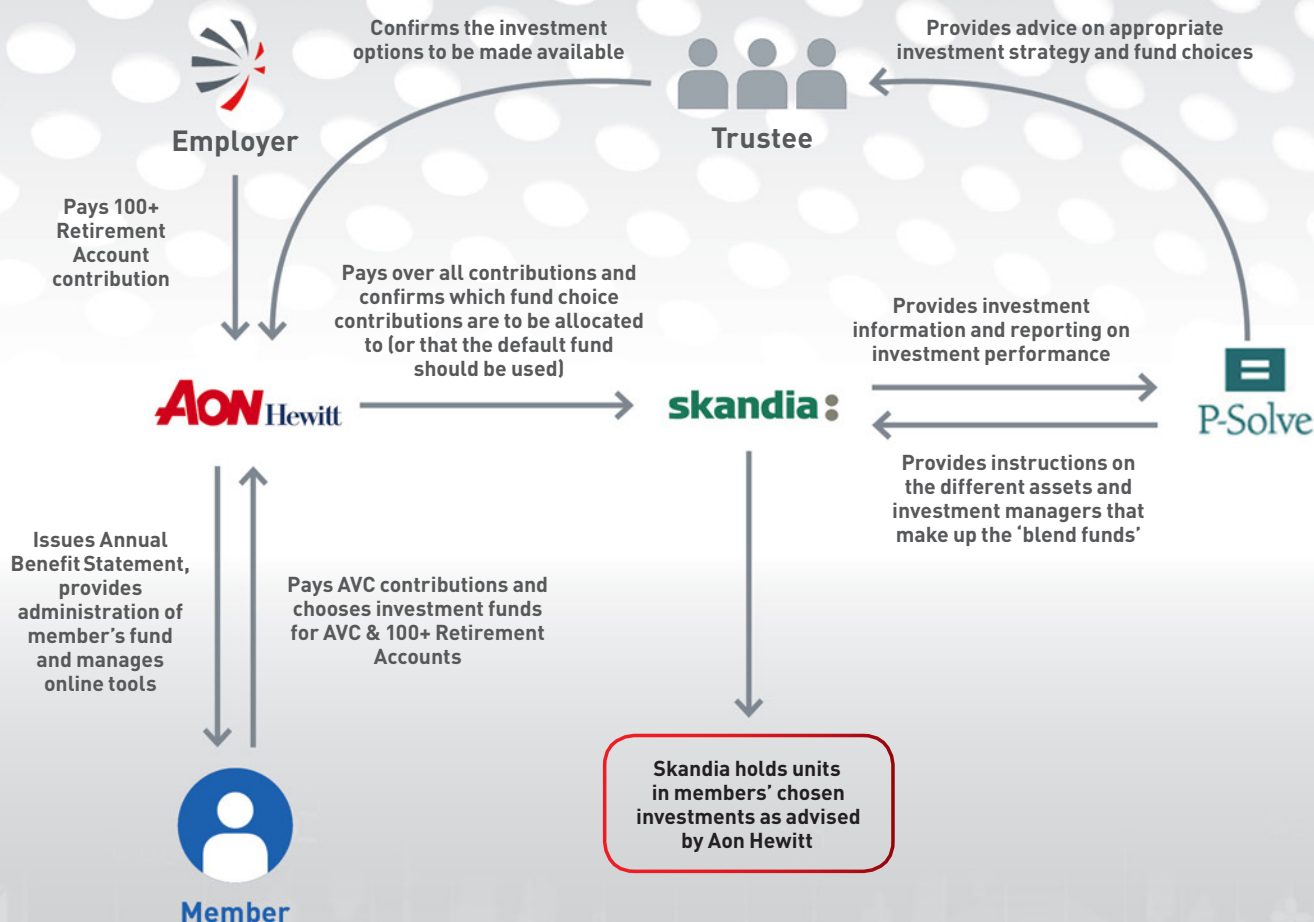
The Target Retirement Age applicable to your fund has been transferred from Standard Life to our new provider, Skandia. **If your retirement plans change, it is very important that you update your Target Retirement Age** as the lifestyle switching of the default strategy is designed around this date. If you have both an AVC fund and a 100+ Retirement Account you will need to ensure you change your Target Retirement Age **for each fund separately** if you wish the change to apply to both.

The easiest way to change your Target Retirement Age is by visiting our online interactive pension facility, Pensionline, at www.selexpensions.co.uk/4/pension-modeller. Alternatively, you can download an AVC Amendment Form/Adjusting Retirement Account Form from the 'Forms & Publications' section of the Scheme website at www.selexpensions.co.uk/7/forms-publications.

Focus on...our investment advisers and providers

Following the changes to the investment provider (from Standard Life to Skandia) for our AVC & 100+ Retirement Accounts, we thought it would be useful to remind members of the providers involved in delivering our investment strategy.

Main steps in the AVC & 100+ Retirement Account investment process



Who are P-Solve and what do they do for the Selex Pension Scheme?

P-Solve was appointed by the Trustee at the inception of the Scheme in 2005 as investment advisers and managers. They manage the investment of the core defined benefit assets within the Scheme, and since 2013 they also manage the Scheme's AVC & 100+ Retirement Account investment strategies.

P-Solve offers investment consulting, liability risk management and fiduciary management services to UK pension funds (as well as companies, charities, and insurers). P-Solve was founded in 2001 and is part of the Punter Southall Group. P-Solve advises around 260 clients in the UK and US ranging in size from £2m to £6bn.

P-Solve was one of the first providers of 'fiduciary management' services for UK defined benefit pension schemes. Fiduciary management involves the delegation of investment matters by pension trustees to P-Solve with the aim of achieving an integrated investment approach where all investment matters are dealt with by one organisation. The Selex Pension Scheme uses this fiduciary management service.

P-Solve has recently developed a new range of 'blend funds' which are now available to Selex members through the Scheme's AVC & 100+ Section Retirement Account investment choices. The 'blend funds' enable members to rely on the skills of P-Solve (and the underlying investment managers) with the overall aim of generating an 'inflation plus' return.

Within the 'blend funds', P-Solve:

- Invests in a variety of different assets (rather than just shares) to reduce the variability of the returns for the fund. This is known as 'diversification'.
- Adjusts the components of these funds between the different asset classes, based on their views of the opportunities and risks within investment markets and the overall return the fund is seeking. This is known as 'rotation'.

In practical terms, P-Solve supports the Scheme's investment strategy by:

- Advising the Trustee on how to set an appropriate investment strategy for both the core Scheme assets and the money within the AVC & 100+ Retirement Account funds;
- Implementing the investment portfolio selected by the Trustee (including the selection and appointment of third party asset managers and custodians);
- Managing the assets and managers comprising the 'blend fund' investment options;
- Managing the portfolio on an ongoing basis, including production of investment documentation and ensuring compliance with legal requirements;
- Monitoring and reporting on the performance of the portfolio; and
- Advising on and managing levels of risk taken within the investment strategy.

To date, the Scheme's investment strategy has been successful, playing a large part in the creation of a funding surplus in the 2011 actuarial valuation of the Scheme.

P-Solve won the fiduciary management of the year award at both the Pensions and Investments Provider Awards in May 2013 and the European Pensions Awards in June 2013.

It has recently been announced that P-Solve is proposing to merge with River and Mercantile, an investment boutique which offers UK and Global equity management. The combined business will be called River and Mercantile Group. We do not anticipate any changes to the service provided to the Selex Pension Scheme as a result of the merger.

Who are Skandia and what do they do for the Selex Pension Scheme?

Skandia was appointed by the Trustee in 2013, in place of Standard Life, as the platform provider for the Scheme's AVC & 100+ Retirement Accounts. They are an investment company who hold the units in members' chosen funds for the AVC & 100+ Retirement Accounts, which are invested separately to the core Scheme assets.

Skandia is part of Old Mutual Wealth, a global integrated wealth solutions and asset management provider, managing £76bn of investors' money. Since Skandia first arrived in the UK 30 years ago, it has become a UK leader in long-term investing. It launched the UK's first 'fund supermarket', also known as a 'platform'. During 2014, Skandia is due to be renamed Old Mutual Wealth as part of a move to consolidate the group.

Skandia holds a variety of investment products on their 'platform' from which the Trustee can select the range of funds it feels are appropriate to offer to members. Within the range of funds Skandia offers are the P-Solve 'blend funds' which the Trustee has chosen to make up the AVC & 100+ Retirement Account funds' default lifestyle strategy.

Skandia won Best Wrap Platform at the Professional Adviser Awards in February 2013 and was the Online Company of the Year at the FTAdviser.com Online Service Awards 2013.

Who are Aon Hewitt and what do they do for the Selex Pension Scheme?

Aon Hewitt was appointed as the Pension Administrator of the Scheme in 2008 and has administered the core pension benefits over the last six years. The Pension Administrator undertakes all elements of Scheme administration including storing members' records, calculating and paying benefits, managing the Scheme bank account and dealing with members' queries.

Aon Hewitt is a leading provider of benefits administration for medium to large organisations with more than 70 years of human resources expertise. It currently provides HR-related services for more than 21 million employees and retirees. Aon Hewitt is part of Aon Plc, a leading global provider of human resource consulting.

Whilst Aon Hewitt has been involved with facilitating the investment of the Scheme's AVC & 100+ Retirement Accounts, it was not until 2013 with the change of investment provider to Skandia that Aon Hewitt took over the administration of the AVC & 100+ Retirement Account funds. Aon Hewitt now maintains all the records for members' funds including investment choices, contribution rates and Target Retirement Ages. As all the Selex Pension benefits are now administered by Aon Hewitt, we are able to offer enhanced online access to AVC & 100+ Retirement Account information through Pensionline (as detailed further in the article on page 3) and a more comprehensive service to our members. Going forward, Aon Hewitt will be providing members with AVC & 100+ Retirement Account benefit statements, alongside the core pension benefit statements, rather than these being provided separately by the insurance company.

Aon Hewitt won a 2013 Financial Times Pension and Investment Provider Award for its third party administration services, and was named Most Innovative Pension Consultant 2013 at the Engaged Investor Trustee awards.

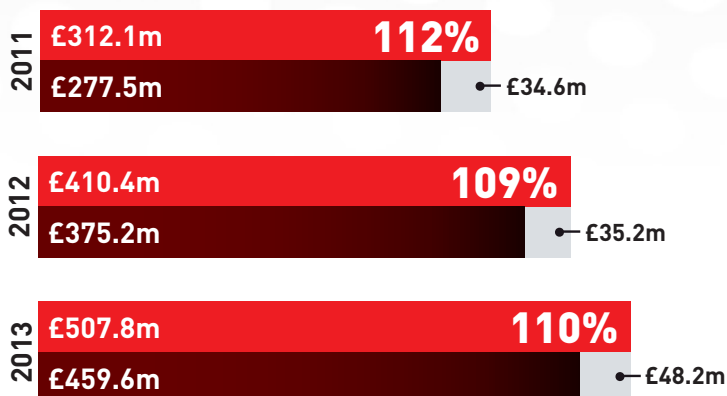
Credited Interest (2014/15)

The Selex Credited Interest rate for the 2014/15 Scheme Year is 10.5%. This rate is important for the 2000 Section of the Scheme. It sets how voluntary contributions under the Selected Benefits Scheme (SBS) are increased and how one of the benefit formulas (Basis 3) increases this year. The 10.5% rate reflects the strong investment performance of the Scheme over the past five years, and it should not be assumed that future Credited Interest rates will continue at this high level.

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 2011 (the date of the most recent formal funding valuation of the Scheme), together with the interim funding valuations as at 5 April 2012 and 5 April 2013. In addition you will also find information on how the funding position changes over time.



Key

■ = Assets
 ■ = Liabilities
 % = Funding Level
■ = Deficit
 ■ = Surplus

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.

Deficit: The amount by which the Scheme's assets are below its liabilities.

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

Interim valuation results as at 5 April 2013

The surplus has increased from £35.2m at 5 April 2012 to £48.2m at 5 April 2013; as a result the Scheme's funding level has risen slightly. This is mainly due to the investment returns earned on the Scheme's assets over the period being greater than expected, and actual average salary increases granted in April 2012 being lower than expected.

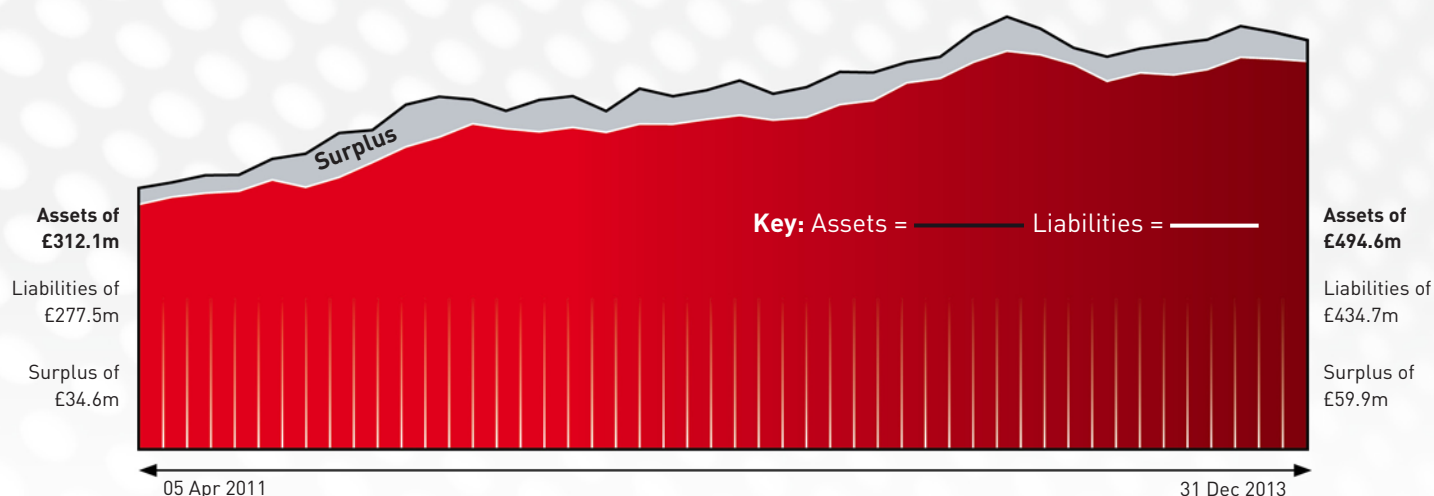
The value of the liabilities as at 5 April 2011 (the date of the most recent formal funding valuation of the Scheme) was calculated using updated assumptions agreed as part of the actuarial valuation by the Company and Trustee, after taking advice from the Scheme Actuary. The assumptions used to value the liabilities as at 5 April 2012 and 5 April 2013 are consistent with those for the actuarial valuation as at 5 April 2011 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 2014. 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 opposite shows approximately how the funding position has fluctuated monthly between 5 April 2011 and 31 December 2013.



Monthly Funding Position



Buyout/discontinuance basis

When the valuation was carried out at 5 April 2011, 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 92% funded on a discontinuance basis, which is equivalent to a £19.3m increase in the deficit since the last discontinuance valuation (as at 5 April 2008). The main reason for this increase is that the financial assumptions used to put a value on the liabilities have strengthened in the period between 2008 and 2011. 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.

We anticipate that you will have questions about the funding of the Scheme. We hope the following information will answer your questions.

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 & 100+ Retirement Accounts are held separately with Skandia.

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 must be paid 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 defined benefit (final salary) 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 Pension Protection Fund 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 adviser, such as an 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 below.

Contact details

You can contact the Selex Pension Scheme administration team at Aon Hewitt by:

Telephone: 0845 603 5660

Email: selex.pensions@aonhewitt.com

Pensions Website: www.selexpensions.co.uk

Address: Selex Pension Scheme,
Aon Hewitt Ltd,
25 Marsh Street,
Bristol
BS1 4AQ



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



Disclaimer

The content of this newsletter is given for the purpose of providing you with information about the Scheme only and has no legal effect. The rules of the Scheme govern how the Trustee must act and if the rules of the Scheme are inconsistent with the information given in this newsletter, the rules will prevail. Copies of the rules are available from the Pension Administrator, Aon Hewitt.