IN FOCUS

Selex
Pension Scheme

IN VESTMENT SPECIAL

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Welcome to the Voluntary Savings Special Edition of InFocus

The Trustee recently reviewed the investment options available to members who pay AVCs or have a Retirement Account in the 100+ Section.

As a result, the Trustee asked P-Solve Investments Limited to give advice on the investment options available to members, and this has resulted in a number of changes being identified to take place this year.

This edition of InFocus tells you all about the Trustee's work on the AVC and Retirement Account investment options, and the changes they are planning to make.

In this special issue of InFocus we will cover:

- The new AVC default investment strategy;
- New 'pick & mix' options;
- Smart pensions for voluntary contributions; and

We also cover

- An update on automatic enrolment;
- News on credited interest for 2013/14;
- Information on unisex annuity rates; and
- An update on Selex ES.

You will also find enclosed a supplement which is your Annual Selex Pension Scheme Summary Funding Statement as at 5 April 2012.

Stop Press!

The new investment strategy detailed in this edition of InFocus has won an award! The award is from Employee Benefits magazine for the Best DC Pension Default Investment strategy for 2013.

New and improved investment options

In July 2013, the investment options available to members who pay AVCs or have a Retirement Account in the 100+ Section, will change. This section of the newsletter explains what these new investment options are. **Please note that the changes will happen automatically. No action is needed from you unless you wish to change the amount you save or adjust the way your savings are invested.**

A new investment provider

P-Solve will be supporting the Trustee in a new way. They will advise on the funds to be made available to you and will also create 'blend' funds specific to the Selex Pension Scheme. For these blend funds P-Solve will adjust the components over time between different asset classes.

To make this possible there will be a change in the company that administers the investment funds from Standard Life. Aon Hewitt, who administer your main Scheme benefits, will in future also administer the AVCs and Retirement Account with the investments held on a platform provided by Skandia (soon to be rebranded Old Mutual Wealth).

You may be interested to know that P-Solve also advise the Trustee on the investment of the Scheme's core assets.

The default investment strategy – managed for you

Around 60% of AVCs are currently invested through a 'lifestyle' default investment strategy that is set by the Trustee. This rises to around 90% of Retirement Accounts within the 100+ Section.

The default strategy is intended to be suitable for the needs of most members, particularly if you do not want to be actively involved in day-to-day investment decisions. It allows the Trustee to invest your AVCs or Retirement Account in growth assets for most of your working life.

As your career progresses, more protection from market volatility is introduced and as you get close to retirement, a level of protection is provided from variations in the cost of buying an annuity.

Up to now, the growth phase of the default strategy has involved investing in 'Managed Funds', which are mostly equities (both UK and overseas), with switching into safer assets taking place over the last eight years of employment. Based on advice from P-Solve, the Trustee has decided to do two things:

1. Improve the growth phase

P-Solve will create three 'blend' funds with different 'inflation plus' targets. These funds will invest in equities and other types of growth assets. P-Solve will adjust the components of the funds over time between different asset classes, based on their views of the opportunities and risks within investment markets and the overall return the fund is seeking. The intention is that the growth of the fund will be smoother than the current approach of investing primarily in equities.

There will also be a fourth blend fund with a 'matching' target that will provide protection in the run-up to retirement against changing annuity costs, in a similar way to the current arrangements.

Details of the four blend funds are shown here, in the table. The investment administration for each of the funds is carried out by Skandia, and there may be several different underlying investment managers chosen by P-Solve within the funds.

Blend fund name	Long-term target	Risk Level [1]	AMC [2]	Current TER [3]
P-Solve Long Term Growth	Inflation plus 5%	4	0.475%	0.880%
P-Solve Stable Growth	Inflation plus 4%	3.5	0.425%	0.854%
P-Solve Pre-Retirement Wealthbuilder	Inflation plus 3%	3	0.425%	0.667%
P-Solve Retirement Protection	Match bonds and cash	2	0.275%	0.341%

Refer to table notes opposite.

2. Improve lifestyle switching

Currently, the default strategy invests primarily in global equity funds right up until eight years before retirement. The new strategy will switch between the blend funds progressively through your career with the intention of making the growth smoother. The final move away from risky funds will be a little later, over the final three years of employment.

The table opposite shows the switching periods and the chart illustrates how the new strategy will work for someone with a Target Retirement Age of 65.

	Phasing Period (Years before Target Retirement Age)	
P-Solve Long Term Growth	N/A	
P-Solve Stable Growth	30	25
P-Solve Pre-Retirement Wealthbuilder	15	10
P-Solve Retirement Protection	3	Retire

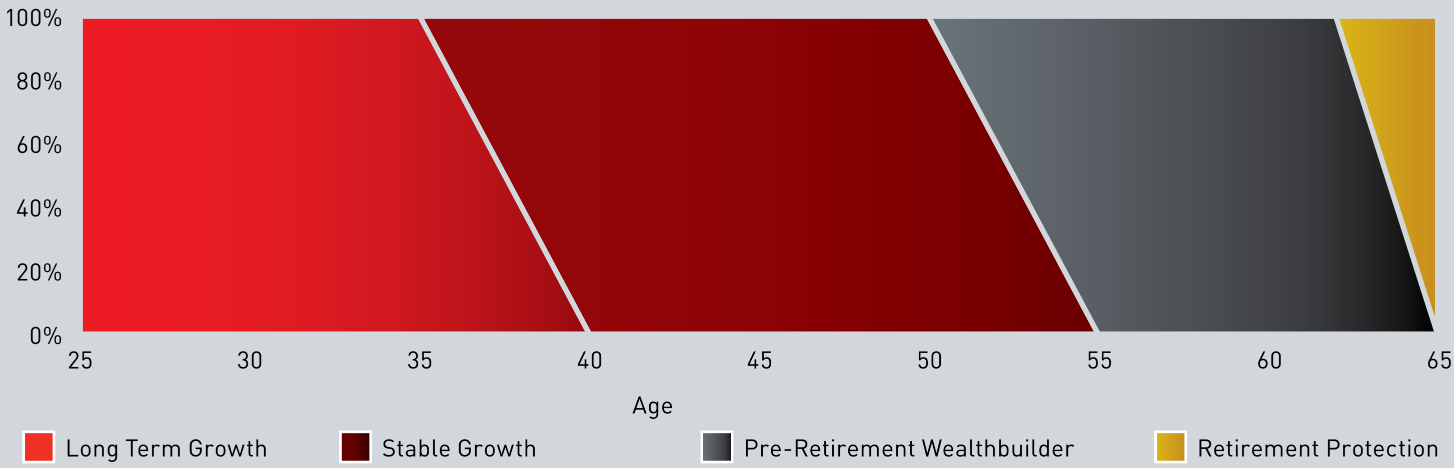


Table notes

[1] The Risk Level is an indication of how volatile the fund is likely to be on a day-to-day basis relative to its objective as well as potential for drawdown or loss. The scale runs from 1 (low risk) to 6 (high risk).

[2] The AMC (Annual Management Charge) includes all fixed provider costs and is a combination of Skandia charges for investment administration and P-Solve charges for managing the asset allocation of the fund (where applicable).

[3] The TER (Total Expense Ratio) represents the total cost of running the fund. It includes the AMC as well as the cost of the underlying investment provider charges (including depository and custodial charges and audit, registration and compliance fees). The TER will change from time to time, in the main driven by changes in the underlying asset allocation of the fund.

Retirement age

The lifestyle switching of the default strategy depends on the date you hope to retire, which is known as your Target Retirement Age. You can choose any age from 55 (the legal minimum retirement age).

For those who do not choose their Target Retirement Age, the Trustee makes an assumption that this would be the Normal Retirement Age of the Selex Pension Scheme (age 65). This is known as the default Target Retirement Age.

Remember, you can select a Target Retirement Age of your own choice at any time and the Trustee would adjust the lifestyle switching to reflect the revised target date over time as reasonably practicable.

‘Pick & mix’ – you select

If you don’t think the default strategy is appropriate for your circumstances or you wish to manage the investment of your AVCs or Retirement Account more actively, you are able to make your own ‘Pick & mix’ selection from a range of funds made available by the Trustee. Currently 12 funds are available, ranging from equity funds to a cash fund. The Trustee has reviewed these funds and decided to replace them with eight funds, split into two groups:

Group 1

You can select from the three blend funds that are used for the growth phase of the default strategy. This means that you would be relying on the skills of P-Solve and the underlying investment managers to achieve the inflation plus target for your AVCs or Retirement Account.

Group 2

You can choose from a range of new passive funds which are broadly equivalent to the current funds.

You will be able to choose funds from across these two groups. The full list of pick & mix funds and the charges associated with them is shown in the table below:

	Long-term target	Risk Level [1]	AMC [2]	Current TER [3]
Group 1 – Blend Funds				
P-Solve Long Term Growth	Inflation + 5%	4	0.475%	0.880%
P-Solve Stable Growth	Inflation + 4%	3.5	0.425%	0.854%
P-Solve Pre-Retirement Wealthbuilder	Inflation + 3%	3	0.425%	0.667%
Group 2 – Passive Funds				
Selex Global Equity Fund	This fund aims to gain exposure to global and UK equity markets. Currently this fund is invested passively and aims to perform in line with an index return of 30% UK and 70% overseas equities.	5	0.175%	0.320%
Selex Corporate Bond Fund	This fund aims to gain exposure to corporate bonds. Currently this fund is invested passively and aims to perform in line with its index.	2.5	0.175%	0.243%
Selex Fixed Interest Gilt Fund	This fund aims to gain exposure to fixed interest gilts. Currently this fund is invested passively and aims to perform in line with its index.	2	0.175%	0.230%
Selex Index-Linked Gilt Fund	This fund aims to gain exposure to inflation-linked gilts. Currently this fund is invested passively and aims to perform in line with its index.	2	0.175%	0.230%
Selex Cash Fund	This fund aims to preserve capital by investing in high-quality cash deposits and other cash instruments. Currently this fund aims to outperform its benchmark while preserving capital and maintaining a high credit rating.	1	0.175%	0.265%

Investment administration of the funds will be carried out by Skandia, although the underlying investment manager may change from time to time. Factsheets will be made available every quarter on the Selex Pension Scheme website, **www.selexpensions.co.uk**.

Please note: You must choose between the default strategy and pick & mix. If you select the default strategy, then 100% of your AVCs or Retirement Account must be invested that way. However, you can invest in the three blends underlying the growth stage of the default through Group 1 of the pick & mix options, although no lifestyle switching will take place if you choose this approach.

Switch for free

You can switch your pick & mix investment funds at any time. You can do so by completing the necessary form on the Selex Pension Scheme website, **www.selexpensions.co.uk**.

Investment charges

You will see from the table on page 4 that there are investment charges levied on your AVCs or Retirement Account each year. These charges relate to the costs of investment advice, administration and management. They vary with the fund you select and for the blend funds depend on the underlying investment managers chosen by P-Solve. So, the charges are reviewed regularly and can vary over time. The Annual Management Charge (AMC) includes all fixed provider costs and the Total Expense Ratio (TER) is the total cost of running the fund, including the underlying investment provider charges. The size of the charge is related to the complexity of the fund, so it is hoped that the higher charges will be reflective of a better result in terms of risk and return.

The charges apply as a percentage of the value invested in the fund. For example, if you were invested in the P-Solve Long Term Growth blend fund, the current Total Expense Ratio is 0.88% each year – so for each £100 invested, you would pay 88p per year.

By comparison with the current charges, the blend funds are more expensive and the passive funds are a bit cheaper.

Risk levels

The risk level is an indication of how volatile or variable the fund value is likely to be on a day-to-day basis relative to its objective as well as the fund's potential for drawdown or loss. It is therefore a measure of how much the fund value could change on a day-to-day basis with a focus on downside risk. Skandia's risk rating scale runs from 1 (lower risk) to 6 (higher risk).

Pension investment is typically designed for the longer term. A fund like the cash fund can be shown as low risk (reflecting low variability of returns and low potential for loss), but if members remain invested in cash for many years from an early age, it could be seen as high risk given that the increase in fund value may not keep up with inflation.

What is a blend fund?

There are two key features of a blend fund.

First, P-Solve will invest 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'.

Secondly, P-Solve will adjust the components of these blend 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'.

Next Steps: Implementation

The changes will take place automatically, as summarised below:

Default investment strategy

If your AVCs or Retirement Account are already invested in the lifestyle option, you will be automatically switched to the new default strategy using P-Solve's new blend funds, with the specific funds depending on your age in relation to the lifestyle switching process:

Old Lifestyle	➡	New Lifestyle
Standard Life Managed Pension Fund Standard Life Multi Asset Managed (20-60% Shares) Pension Fund 75% Standard Life Index Linked Bond Pension Fund and 25% Standard Life Deposit and Treasury Pension Fund	**Allocation according to new lifestyle switching profile** **(Based on your age)**	P-Solve Long Term Growth Fund P-Solve Stable Growth Fund P-Solve Pre-Retirement Wealthbuilder Fund P-Solve Retirement Protection Fund

'Pick & Mix' funds

Your AVCs or Retirement Account will be automatically switched to the equivalent funds in the new range based on the mapping below:

Old fund	Switches to	New equivalent fund
Standard Life Managed Pension Fund Standard Life Multi-Asset Managed (20-60% Shares) Pension Fund	➡	P-Solve Stable Growth Fund (through the pick & mix option)
Standard Life Annuity Purchase Fund	➡	Selex Fixed Interest Gilt Fund
Standard Life Mixed Bond Pension Fund	➡	Split as follows: • 50% in the Selex Corporate Bond Fund; and • 50% in the Selex Fixed Interest Gilt Fund
Standard Life UK Equity Pension Fund Standard Life FTSE Tracker Pension Fund Standard Life Global Equity 50:50 Pension Fund	➡	Selex Global Equity Fund
Standard Life Deposit and Treasury Pension Fund Standard Life Money Market Pension Fund	➡	Selex Cash Fund
Standard Life Index Linked Bond Pension Fund	➡	Selex Index-Linked Gilt Fund
Standard Life Property Pension Fund Standard Life With-Profits Fund	➡	Redirected proportionately to the other funds you have selected based on the mapping above or, if you have no other funds, to the default strategy.

There is quite a lot of work involved to make these changes, so there will need to be a 'blackout' period in August of about two weeks. During this time you will not be able to make any changes to your AVCs or Retirement Account to enable the investment managers to do their work. Also, contributions deducted from salary around the blackout period may be invested a little later in the following month than is normally the case. The actual dates of the blackout period will be confirmed by a notice on the Scheme website – **www.selexpensions.co.uk**.

Two of the existing funds, With-Profits and Property, may have a market value adjustment or exit penalty applied by Standard Life on transfer. If this is the case, the Trustee of the Scheme has decided to make good any shortfall in the amount transferred.

You don't need to take any action in response to these changes.

At the end of the blackout period, you will be able to make any changes you want – for example, to select a different Target Retirement Age or move funds into different investment options. If you want to check where you are currently invested, you can find this information on your most recent benefit statement.

Smart and voluntary contributions (SBS and AVCs)

In July 2006 the Company introduced salary sacrifice as a way of paying your pension contributions – an option often known as 'smart' payment (smart stands for 'save money and reduce tax').

By paying your pension contributions through smart, you can reduce your National Insurance (NI) contributions – which means more money in your take-home pay. Most members pay their Scheme contributions through smart but **as part of the AVC review the Trustee and Company have decided to allow members to pay their voluntary contributions through smart as well – therefore increasing the NI savings you could make**. Voluntary contributions include both AVCs and the Selected Benefits Scheme (SBS) for members of the 2000 Section.

In addition to this, the Company is making smart payment more flexible. It will no longer be a requirement for smart to be seen as a long-term commitment. **You will now be able to opt into or out of smart and change the amount of voluntary contribution you pay in any month (subject to payroll deadlines)**. It will no longer be necessary for there to have been a 'lifestyle event' involving a change to your circumstances.

From 1 July 2013 you will automatically start making your Scheme contributions through smart, if you are not doing so already. Any voluntary contributions will also be made through smart from the same date.

If you do not wish to pay your contributions through smart, you can opt out online at **www.selexpensions.co.uk**. Please complete this process by 5 July 2013 if you do not want to automatically pay via smart in the July payroll.

In certain circumstances smart may not save money. The Company will not automatically enrol members into smart in these circumstances, although they may still join smart if they wish to. Smart is not available if your earnings would reduce below national minimum wage.

Smart involves a change to contracts of employment and accordingly the Company will be writing to all Scheme members with further details. You can find more information about smart on the Scheme website – **www.selexpensions.co.uk.**

News

Annuity rates are changing

An annuity is a secure, regular income which you purchase from an insurance company using any voluntary savings you might have (if you have not used them to fund a tax-free cash sum).

UK annuity rates (the amount of income insurance companies pay) change regularly and are notoriously difficult to predict. However, we do know that in December 2012 the market was impacted by a European Directive on gender equality, which means men and women must receive equal – or unisex – annuity rates.

Prior to December 2012 men usually received better annuity incomes than women. This was because women have a greater life expectancy, so on average their annuity income must be paid for longer.

This changed in December 2012. Male incomes fell slightly as a result of the legislation whereas female incomes rose slightly.

When you set up an annuity it is fixed for life, so it's vital you choose your options carefully. In order to help, the Trustee has an arrangement with the Aon Hewitt Annuity Finder service. A fully qualified adviser from Aon Hewitt can search the market for the best option for you, and do all the necessary paperwork to set up the annuity. The Trustee will pay for one search on your behalf.

Selex ES

On 2 January 2013 SELEX Elsag and SELEX SI merged with SELEX Galileo and became Selex ES.

The Trustee and the Company have signed a Deed of Apportionment which means that the pension liabilities for SELEX Elsag and SELEX SI have passed to Selex ES. We have notified the Pensions Regulator of this change.

Auto enrolment

From this year, new reforms will see people automatically enrolled into a pension scheme. These changes are set to make five to nine million people save into a pension for the first time.

The reforms will apply to Selex ES with effect from 1 September 2013.

From 1 September 2013 any employees who are not already in a Selex pension arrangement will be enrolled into Finmeccanica FuturePlanner (the defined contribution pension arrangement for new employees).

As a member of the Selex Pension Scheme, there is no action which you need to take.

However, if you decide to opt out of the Selex Pension Scheme at any time whilst you are still working for Selex or Finmeccanica UK, you can expect to be automatically enrolled into the Finmeccanica FuturePlanner pension arrangement every three years, unless you also take action to opt out of that plan.

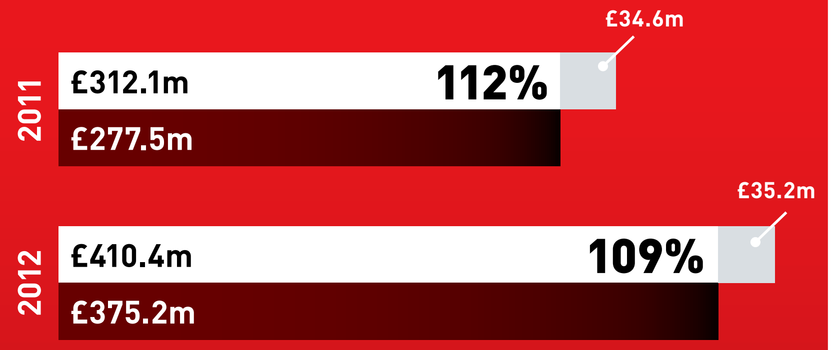
Credited Interest (2013/14)

The Selex Credited Interest rate for the 2013/14 Scheme Year is 7%. This rate is important for the 2000 Section of the Scheme. It sets how voluntary contributions under SBS are increased and how one of the benefit formulas (Basis 3) increases this year.

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 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 valuation as at 5 April 2012. In addition you will also find information below 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 2012

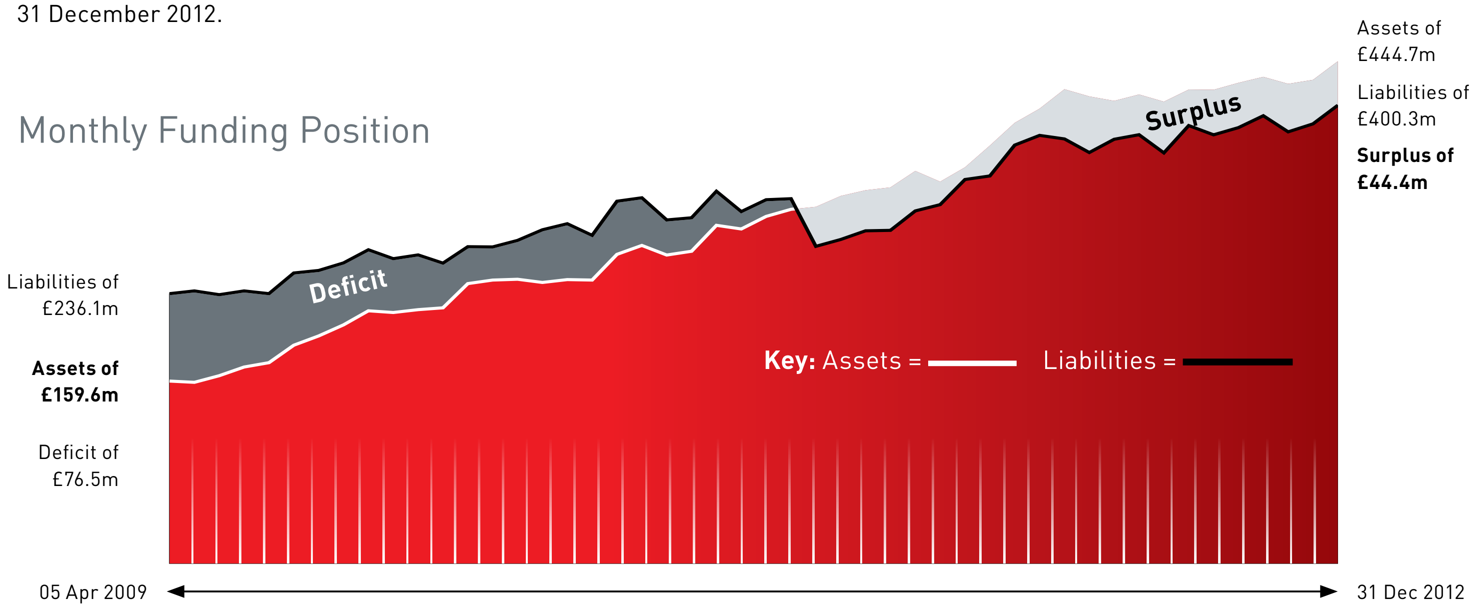
The surplus has increased slightly from £34.6m in 2011 to £35.2m in 2012, however the Scheme's funding level has fallen slightly. The main reason for the change in position is changes in interest rate and inflation rate expectations between the two dates.

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 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 Trustees does, however, monitor the funding of the Scheme on a regular basis and will take action at an earlier date if necessary. The following graph shows approximately how the funding position has fluctuated between 5 April 2009 and 31 December 2012.

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 AVCs and your Retirement Account (100+ Section) are held separately with Standard Life.

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 was 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

AON Hewitt

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.