

In this issue of **INFocus** the Trustee directors provide you with:

- ➔ A new member helpline number;
- ➔ A change of name for one of our AVC investment funds;
- ➔ An update on automatic enrolment;
- ➔ Information on the voluntary SBS death in service cover;
- ➔ A guide to AVCs;
- ➔ A look at how the SELEX Pension Scheme benefit structure works; and
- ➔ A summary of the Trustee Report and Accounts for 2011/12.

## New Member Helpline Number

To help deal with members' pension queries more efficiently, we've launched a new dedicated SELEX Pension Scheme member helpline – **0845 603 5660**. This is a local rate number and can be used immediately.

The helpline was transferred from Aon Hewitt's Bristol office to their Pension Administration Service Centre in July 2012 and the existing 0117 9453544 phone number is currently being forwarded to this facility. This number will be unavailable from 1 November 2012.

**Please note** there is no change to the SELEX Pension Scheme email and postal address as a result of these changes.

### Contact details

**Telephone:** 0845 603 5660  
**Email:** [selex.pensions@aonhewitt.com](mailto:selex.pensions@aonhewitt.com)  
**Pensions Website:** [www.selexpensions.co.uk](http://www.selexpensions.co.uk)  
**Address:** SELEX Pension Scheme  
Aon Hewitt  
25 Marsh Street  
Bristol  
BS1 4AQ



Call the new helpline if you have any pension queries on **0845 603 5660**

## Standard Life Fund Name Changes

Standard Life has changed the name and description of two of the funds which the SELEX Pension Scheme offers in their Additional Voluntary Contribution and Retirement Account portfolios.

The Standard Life Cautious Managed Pension Fund (F8) has changed its name to the **Standard Life Multi Asset Managed (20%-60% Shares) Pension Fund (F8)** with effect from 1 June 2012. The Standard Life Managed Cash Pension Fund (G4) has changed its name to the **Standard Life Deposit and Treasury Pension Fund (G4)** with effect from 1 October 2012.

SELEX Pension Scheme members who are currently invested in these funds will have received a letter confirming this change.

**Please note** there are no other changes to these funds other than the name and description, which are intended to provide members with a clearer picture of what they are investing in. Scheme guides and forms have been updated to reflect this change.

## Automatic 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. These reforms will apply to the Finmeccanica UK businesses in 2013.

Finmeccanica is getting ready for these changes and its defined contribution pension arrangement, FuturePlanner, is the main pension arrangement that will be used to ensure that the SELEX businesses comply with the new requirements.

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

The SELEX Pension Scheme benefit structure satisfies the standards for qualifying schemes set by the Pensions Regulator and this means you can continue to participate in the SELEX Pension Scheme once the new reforms come into force.

One implication of this new legislation for current members is that if you 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 scheme. If you are affected by this, further information will be provided to you once the new reforms come into force in 2013.



## 2000 Section – Additional Death in Service Cover Option

Members of the 2000 Section of the SELEX Pension Scheme have an option to pay contributions to the Selected Benefits Scheme (SBS) for the purpose of purchasing additional death in service benefits. As you may be aware, whilst 2000 Section members' beneficiaries would have the benefit of a lump sum in the event of your death whilst in pensionable service, there is no spouse's pension payable from the Scheme in these circumstances.

You may therefore wish to consider making voluntary contributions to increase the amount of lump sum benefit which would be payable in the event of your death – your beneficiaries would then be able to either take a lump sum or use the lump sum to buy a pension with an insurance company if they would prefer to have a regular income. It is important that you complete an Expression of Wish Form to help the Trustee decide who to pay the lump sum benefits to. Expression of Wish Forms are available at **[www.selexpensions.co.uk](http://www.selexpensions.co.uk)** in the Forms & Publications section.

You are able to start paying contributions to SBS for the purpose of purchasing additional death in service benefits once a year **with effect from 1 April**. For more information, please read the SBS Guide and download the SBS Death in Service form, both of which are available at **[www.selexpensions.co.uk](http://www.selexpensions.co.uk)** in the Voluntary Savings, SBS section.

**Please note** contributions to SBS for death benefits are separate from any contributions made for retirement benefits and will not be added to your SBS fund for retirement benefits.

## Guide to paying Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are a great way of increasing your retirement benefits and we thought it would be helpful to provide members with information on what they are and how they work.

### How AVCs work in six steps:

- 1.** You choose the amount you pay – this can vary as your circumstances change.
- 2.** AVCs are deducted directly from your salary so you don't need to arrange separate payment.
- 3.** Your AVCs qualify for tax relief at your highest rate.
- 4.** You can choose how your AVCs are invested from our range of funds.
- 5.** AVCs are invested with Standard Life and provide extra retirement benefits on a money purchase basis.
- 6.** You may be able to take all or part of your AVC fund value as a tax free cash sum at retirement, or use it to purchase a pension income (an annuity) with an insurance company.

### Top five FAQs

#### Who can pay AVCs and how are they paid?

AVCs can be paid by members of all sections of the Scheme either by regular contributions or by lump sum payments. Most members decide how much they want to invest into their AVC account over the year and pay their AVCs through regular monthly contributions.

**Please note** if you are a 2000 Section member and currently pay Selected Benefits Scheme (SBS) contributions towards additional retirement benefits, you cannot also pay AVCs at the same time.

#### Can lump sums be paid into AVCs, for example if I am expecting a bonus?

Members are able to pay up to 100% of salary (including your core pension contributions) into AVCs. This means that over the year you can contribute any amount each month provided your salary will cover it. The simplest way of AVC saving is to pay a monthly AVC, making an assumption about the amount of bonus you may receive during the year. Alternatively, you could make a one-off lump sum contribution and this does not have to be in the month in which the bonus is received (provided you have enough salary in the month the AVC deduction is being made). Both regular monthly contributions and lump sum contributions qualify for tax relief.

Current SBS payers can make a lump sum payment to SBS but this is limited to 15% of salary (including core pension contributions).

#### When does the AVC form have to be submitted?

AVC instructions need to be received by Aon Hewitt in advance of the payroll cut-off date (5th of the month) for your instructions to be actioned in that month's payroll. Some members have earlier payroll cut-off deadlines and you should contact Aon Hewitt on **0845 603 5660** if you wish to check the date by which your form will need to be received.

#### Are there any limits on the amount of AVCs I can pay?

You should be aware that you may incur a tax liability if your pension benefits increase by more than £50,000 in one tax year. The value of any increase in your SELEX pension over the year is taken into account, along with the amount of any AVCs you make. Pension savings in other pension schemes also contribute towards this limit. For more information please read the "Pension Tax Changes" document available from the Scheme website at [www.selexpensions.co.uk/51/69/pension-tax-changes](http://www.selexpensions.co.uk/51/69/pension-tax-changes).

#### Where can I find further information?

For further information on AVCs please read the AVC Guide. To start making payments, or to amend your contributions, please complete the AVC Amendment form. Both documents are available on the [www.selexpensions.co.uk](http://www.selexpensions.co.uk) website (voluntary savings section).



## How the SELEX Pension Scheme benefit structure works

We thought it would be useful to remind members of how your SELEX pension is calculated and the relationship with the BAE Systems pension arrangements.

### Are my SELEX Pension Scheme benefits linked to a BAE Systems Pension arrangement?

**If you commenced employment with SELEX or Finmeccanica UK Limited AFTER 30 April 2005,** you will be building up benefits in the SELEX Pension Scheme and you will not have linked service with a BAE Systems Pensions arrangement. **The remainder of this article will not apply to you.**

or

**If you commenced employment with SELEX or Finmeccanica UK Limited BEFORE 30 April 2005** (and were a member of a BAE Systems Pension arrangement on 29 April 2005), then you will have pension benefits in the SELEX Pension Scheme which are linked to the BAE Systems pension arrangement.

### How are my SELEX benefits calculated?

In simple terms, your SELEX benefits are calculated as follows:

#### Gross Benefit

This is your total benefit, calculated using your service in both the BAE Systems and SELEX Pension arrangements and based on your salary at the date you leave the SELEX Pension Scheme.

#### BAE Systems Benefit Deduction + Revaluation

The BAE Systems Benefit Deduction, plus inflation-linked revaluation from 29 April 2005 to your date of leaving is deducted from the total Gross Benefit. You may hear this referred to as the "BAE Offset" and it is usually a similar amount to that paid by the BAE Systems pensions arrangements.

If you have started to draw your BAE pension before your SELEX pension, or have transferred benefits in or out of the BAE scheme, then the BAE Systems Benefit Deduction may be very different to your actual BAE benefits.

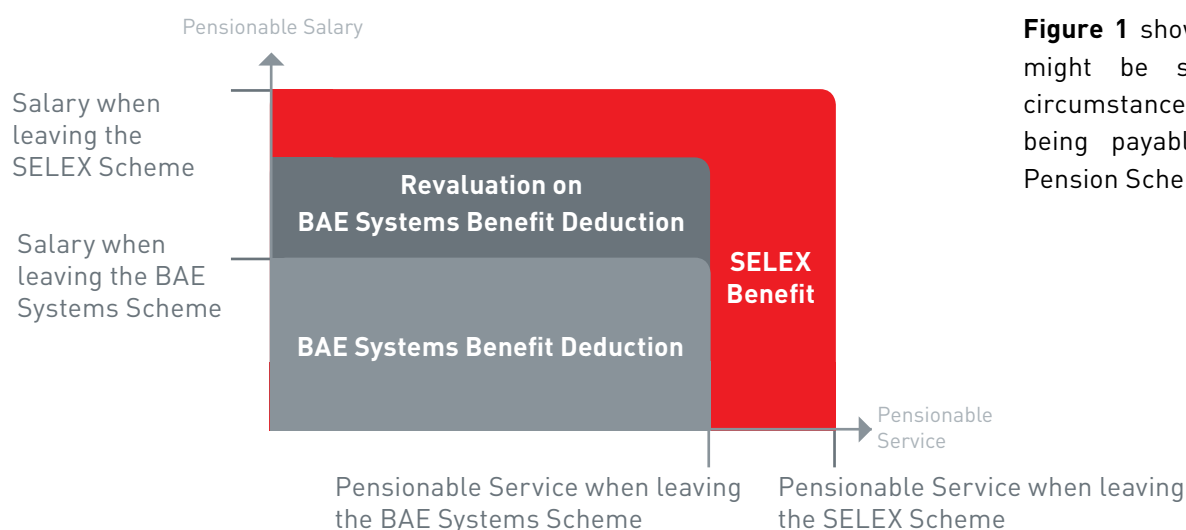
#### SELEX Benefit

SELEX pay the remainder (if any) from the SELEX Pension Scheme. Your SELEX Benefit is therefore heavily dependent on the amount of your BAE Systems Benefit Deduction and the inflation-linked revaluation applied to this.

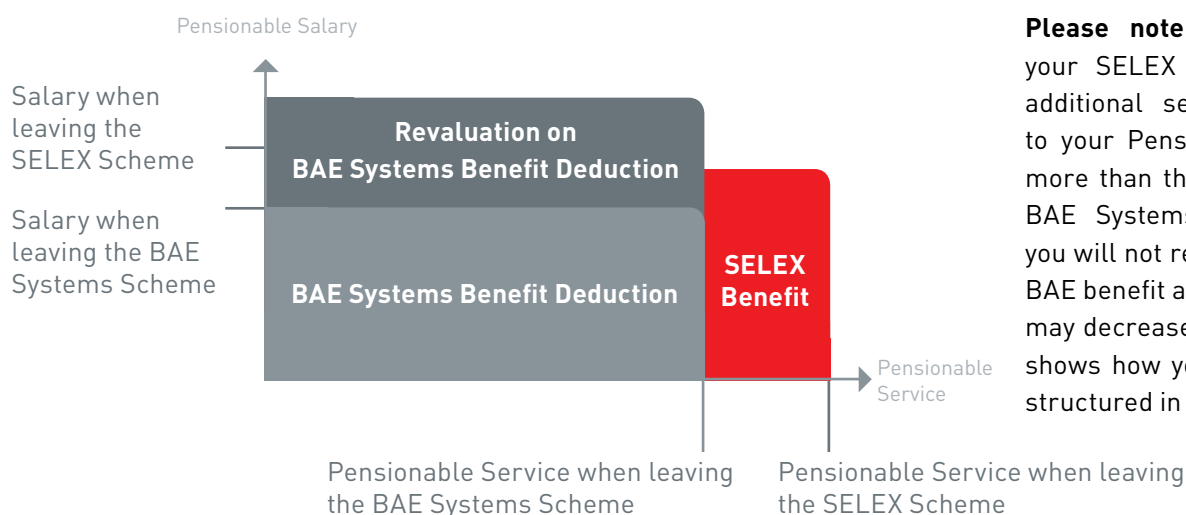
## How Pensionable Salary increases affect your benefits

Members have the benefit of a continuing salary link between the two schemes. Broadly, if your Pensionable Salary increases are higher than the inflation-linked revaluation on your BAE Systems benefits, your salary increases will apply to your entire benefits with both SELEX and BAE Systems.

**Figure 1.**



**Figure 2.**



It is possible that a small number of members may receive a benefit illustration which shows that no SELEX benefit is payable.

There are a number of reasons why this might occur, most notably in circumstances where you have a large BAE Systems benefit and there is a period of high inflation, which is not matched by your salary increases. In most circumstances, members can expect their pension from BAE Systems to have increased correspondingly. If this applies to you then this will be shown on your annual SELEX benefit statement.

## Where can I get further information?

More detailed information about how your SELEX pension benefit is calculated can be found in the Scheme Booklet for your section of the Scheme, available on the [www.selexpensions.co.uk](http://www.selexpensions.co.uk) website (forms & publications section). Please contact Aon Hewitt on **0845 603 5660** if you have any queries about your own individual circumstances.

## Report and Accounts

Each year we are required to publish a report and audited accounts for the Scheme. The summary below is based on the accounts for the year to 5 April 2012.

The audit work has been completed by our independent auditors Ernst & Young LLP. We are due to sign the accounts shortly and the figures are not expected to change in any material respect before signature.

If you would like to see a copy of the full annual Report and Accounts, a copy will be placed on the Scheme's website, [www.selexpensions.co.uk](http://www.selexpensions.co.uk).



## Scheme assets

The assets of the Scheme have grown since the inception of the Scheme to £414 million. Further information is set out below:

	Assets of the Scheme at 5 April 2011	£318m
+	<b>Income</b> (Company contributions, member contributions and other income)	£39m
-	<b>Outgoings</b> (Pensions, lump sums, death in service insurance and administration expenses)	(£5m)
+	<b>Net return on investments</b> (Market value of investments after allowing for expenses) made up of: <ul style="list-style-type: none"> <li>An increase in the derivatives value, including swaps, of £49 million;</li> <li>An increase in other asset values, including TIGS and DC funds of £7 million; and</li> <li>Investment income of £6 million.</li> </ul>	£62m
=	<b>Assets of the Scheme at 5 April 2012</b>	<b>£414m</b>

## Overall investment performance

The Scheme's total investment strategy (including liability hedging and TIGS) as at 5 April 2012 has returned:

12 months:

19.08%

3 years (p.a.):

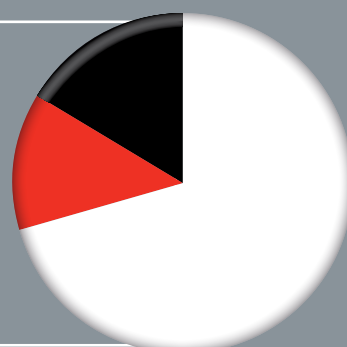
18%

## Membership numbers

The majority of our members are current employees who are paying contributions and building up benefits. This chart shows that out of a total of 4,820 members, 71% are employed (active) members.

Membership as at  
5 April 2012

- Employed (active) members 3,405
- Pensioners 638
- Deferred Pensioners 777



## Investing the assets of the Scheme

**We have worked with the Scheme's investment manager, P-Solve Investments Limited, to further develop and refine the investment strategy.**

The year to 5 April 2012 was an extremely difficult time for investors with volatile market conditions.

Despite the continued unsettled outlook, our overall investment strategy generated positive returns during the year. Our swaps portfolio has provided excellent protection during this period, generating a significant mark-to-market valuation increase over the year and undergoing some restructuring.

As a result of the difficult market conditions, the Total Investment Governance Solution (TIGS) investments underperformed our objectives over the year, although remain ahead of benchmark over a three year period.

The Trustee monitors the performance of all investments regularly, including how each underlying manager has performed and whether our benchmarks have been met.

During the year, we entered into another "EDOS Condor" strategy, a structured equity product which provides returns dependent on the movement in the FTSE100 Index. This follows the investment success of a previous EDOS product.

The Scheme's investment strategy is set out in the Statement of Investment Principles, a copy of which is available on request from the Pension Administrator, Aon Hewitt.

## Swaps and liability hedging arrangements

**In order to protect the Scheme against changes in long-term interest rates and inflation, the Scheme holds a portfolio of swap contracts.**

Swap contracts are agreements with the bank under which the Trustee will either pay or receive money depending on the movements in inflation and long-term interest rates. We regularly consider whether the swaps need refining in order to ensure the Scheme's liabilities remain suitably matched. The swaps were refined in January 2012 to ensure they continue to reflect the profile of the Scheme's liabilities.

In November 2010, we entered into a second portfolio of swaptions and received a cash premium from the investment bank. Swaptions are a way of increasing the interest rate hedging portfolio as well as enhancing the return on the portfolio. As interest rates were at a beneficial level in August 2011, the swaptions were closed, thereby crystallising the benefit of the cash premium received.

During the year we purchased a number of gilts (UK Government bonds), which have both interest rate and inflation exposure and will complement the swaps portfolio in providing additional liability hedging.

**By entering into the liability hedging strategy, including the swap contracts, the Trustee has ensured that:**

- When inflation rises and the deficit of the Scheme increases, the value of the Scheme's assets will also increase; and
- When long-term interest rates fall and the deficit of the Scheme increases, the value of the Scheme's assets will also increase.

The mark-to-market value of the swaps contracts, including swaptions, as at 5 April 2012 was £24.8m (5 April 2011: £6.2m). Cash was also released from the swaps during the year and reinvested in the EDOS Condor strategy referred to above. The swap contracts therefore actually increased in value by £46.1m over the Scheme Year. These gains will broadly offset an increase in the value of the Scheme's liabilities.





## TIGS performance

The majority of the assets of the Scheme continue to be invested in the Total Investment Governance Solution (TIGS) provided by P-Solve Investments Limited.

TIGS is a managed service designed to deliver performance in excess of a client specific target through exposure to diversified investment arrangements. P-Solve Investments Limited invests and manages the Scheme's assets on the Trustee's behalf.

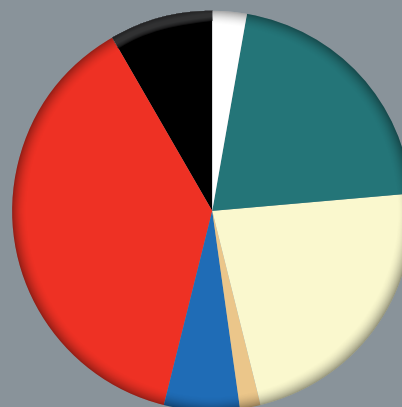
The service reduces the risks and costs of decision delay and provides access to a broad range of asset allocation and increased investment specialisation, such as commodities, high yield bonds, leveraged loans and other alternative asset classes as well as currency hedging. In addition to the delegated responsibility for dynamic asset allocation, P-Solve Investments Limited is also responsible for selecting and replacing fund managers.

The investment objective for TIGS is a return of LIBOR +3% per annum, after the deduction of fees, over rolling three year periods. Over the year, TIGS (including the EDOS Condor products) has returned -0.94% against an objective of 3.96%. Over three years the TIGS fund has returned 11.09% per annum against an objective of 3.87% per annum, and over five years has returned 4.15% per annum against an objective of 5.67% per annum.

As a result of difficult market conditions, the TIGS investment has therefore fallen short of our target over the last twelve months. We are however pleased that taken as a whole, our investment strategy generated positive returns during the year.

### TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2012:

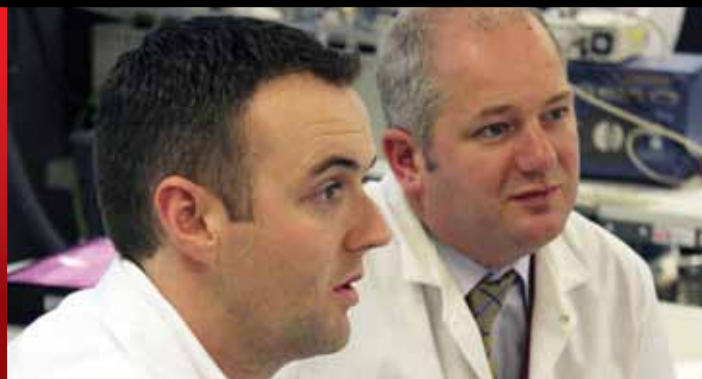


TIGS Assets as at 5 April 2012

UK equities	2.9%
Overseas equities	20.8%
Alternative asset classes	22.6%
Property	1.5%
Cash	6.1%
Currency hedge	0.2%
Global bonds	37.6%
Commodities	8.3%

## 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.



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