

In this issue of **InFocus** we provide you with:

- Information on changes to the measure of inflation used to calculate pension benefits
- A reminder of some key deadlines in the Scheme year and actions you may wish to take
- A summary of the Trustee Report and Accounts for 2010/11

Important:

Have you recently completed an Expression of Wish Form?

Our Pension Administrator, Aon Hewitt, has recently received some Expression of Wish Forms where the section confirming the Member's name has not been completed and we are therefore unable to identify who has submitted the form. If you have recently submitted an Expression of Wish Form, please contact Aon Hewitt on **0117 945 3544** to ensure your form has been fully completed.

Changes to the measure of inflation

You may have seen in the news that the Government is introducing changes to the measure of inflation used by pension schemes. In the past, schemes have been required to use the Retail Prices Index (RPI) but going forward some schemes will be required to use the Consumer Prices Index (CPI) in relation to a number of their benefits.

So, how does this affect you?

The measure of inflation to be used is determined by the Scheme Rules and the SELEX Pension Scheme will be required to use the measures shown in the table opposite.

Please note the table is only a summary and the increases described are subject to various caps, the detail of which is set out in the Rules. Further information can be found in the member booklets or by contacting Aon Hewitt, their details can be found on **page 6**.

All Sections	RPI* applies to pension increases
Main & 100+ Sections	CPI* applies to deferred increases
2000 Section	The greater of CPI* and RPI* applies to deferred increases using two different increase calculations. The CPI figure is as at September each year for revaluation and the RPI figure at January for pension increases

*These increases are subject to various caps.

We will consider the impact this change may have on the funding position of the Scheme with the Actuary during the current Scheme valuation.

What should I be considering?

During the year, there are a number of key deadlines within the Scheme that you should be aware of. The timeline below summarises these and reminds you of the actions you may wish to consider taking.



November:

- ➡ **Active members** – check you have received your **annual benefit statement** and check your personal details carefully. Please notify Aon Hewitt of any changes and keep your statement for future reference.

December/January:

- ➡ **Active and Pensioner members** – ensure you have notified your Employer and the Pension Administrator (including the BAE administrator if you also have pension benefits with BAE Systems) of any change of address. This is especially important in advance of the benefit statement exercise each year.
- ➡ **Deferred members** – check you have received your **annual benefit statement** and check your personal details carefully. Please notify Aon Hewitt of any changes and keep your statement for future reference.

Timeline for 2011/2012

February:

- ➡ Consider whether to make a payment into your SBS or AVC fund before the end of the tax year. Contact Aon Hewitt if you need any information on the maximum amount you are able to pay and the deadlines for receiving your contributions.
- ➡ If you are currently a member of SBS for death in service benefits, look out for your annual renewal form.

28 February – deadline for Main Section Applications to change Contribution Level for the year 2012/13.

March:

28 March – deadline for 2000 Section members to join SBS to purchase additional death in service benefits or to amend level of death in service cover for the year.

April:

- ➡ Look out for your copy of InFocus.



May:

- ➡ **Pensioner members** – check you have received a pension increase letter and keep it for future reference.

The image shows two forms from the SELEX Pension Scheme. The top form is the 'Expression of Wish form', which is confidential to the Trustee of the SELEX Pension Scheme. It includes fields for Name, National Insurance No., Date of Birth, and a section for 'Details of nominees in BLOCK CAPITALS'. The bottom form is the 'Nomination of Beneficiary' form, which includes fields for Surname and NI Number. Both forms contain instructions and a section for 'Percentage of benefits'.

July/August:

- ➡ If you are lucky enough to have a break from work over the summer, it may be a good time to catch up on any outstanding paperwork.



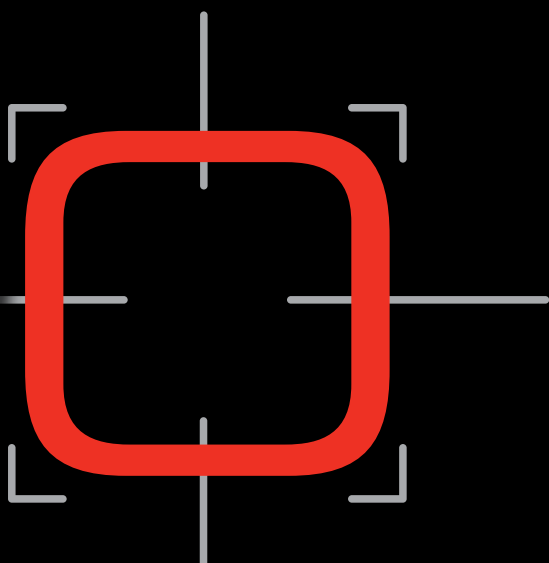
Perhaps review your current AVC investment choices? Does your expression of wish form or nomination of a dependant form need updating?

September/October:

- ➡ Look out for your copy of InFocus.

June:

- ➡ **Deferred members** – ensure you have notified the Pension Administrator (including the BAE administrator if you also have pension benefits with BAE Systems) of any change of address. This is especially important in advance of the benefit statement exercise each year.



Ongoing actions:

- ➡ **100+ Section Members** – consider how your Retirement Account is invested and whether any changes are needed to your fund selection.
- ➡ **2000 Section Members** – consider whether you wish to change your SBS contribution level.
- ➡ **All Sections** – consider whether to change your AVC contribution level or the investment choices for your AVC fund.
- ➡ Ensure your Employer and the Pension Administrator (including the BAE administrator if you also have pension benefits with BAE Systems) are kept up to date with any changes of address or personal details during the year.
- ➡ Consider whether your expression of wish form or nomination of a dependant form needs updating if your circumstances or wishes change. Remember that SELEX and BAE Systems each have their own separate forms and you should complete these for both schemes.

Please visit the Scheme website at www.selexpensions.co.uk for additional information including contact details and the relevant forms for effecting the changes set out above.

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 2011.

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.



Scheme assets

The assets of the Scheme have grown since the inception of the Scheme to £318 million. Further information is set out below:

	Assets of the Scheme at 5 April 2010	£253m
+	Income (Company contributions, member contributions and other income)	£42m
-	Outgoings (Pensions, lump sums, death in service insurance and administration expenses)	(£5m)
+	Net return on investments (Market value of investments after allowing for expenses) made up of: <ul style="list-style-type: none"> • An increase in the derivatives value, including swaps, of £8 million; • An increase in other asset values, including TIGS and DC funds of £16 million; and • Investment income of £4 million 	£28m
=	Assets of the Scheme at 5 April 2011	£318m

Overall investment performance

The Scheme's total investment strategy (including liability hedging and TIGS) as at 5 April 2011 has returned:

12 months:

11.2%

3 years (p.a.):

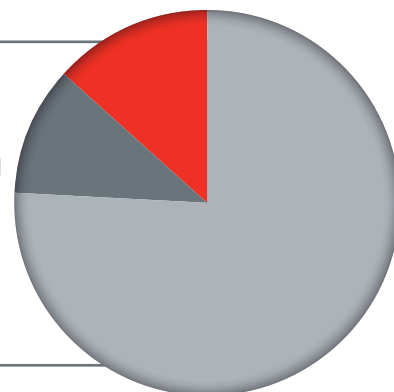
17.9%

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 4,834 members, 76% are employed (active) members.

Membership as at 5 April 2011

- Employed (active) members 3,678
- Pensioners 524
- Deferred Pensioners 632



Investing the assets of the Scheme

We have worked with the Scheme's investment manager, P-Solve Investments Limited, to further develop the investment strategy. This year has again seen investment returns outperforming our objectives and we are monitoring the position as market conditions remain unsettled.

Our swaps portfolio has undergone some restructuring during the year and has again performed well, providing protection for the Scheme. The TIGS investments outperformed our objectives over the year.

We monitor the performance of our investment managers regularly and we receive detailed investment reports which show how each of our investments has performed and whether our managers have met our benchmarks.

During the year, we, on advice from the Trustee's investment adviser, made a change to the Scheme's investment strategy to reflect the changing dynamics of the Scheme's assets and liabilities. Having allowed for any funds needed to maintain the swaps portfolio at the agreed level, the remaining assets are then invested in TIGS. In a shift from its previous 100% "return-seeking" allocation, the Scheme now has an allocation of 80% to "return-seeking" assets and 20% to "matching" assets with new contributions coming into the Scheme each month being used to maintain this balance.

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.

Definitions

Return-seeking assets:

Also referred to as "on-risk assets", these are investments which are designed to generate an investment return for the Scheme, taking risk in a controlled manner. Such assets include equities, high yield bonds, property & commodities.



Matching assets:

Also referred to as "off-risk assets", these are investments which are designed with protection and risk management in mind. They are used to match movements in the Scheme's liabilities rather than to generate any out-performance. Such assets include cash and Government gilts.



Swaps and liability hedging arrangements

In order to protect the Scheme against changes in long-term interest rates and inflation, we entered into 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 August 2010 to ensure the swaps reflected 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. If interest rates are high enough when the swaptions mature in January 2012, they will turn into swaps, otherwise, they will expire and the Scheme will have the benefit of the cash premium received.

During the year we also purchased a number of fixed interest 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 as at 5 April 2011 was £6.2m (5 April 2010: £14.9m). However, cash was released from the swaps during the year and reinvested in gilts meaning that the swap contracts actually increased in value by £6.3m over the Scheme Year. These gains will broadly offset an increase in the value of the Scheme's liabilities due to the net effect of increases in inflation expectations and changes in long-term interest rates.

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 are 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 has returned 9.16% against an objective of 3.79%. Since inception the TIGS fund has returned 6.00% per annum against an objective of 6.47% per annum.

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

Contact details

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Pensions Website: www.selexpensions.co.uk
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Aon Hewitt, 25 Marsh Street,
Bristol BS1 4AQ

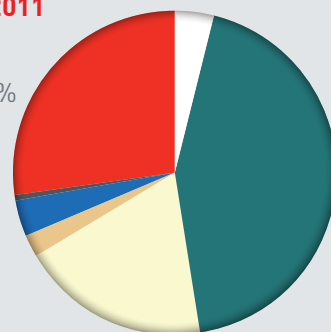


TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2011:

TIGS Assets as at 5 April 2011

UK equities	4.1%
Overseas equities	43.6%
Alternative asset classes	19.2%
Property	2.0%
Cash	3.7%
Currency hedge	0.1%
Global bonds	27.3%



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.