IN FOCUS

SELEX Pension Scheme

A newsletter for members of the SELEX Pension Scheme

Issue 11. September 2010

News Alert! Pension scheme of the year award win!

News

Award winning

The Trustees are delighted to let you know that the SELEX Pension Scheme was successful in the "Professional Pensions" 2010 Scheme of the Year awards – winning in the category Best Defined Benefit Investment Strategy. Other shortlisted schemes included Barclays Bank, Honda, Marks & Spencer and Tesco.

The "Professional Pensions" awards are the highest profile awards for pensions in the UK. The winning submission can be seen on the Scheme website. The Scheme was also shortlisted in the category for Best Use of Risk Reduction Strategies.

Martin Flavell, Trustee Director of the SELEX Pension Scheme and Sandi Toksvig, awards host.

Upcoming election for member-nominated trustee directors

The current member-nominated trustee directors (MNDs) were appointed for a three year term of office in October 2007 which will expire on 31 October 2010. It is therefore necessary to hold another election and the existing MNDs are each eligible to be re-elected if they wish to stand.

Each MND is a member of the Pensions Consultative Committee (PCC), which elects four of its representatives to sit on the board of directors of SELEX Pension Scheme (Trustee) Limited, the Trustee of the Scheme.

The process will be carried out as follows:

- The PCC will nominate four of its representatives to stand for election as MNDs for a three year term of office from 31 October 2010.
- The election will be conducted by secret ballot, either at a meeting of the PCC or by post or electronic communication.
- Each PCC representative will have one vote per MND vacancy and the representatives with the most votes shall be considered elected.
- In the event that there are more representatives nominated than vacancies, those with the most votes shall be elected. Any with equal votes shall be put forward for a further ballot of the PCC.
- If there are insufficient nominations, the process will be repeated at each PCC meeting. If a vacancy remains outstanding after a year, the Trustee Directors will consider adopting an alternative method of nomination and selection.

In this issue

In this issue of IN FOCUS we provide you with:

- Notification of the forthcoming member-nominated trustee director elections;
- Details of the Aon Annuity Service;
- A reminder to members – Expression of Wish Form;
- A summary of the Trustee Report and Accounts for 2009/10.

Annuity Service Launch

The Trustee is pleased to confirm that it has launched an Annuity Service with Aon Consulting Limited to assist members who are purchasing a pension income (an annuity) with an external pension provider.

An Annuity Guide has been produced to help members of the Scheme who have voluntary savings which they are unable to, or do not wish to, receive as a cash lump sum. The cash lump sum is known as a Pension Commencement Lump Sum and is currently tax free, if paid within the Scheme and HM Revenue & Customs limits.

Voluntary savings include...	Main	100+	2000
Additional Voluntary Contributions (AVCs)	✓	✓	✓
Selected Benefits Scheme (SBS) for retirement benefits			✓
Retirement Account		✓	

In what circumstances might I need to purchase an annuity?
Broadly, you may not be able to take your entire voluntary savings as a cash lump sum if your voluntary savings fund exceeds approximately 25% of the total value of your SELEX pension benefits at retirement, or exceeds £50,000 (or 25% of the value of your voluntary savings fund if this would be greater than £50,000).

Alternatively, some members may not wish to take any cash from their voluntary savings and instead want to receive all their benefits as pension income.

If you have voluntary savings which you cannot, or do not wish to, take as part of your Pension Commencement Lump Sum at retirement, you have three options:

1. Convert your voluntary savings into an annual pension (an annuity) with our default provider Standard Life; or
2. Purchase an annuity with a different insurance company (known as an "Open Market Option"); or
3. If you make a written request, which is approved by the Trustee, you may defer purchasing an annuity with your AVCs until a later date (your SBS and Retirement Account must be taken at the same time as your SELEX pension benefits).

If you wish to compare the annuity that is being offered by Standard Life with other annuity providers, you can do this by using an Independent Financial Adviser (IFA) of your choice, by contacting annuity providers directly yourself or by using Aon's Annuity Service.

How does the Aon Annuity Service work?
When you receive your retirement illustration from Aon you can request details of the Aon Annuity Service by ticking the box on the Retirement Options form. You will be given log in details for a website and will be able to research the annuity market online and get various quotations for different types of pension, i.e. spouse's/partner's pensions and annual increases.

Once you have decided on the type of annuity you would like you should complete the Annuity Questionnaire and return it to Aon's Annuity Service. Upon receipt of your questionnaire, a qualified consultant will write to you with a formal recommendation on the best annuity on the open market to cover your requirements.

The Trustee will pay for one formal recommendation from Aon's Annuity Service. There will be no commission payable to Aon and you will receive the full value of the annuity. If you require further advice at a later date or advice on more complex retirement options then you can still use the Aon Annuity Service but you will need to meet the cost of this service, usually by paying commission.

Where can I find out more?
Further details of the Annuity Service can be found in the Annuity Guide, which is available on the Scheme's website **www.selexpensions.co.uk** in the 'Forms and Publications' section.

Nominating a Dependant or a Specified Dependant

You may be aware that in order to assist the Trustee in determining who any **lump sum** benefits should be paid to in the event of your death, you are encouraged to complete an Expression of Wish Form (available from the 'Forms and Publications' section of the Scheme's website, **www.selexpensions.co.uk**). The Expression of Wish form should be completed by all members in all sections of the Scheme.

In addition, to assist the Trustee in determining who any **pension** benefits should be paid to in the event of your death, you should also consider whether you wish to nominate a Dependant (Main Section and 100+ Section) or a Specified Dependant (2000 Section). This is particularly important if you have a partner who is not your legal spouse.

The Scheme provides survivor's pension benefits upon your death in certain circumstances. For full details please see the Member Booklet for your section of the Scheme.

Main and 100+ Sections

The Trustee has a discretion to pay some or all of the pension which would have been payable to a surviving spouse to another Dependant. This discretion applies whether or not there is a surviving spouse.

If you would like the Trustee to consider paying the survivor's pension benefits to someone who is not your spouse, but is financially dependent on you, then please complete the 'Nomination of a Dependant' form, (available from the 'Forms and Publications' section of the Scheme's website, **www.selexpensions.co.uk**). The Trustee will take into account your wishes when making their decision, but is not bound by this nomination.

If your personal circumstances change, you may wish to consider updating your 'Nomination of a Dependant' form.

2000 Section

The 2000 Section of the Scheme provides benefits which will be paid to a spouse or a Specified Dependant in certain situations (for example, after you have retired). For further details about Specified Dependants, see the Member's Booklet for the 2000 Section of the Scheme.

You have the opportunity to nominate one or more people to be your Specified Dependant(s) if you do not have a spouse or if you are not living with your spouse. If your nomination is accepted by the Trustee, in the event of your death your Specified Dependant(s) would receive benefits similar to those which would have been paid to a surviving spouse.

If you are not married to your partner, the Trustee recommends that you consider nominating your partner as your Specified Dependant so that your partner will be treated in a similar way to a spouse in these circumstances.

If you would like to nominate one or more people to be your Specified Dependant(s) you must complete the 'Nomination of a Specified Dependant' form (available from the 'Forms and Publications' section of the Scheme's website, **www.selexpensions.co.uk**).

You should note that:

- you must demonstrate that the person you are nominating is wholly or mainly dependent on you for the ordinary necessaries of life;
- you can only nominate a Specified Dependant if you are under age 65 and have not drawn your pension benefits;
- your nomination has to be approved by the Trustee. The Trustee may reject the nomination without giving reasons.
- you may only revoke your nomination before your pension starts and only if there has been a material change in circumstances and the revocation is approved by the Trustee.

Report and Accounts

Each year the Trustee is 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 2010. The audit work has been completed by our independent auditors Ernst & Young LLP. The Trustee is 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 £253 million. Further information is set out below:

	Assets of the Scheme at 5 April 2009	£162m
+	**Income** (Company contributions, member contributions and other income)	£42m
-	**Outgoings** (Pensions, lump sums, death in service insurance and administration expenses)	£3m
+	**Net return on investments** (Market value of investments after allowing for expenses) made up of: • An increase in the derivatives value, including swaps, of £14 million; • An increase in other asset values, including TIGS and DC funds of £35 million; and • Investment income of £3 million	£52m
=	**Assets of the Scheme at 5 April 2010**	**£253m**

Overall investment performance

The Scheme's total investment strategy (including liability hedging and TIGS) as at 31 March 2010 has returned:

12 months: 25.4%

3 years (p.a.): 26.1%

Membership numbers

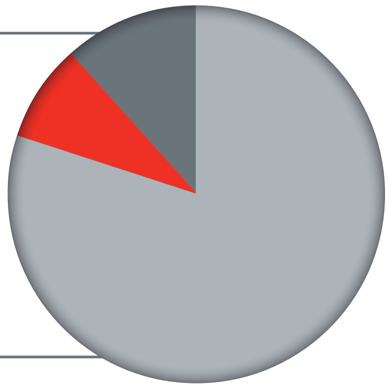
The majority of our members are current employees who are paying contributions and building up benefits. This chart shows that out of a total of 4,868 members, 80% are employed (active) members.

Membership as at 5 April 2010

Employed (active) members 3,907

Pensioners 406

Deferred Pensioners 555



Report and Accounts – Continued

Investing the assets of the Scheme

The Trustee has continued to monitor and develop the Scheme's investment strategy with the Scheme's investment manager, P-Solve Investments Limited. This year has seen a significant improvement in investment returns, outperforming our objectives during the year following a volatile and difficult period last year.

The position continues to be monitored closely to determine whether this growth is sustainable or whether the difficult market conditions are set to return.

Our swaps portfolio has undergone some restructuring during the year and has again performed well, providing protection for the Scheme and producing a mark to market valuation increase over the period. The TIGS investments significantly outperformed our objectives over the year. The Trustee monitors 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.

The Trustee'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.

Swaps and liability hedging arrangements

In order to protect the Scheme against changes in long term interest rates and inflation, the Trustee 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. The Trustee regularly considers whether the swaps need refining in order to ensure the Scheme's liabilities remain suitably matched. The swaps were refined in December 2009 in order to allow for the purchase of the swaptions and to ensure the swaps reflected the profile of the Scheme's liabilities. Cash was released from the swaps and invested in inflation-linked gilts.

In December 2009, the Trustee entered into a 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 December 2010, they will turn into swaps, otherwise, they will expire and the Scheme will have the benefit of the cash premium received.

During the year the Trustee has also purchased a number of inflation-linked 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.

Linking our assets to our liabilities has enabled us to be more certain about the size of our deficit. The swap contracts increased in value by £11 million over the Scheme Year. Cash was released from the swaps during the year and reinvested in gilts. 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 Directors' 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 26.80% against an objective of 3.87%. Since inception the TIGS fund has returned 5.16% against an objective of 7.18% per annum.

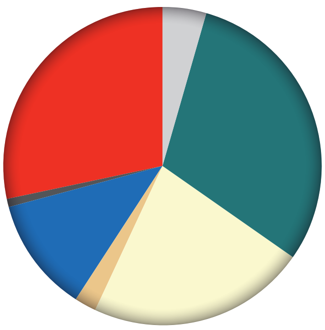
The TIGS investment has therefore significantly outperformed the Trustee's targets over the last 12 months.

TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2010:

TIGS Assets as at 5 April 2010

- UK equities 4.7%
- Overseas equities 30.5%
- Alternative asset classes 22.5%
- Property 2.2%
- Cash 11.6%
- Currency hedge 0.1%
- Global bonds 28.4%



Retention of powers

The Scheme currently has Rules that permit the payment of surplus funding to the employer(s) in very narrow circumstances. In order to keep those Rules in place after 5 April 2011, legislation requires the Trustees to resolve to do so by that date. Before they pass that resolution they must give notice to Scheme members of their intention. The Trustees are now giving you that notice that they have decided to retain the existing Rules that permit payments from the Scheme to the employer(s). You should be aware that any payment of surplus to the employer(s) would be subject to stringent statutory conditions. In particular, if the Scheme were being wound up at the time, a payment of surplus could only be made if the Trustees had first secured all member benefits; and if the Scheme were ongoing, a payment could only be made if the Scheme was fully funded at a level that would allow all benefits to be secured. In either case, members would have to be notified in advance and the Pensions Regulator would also be involved in the process.

This is not a notice that surplus is going to be paid to the employer(s) - the prospect of having a surplus seems like a remote possibility currently - but the Trustees recognise that things can change and they believe that it is in the interests of the Scheme to preserve these existing powers to pay surplus to the employers. The existence of these powers can be seen by employers as a "safety valve" in case they over-fund the Scheme. Without a power to pay surplus to the employers, the employers might decide to be more cautious in their funding of the Scheme. If there is a deficit when the Scheme winds up the Trustees have power under section 75 of the Pensions Act 1995 to demand that the employer(s) make this good.

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