

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 13 JANUARY 2015**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 13 January 2015.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the Selex Pension Scheme. There are currently eleven representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wyllie	Edinburgh	
Martin Flavell	HR - Finmeccanica	
Andrew Letton	HR – Selex ES	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Danny Vassiliades	Scheme Actuary	

The meeting was held to receive feedback from the Trustee meeting on 9 December 2014 and to discuss the preliminary results of the actuarial valuation and options for addressing the increasing cost of future service benefits.

Financial Covenant review

Ernst & Young had provided the Trustee with an employer covenant review update, assessing the financial strength of Selex ES Ltd and Finmeccanica SpA. It was reported that there had been no material change in the financial covenant strength since the full review carried out in July 2014 (which rated the financial strength as strong).

Quarterly Funding Update to 30 September 2014

The quarterly funding update showed that the Scheme had an estimated surplus of £77 million. This was a decrease in surplus over the quarter to 30 September 2014. The main reason for the change in funding position was due to changes to interest rate and inflation expectations. Falls in interest rates and inflation rates have resulted in a net increase in the value of the Scheme's liabilities, the majority of which, but not all, was reflected by an increase in the liability hedge.

The cost of future benefit accrual had increased further over the quarter, and is 8.4% ahead of the rate at the 2011 valuation (which means that the cost of providing pensions is higher than the cost assumed at the last valuation). This resulted from a significant fall in interest rate expectations.

Valuation

The actuarial valuation of the Scheme is being carried out, with an effective date of 5 April 2014. The valuation process is normally carried out every three years and looks at 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 Trustee has reviewed the preliminary results and has been looking at how the assumptions used for the last valuation compare against the actual experience of the Scheme. The Trustee has been analysing various potential updates to these assumptions with the Scheme Actuary.

The PCC and Company discussed the outcome of the actuarial valuation and alternative approaches for dealing with the increase in future service cost (estimated at 5.6% of earnings per annum ahead of the rate set at the last valuation in 2011). The forthcoming legislative changes to State pensions were also discussed, which will see the ability to contract-out of the State second pension being removed from April 2016. The Company and PCC discussed the impact this may have on the Scheme and how this could be addressed. Danny Vassiliades was also in attendance to answer queries on the actuarial valuation results and assist the PCC in understanding the Scheme funding process.

Discussions between the Company and the PCC on these matters will continue in further detail over the coming months.

PPF Levy

The Pension Protection Fund (PPF) is funded by collecting levies from eligible schemes, including the Selex Pension Scheme. The Trustee has been working with the Scheme's actuarial and investment advisers to understand what the Scheme levy is likely to be for 2015/16. There are also actions which can be taken which will impact the amount of levy payable. The PPF estimate the underfunding risk of the Scheme using its standard model. However the Scheme has a much more sophisticated strategy than that taken into account in the PPF's standard asset stress model, and the Scheme will be submitting a "bespoke" asset stress analysis which takes into account the liability hedge, which is expected to reduce the levy.

In addition, submitting updated funding figures as at 5 April 2014 (which values the funding level of the Scheme against the PPF level of benefits) rather than using the previous 2011 figures, is also likely to reduce the levy payable.

Investment Performance

- The market value of the total assets of the Scheme at 30 September 2014 was £572 million.
- Performance of the return-seeking assets over the quarter was 0.54%, which was 0.34% behind the objective. In the longer term the assets were outperforming by 2.84% over twelve months and 3.94% per annum over three years.

- The total investment strategy (both the return-seeking and the matching assets) returned 13.25% over 12 months which was 2.04% ahead of the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is 3.73% per annum ahead of the change in liabilities.

Allocation of Assets

At 30 September 2014, the Trustee held 66.57% of the Scheme's assets "on-risk" and 33.43% "off-risk". The Scheme's investment advisers are to increase the amount "on-risk" to bring it back up to the 70% target. On-risk assets are those seeking to generate an investment return (e.g. equities, commodities, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (e.g.: Government gilts, cash).

Custodian

A review of the custodian used by P-Solve (KAS Bank) has been completed and no changes were proposed.

Administration and Annual Benefit Statements

Work levels at Aon Hewitt had remained high over the quarter and performance against the agreed service levels had reduced. Aon Hewitt's service had continued to be impacted by the change in Company payroll provider and the challenges in obtaining electronic payroll and HR data. A significant amount of progress had been made and Aon Hewitt are now addressing the backlog of work.

There had been a delay in the production of annual benefit statements, and the Pensionline Modeller remains unavailable whilst the administration systems are being updated and tested. Communications have been issued in the InFocus newsletter and on the Scheme website notifying members of the current position and advising that statements would be issued to active members no later than 5 April 2015. It was confirmed that good progress is being made to meet this deadline.

Work is also underway to re-launch the online pension modeller within this timescale, which we know is well used by Scheme members, and to lift the restrictions currently in place on the provision of retirement quotations by the Scheme Administrator, Aon Hewitt.

The temporary restriction on non-urgent benefit illustrations remains in place to enable Aon Hewitt to focus on members who are planning on taking their pension in the short – medium term. If you have a firm date for leaving the business, and wish to take your pension within the next 9 months, please contact Aon Hewitt for an illustration of your Selex pension benefits. For all other longer term illustrations, we would advise you to wait until the online modeller is relaunched. Please contact your PCC representative if you wish to discuss your individual circumstances.

2014 Annual Report & Accounts

The Scheme's 2014 Annual Report & Accounts have been finalised and signed within the legislative deadline. These are available online at www.selexpensions.co.uk. The November 2014 edition of In Focus contains a summary of the key information.

Legal adviser

A review of the Trustee's legal adviser had been carried out and no changes are proposed at this time.

Trustee Training Day

The annual Trustee Training Day took place in November 2014 covering a range of topics with presentations from the Scheme's pensions management, legal, actuarial and investment advisers.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 10 November 2014. The Selex benefits which are invested in the DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

The P-Solve 'blend funds' which make up the default fund in the DC investment strategy had slightly under-performed their long term targets over the quarter to 30 September 2014, but remained well ahead of target since the inception of the funds.

Retirement options

The DC Committee has continued to review the options which will be available to members at retirement, following the Government announcement (as part of the 2014 Budget) to abolish the requirement for members with DC benefits to purchase an annuity. The Committee has been in discussions with a number of external providers to establish what retirement service options are available and has now selected Fidelity as the preferred support partner. Work is in progress to establish a guidance process for members.

Date of the Next Meeting

The next meeting of the PCC will be held on 21 April 2015.

Contact Details

Name	Location	Email Address	Phone Number
Jim Cull	Edinburgh	James.Cull@selex-es.com	0131 343 8768
James Fordyce	Edinburgh	James.Fordyce@selex-es.com	0131 343 4658
Martin Johnson	Basildon	Martin.h.Johnson@selex-es.com	01268 887074
Tony Kingsbury	Capability Green	Tony.Kingsbury@selex-es.com	01582 886052
Scott McMillan	Basildon	Scott.McMillan@selex-es.com	01268 887094
Stuart Rushworth	Capability Green	Stuart.Rushworth@selex-es.com	01582 886258
Phil Slade	Capability Green	Phil.Slade@selex-es.com	01582 886580
Scott Wallace	Edinburgh	Scott.Wallace@selex-es.com	0131 343 5334
Paul Wilton	Southampton	Paul.Wilton@selex-es.com	02380 316775
Colin Wyllie	Edinburgh	Colin.Wyllie@selex-es.com	0131 343 8136
Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	