Selex
Pension Scheme

PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 14 JULY 2015

A meeting of the Pensions Consultative Committee (PCC) took place in London on 14 July 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 twelve representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Phil Slade	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Ken Thompson	Pensioner Representative	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Andrew Letton	HR – Selex ES	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meetings on 18 May 2015 and 30 June 2015.

5 April 2014 Actuarial Valuation

The Trustee and Company have reached agreement on the actuarial valuation assumptions and contributions. The valuation process has been completed and the relevant documentation signed and submitted to the Pensions Regulator in advance of the statutory deadline.

The funding surplus at 5 April 2014 was £79.2m. The cost of providing future pension had increased by 5.9% p.a. of earnings between 5 April 2011 and 5 April 2014.

Member contributions will remain the same (with reductions in contributions for some members in the Main Section as part of the Career Salary benefit changes).

The Company will continue to pay contributions at its current rate until March 2016. From April 2016, the Company will become liable for an additional National Insurance contribution of c.0.7% p.a. of earnings which will apply following the cessation of contracting-out. The Company's contribution to the Scheme will reduce by 0.7% p.a. of earnings in April 2016, thereby maintaining its current cost.

The remaining future service cost of 5.3% p.a. of earnings (having allowed for the member and Company contributions and the change to a Career Salary benefit basis) will be supported by using a proportion of the Scheme's funding surplus, including the additional surplus associated with the Career Salary change.

The valuation results themselves do not reflect the Career Salary changes to the Scheme, as the valuation is as at 5 April 2014. However, when agreeing the future service contribution rate, the Company and Trustee have taken into account the Career Salary and contracting-out changes which come into effect in April 2016.

Career Salary implementation

The Trustee and Company are working with the Scheme's advisers to implement the new Career Salary benefit structure for 6 April 2016. During this transitional phase, it will not be possible to provide full details of future benefit projections and your patience is appreciated whilst the Scheme administration systems are being re-programmed.

Member roadshows will be held in the Autumn to provide information on the new structure. Members will receive details of the roadshows in due course.

Benefit statements 2015

In light of the changes to introduce a Career Salary benefit structure in April 2016, the Trustee has reviewed the 2015 benefit statement process, along with Aon Hewitt and the PCC. The April 2015 statements will show the accrued pension as at 5 April 2015 but will not show any defined benefit projection to NRD. Any defined contribution funds (AVCs and Retirement Account) and the SBS fund will continue to be projected to NRD.

The 2016 statements will include projections to NRD for defined benefit and defined contribution benefits, under the new Career Salary benefit structure.

Quarterly Funding Update to 31 March 2015

The quarterly funding update showed that the Scheme had an estimated surplus of £42 million at 31 March 2015. The surplus had decreased over the quarter by £6 million due to a net loss from changes to interest and inflation expectations. Falls in interest rates and inflation rates had resulted in a net increase in the value of the Scheme's liabilities, not all of which was reflected by the increase in the liability hedge. There has, however, been higher than expected returns on the Scheme's assets (excluding the hedge).

The cost of future accrual had increased over the quarter, and was 15.6% p.a. of earnings ahead of the rate agreed at the 2014 valuation (which means that the cost of providing pensions is now significantly higher than the cost set at the last valuation).

Integrated Risk Management Plan

The Trustee, with input from the Scheme advisers, has developed an Integrated Risk Management Plan which records the Trustee's integrated approach to investment, funding and covenant assessment. This is in line with 'best practice' when carrying out an actuarial valuation process.

Investment Performance

- The market value of the total assets of the Scheme at 31 March 2015 was £680 million.

- Performance of the return-seeking assets over the quarter was 3.19%, which was 2.31% ahead of the objective. In the longer term the assets were outperforming by 3.37% over twelve months and 2.93% per annum over three years.

- The total investment strategy (both the return-seeking and the matching assets) returned 26.12% over 12 months which was 5.58% behind of the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is 0.26% per annum ahead of the change in liabilities.

Allocation of Assets

At 31 March 2015 the Trustee held 64% of the Scheme's assets "on-risk" and 36% "off-risk". 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).

Liability hedge review

The Scheme's investment adviser, P-Solve, have reviewed the current liability hedge structure with the Trustee. Some changes were determined to be appropriate to reflect the forthcoming Career Salary benefit changes and the outcome of the 2014 actuarial valuation.

Additional ISDA Agreement

The Trustee has entered into a new investment agreement with Citigroup (an 'ISDA') which broadens the range of counterparty banks with whom the Scheme can trade.

Administration

The contribution reconciliation project between Aon Hewitt and the Company payroll provider, NGA, has now been completed. The Trustee has asked the Scheme Auditor (Ernst & Young) to carry out additional contribution testing as part of the 2015 annual audit.

SBS to AVC transfer

The SBS to AVC transfer project had been put on hold pending completion of the Company consultation on benefit changes. The Trustee is now looking to combine this project with communications around the new Buy Up voluntary savings option early in 2016.

DWP State Pension Forecasts

Members can now obtain an estimate of their State Pension from the Pensionline website. This information is provided by the DWP and will be updated on an annual basis.

Training session – transfer values

The PCC members have received a training session on how transfer values are calculated.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 19 May 2015. This committee was established to enable the Trustees of

Finmeccanica FuturePlanner, the Selex Pension Scheme and the AgustaWestland UK Pension Scheme to jointly review investment matters for their defined contribution benefits. The Selex benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

The majority of the P-Solve 'blend funds' (which make up the default fund in the DC investment strategy) had considerably out-performed their long term targets both over the quarter to 31 March 2015 and since the inception of the funds. The Retirement Protection Fund had slightly underperformed since inception but exceeded the target over the quarter.

Charges

The Government has introduced a cap of 0.75% on the total member charges within default investment funds. The P-Solve funds used within the Finmeccanica UK schemes are already within the cap, and P-Solve have reduced them further.

Revised fee tiering

The Trustee has agreed a revised tiered fee structure with P-Solve, treating the Finmeccanica schemes as a single body of DC assets. This is a positive step and will reduce the charges on AVC funds and Retirement Accounts for members.

Retirement options

The Trustee is working with Fidelity to set up an 'at retirement' tool which will be available initially to FuturePlanner members, following the Government announcement (as part of the 2014 Budget) to abolish the requirement for members with DC benefits to purchase an annuity. It is hoped this will be available in Autumn 2015.

<u>Summer Budget 2015</u>

The PCC have received a training session on the Summer Budget 2015. Some headline announcements are as follows:

- The Government has announced that it will undertake a full consultation on the future of pension tax relief which it claims is costing net £21.2 billion per annum. The consultation will run until 30 September 2015.
- The Lifetime Allowance will reduce from £1.25 million to £1 million from 6 April 2016.
- A new 'tapered Annual Allowance' will be introduced from 6 April 2016 affecting those with incomes (including pension contributions) in excess of £150,000.
- The Government will 'actively monitor' the growth of salary sacrifice schemes (SMART) that reduce employment taxes and their effect on tax receipts.
- The Government's PensionWise service (which provides guidance on the new retirement flexibilities) will be extended to those age 50 and above and there will be a marketing campaign.
- To make it easier to access the new retirement flexibilities for DC schemes there will be a consultation on the process for transfers between schemes with the potential for there to be a cap on early exit charges.
- The Government is planning a secondary annuities market (i.e. existing pensioners selling their annuity for a cash value) but implementation will be delayed until 2017 to ensure there is support to consumers in making their decision.

<u>Date of the Next Meeting</u>

The next meeting of the PCC is scheduled for 20 October 2015.

Contact Details

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