

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 20 OCTOBER 2015**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 20 October 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:-

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| Tony Kingsbury | Capability Green | Chairman |
| Jim Cull | Edinburgh | |
| James Fordyce | Edinburgh | |
| Stephen Park | Edinburgh | |
| Stuart Rushworth | Capability Green | |
| Phil Slade | Capability Green | |
| 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 meeting on 6 October 2015.

Quarterly Funding Update to 30 June 2015

The quarterly funding update showed that the Scheme had an estimated surplus of £31 million at 30 June 2015 (on the final salary benefit structure basis). The surplus had decreased over the quarter by £9 million, primarily due to lower than assumed investment returns on Scheme assets (excluding the hedge) and the cost of new benefit accrual being higher than the contributions paid to the Scheme. The cost of accrual being higher than the contributions being paid is as expected following the last actuarial valuation, and a proportion of the surplus has been allocated to support this difference.

The total cost of future accrual had decreased over the quarter, however the cost remains 7.8% p.a. of earnings ahead of the rate agreed at the 2014 valuation (which means that the cost of providing pensions is significantly higher than the cost set at the last valuation, even after the reduction this quarter).

The funding position on the Career Salary benefit basis from 6 April 2016 will be more favourable, with a higher level of surplus. However, the cost of future pension accrual under the new basis will also be higher than the rate set at the 2014 valuation (although to a lesser extent than on the final salary benefit structure).

Cash equivalent transfer value (CETV) basis

The Trustee has reviewed the assumptions used in the calculation of transfer values – the amount provided to a member to enable their benefits to be transferred out to another arrangement. There was only one change made which will have minimal impact on the transfer value.

Investment Performance

- The market value of the total assets of the Scheme at 30 June 2015 was £652 million.
- It has been a challenging quarter for investment markets and performance of the return-seeking assets over the quarter was -1.06%, which was -1.94% behind the objective. In the longer term the assets were outperforming by 0.22% over twelve months and 3.05% per annum over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned 17.5% over 12 months which was -7.02% behind of the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is 0.74% per annum ahead of the change in liabilities.

Allocation of Assets

At 30 June 2015 the Trustee held 63% of the Scheme's assets "on-risk" and 37% "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 undertaken a further review of the current liability hedge structure with the Trustee. The changes which were determined to be appropriate (to reflect the forthcoming Career Salary benefit changes and the outcome of the 2014 actuarial valuation) have now been implemented.

Statement of Investment principles

The Scheme's Statement of Investment Principles was updated, primarily to reflect the agreed changes to the Scheme's liability hedge.

Additional Counterparty Banks

The Trustee has extended the range of banks with whom it can enter into trades such as interest rate and inflation swaps within the liability hedge. The panel will now include four additional banks (Merrill Lynch, Lloyds, JP Morgan and Deutsche bank).

Career Salary Update

Work is progressing on the updates to the Scheme Rules and the calculation specifications to reflect the new Career Salary benefit structure.

The Company has discussed some points of detail with the PCC, and sought their feedback on some areas which have been raised by the drafting of the Scheme Rules.

Due to the scale and importance of the Career Salary implementation, a Project Manager at Aon Hewitt is supporting the project, with overall responsibility for delivering the calculation programming and administration aspects of the implementation.

The Pensions Management Team has been visiting various Selex locations to provide members with briefings on the new Career Salary structure. Overall, the briefings have been very well received.

Voluntary savings

Buy Up

The Trustee has taken actuarial advice and determined a calculation methodology for the Buy Up option. The Trustee will be writing to members in December 2015 to confirm the Buy Up rates for the 2016/17 Scheme Year. Members will need to respond early in the New Year if they wish to participate in Buy Up.

SBS transfer option

The Trustee will be writing to members with SBS funds offering them a one-off opportunity to transfer their SBS funds to the Scheme's Additional Voluntary Contribution (AVC) arrangement. Members should expect to receive the communication in December 2015 and will need to respond early in the New Year if they wish to take up the transfer option.

SBS rate from April 2016

Members who are currently paying SBS for retirement benefits will also receive a communication in December 2015 asking them to set a 'frozen' SBS contribution rate from April 2016 onwards. This rate will be a % of Pensionable Salary and it will not be possible to change this rate in future, other than to cease SBS contributions. Members who wish to continue contributing to SBS in future will need to respond early in the New Year.

Benefit Statements

The 2015 Benefit Statements were issued during September 2015. Deferred Benefit Statements are targeted to be issued during November 2015.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 15 September 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 since the inception of the funds although they had underperformed over the quarter.

Security of assets

The committee has met with Old Mutual Wealth (who provide the investment platform for our DC assets) to assess the security of the assets, and sufficient comfort was provided on their robust processes and strong financial position.

Review of pick and mix funds

P-Solve have reviewed the range of pick and mix funds available to members with AVCs and 100+ Retirement Accounts, and recommended two changes:

- To replace the current Cash fund with the Sterling Liquidity fund (already used by FuturePlanner).
- To replace the two gilt funds with explicit annuity matching funds, since these asset classes are included in the fund range for this purpose.

The implementation of these changes will be communicated in due course.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 19 January 2016.

Contact Details

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