

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 14 JANUARY 2014**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 14 January 2014.

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:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Phil Slade	Capability Green	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wyllie	Edinburgh	
Andrew Letton	HR – Selex ES	
Brett Peters	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 10 December 2013 and to receive training on Income Drawdown.

New Trustee director

Jim Thomson stood down as a Trustee director with effect from 31 December 2013 and Scott Wallace has been appointed with effect from 1 January 2014. Further information will be provided in the next edition of the Scheme's newsletter, In Focus.

Covenant review

The Trustee monitors the "covenant" of the employers which support the Scheme. The "covenant" is the employer's legal obligation and ability to fund the Scheme now and in the future. Ernst & Young have provided the Trustee with a review of the covenant of Selex ES Ltd and Finmeccanica SpA and will do so on a six monthly basis in future.

In addition, the Trustee will be obtaining a detailed covenant review as part of the 2014 actuarial valuation process.

Quarterly Funding Update to 30 September 2013

The quarterly funding update showed that the Scheme had a surplus of £49 million. This was a slight reduction in the surplus from £52m at 30 June 2013. The employer's cost of

future accrual had increased over the quarter, and is 3.3% ahead of the rate at the last valuation (which means that the cost of providing pensions is higher than the cost assumed at the last valuation).

Pension Protection Fund (PPF) levy

The Pension Protection Fund (PPF) is funded by collecting levies from eligible schemes, of which the Selex Pension Scheme is one.

In setting the levy, the PPF assess the likely insolvency probability of the employers using credit scores from a credit agency called Dun & Bradstreet (D&B). The current D&B scores for Selex ES Ltd and Finmeccanica UK Ltd are the highest scores possible. It was discussed that in future, the PPF are going to be using credit scores from a different agency, Experian, instead of Dun & Bradstreet, and the formula is not currently known. This could therefore have an impact on the level of future levies payable by the Scheme.

Investment Performance

- The market value of the total assets of the Scheme at 30 September 2013 was £494 million.
- Performance of the return-seeking assets over the quarter was 1.39%, which was 0.51% ahead of the objective. In the longer term the assets were outperforming by 3.54% over twelve months and 1.46% per annum over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned 9.2% over 12 months which was 2.6% ahead of the increase in liabilities. Over three years performance is 4.1% per annum ahead of liabilities.

Allocation of Assets

At 30 September 2013 the Trustee held 70.96% of the Scheme's assets "on-risk" and 29.04% "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).

Custodian

P-Solve has reviewed the custodian used by the Scheme (KAS Bank) and has not recommended that any changes are required.

AVCs

The Trustee has put in place a separate Statement of Investment Principles for the AVC/Retirement Account funds.

Aon Hewitt have launched additional functionality within their interactive online facility, Pensionline, and now members with AVCs or a Retirement Account (100+ Section) can see their fund values and make investment changes online. Members who have these funds will be receiving a letter shortly advising how they can access their accounts.

Defined Contribution committee

A joint committee has been established comprising Trustee directors from the Selex Pension Scheme, AugustaWestland UK Pension Scheme and Finmeccanica FuturePlanner. The committee will meet quarterly to review defined contribution investment matters such as investment performance, charges and fund options. The defined contribution elements in the Selex Pension Scheme are Additional Voluntary Contributions and the 100+ Retirement Accounts.

Administration

Work levels at Aon Hewitt have remained high over the quarter and they continue to perform at or above agreed service levels.

Pension Schemes Governance Survey 2013

A Scheme benchmarking exercise has been undertaken reviewing the results of the Pension Regulator's Occupational Pension Schemes Governance Survey 2013. Overall, the Selex Pension Scheme governance ranks highly.

Benefit Statements

Benefit statements for deferred members have been issued to home addresses.

Lifetime Allowance and Annual Allowance

Factsheets on the Lifetime Allowance and Annual Allowance have been published on the Scheme website.

A guidance document has also been published on the website following feedback that members find it difficult to complete the 'Other Pension Benefits' form when retiring.

PCC constitution

The PCC have reviewed their constitution following changes to the Member Nominated Director election process in 2013. The amendments include the new six year MND appointment term, with two MNDs being elected every three years.

The allocation of representatives per site has also been reviewed following the restructuring of the Company to ensure it continues to reflect the number of Selex Pension Scheme members on each site. The number of representatives will remain the same.

Training on income drawdown

The PCC representatives received training on income drawdown. Income drawdown is an alternative form of retirement income to the traditional annuity.

Date of the Next Meeting

The next meeting of the PCC will be held on 29 April 2014.

Contact Details

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Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	