

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 15 JANUARY 2013**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 15 January 2013.

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 thirteen 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	
Christopher Guertin	Basildon	
Martin Johnson	Basildon	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wyllie	Edinburgh	
Martin Flavell	HR – Finmeccanica UK Ltd	
Andrew Letton	HR – Selex ES Ltd	
Mike Nixon	Head of Pensions	
Helen Pass	Pensions Management Team	
Susan Johnson	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 4 December 2012 and to receive training.

Selex ES - Apportionment Arrangement

A Deed has been entered into between the Trustee and the participating employers to 'apportion' the liabilities to the Scheme of SELEX Elsag Limited and SELEX Systems Integration Limited to Selex Galileo Limited (the change of name to Selex ES Limited took place after the Deed was signed). This means that the employer covenant backing the Scheme is unchanged.

Quarterly Funding Update to 30 September 2012

The quarterly funding update showed that the Scheme had a surplus of £42 million. This was an increase in the surplus of £3 million since 30 June 2012, and is the highest surplus to date. The employer's cost of future accrual had decreased over the quarter, although it was still higher than the rate at the last valuation.

Pension Protection Fund (PPF) levy

It is estimated that the PPF levy for 2013/14 will increase from £18,949 for 2012/13 to approximately £74,000. The main cause of the expected increase is the PPF estimate of the funding risk from the investment strategy due to recent falls in bond yields. However the Scheme continues to pursue a much more sophisticated strategy than that taken into account in the PPF's standard asset stress model, and submitting a bespoke asset stress analysis is likely to be beneficial for the Scheme due to it taking the liability hedge into account. The submission of the equivalent analysis for the 2012/13 year reduced the levy by £15,000.

The Trustee has instructed P-Solve to provide investment advice on the submission of an updated asset stress analysis as at 5 April 2012 for the PPF.

Investment Performance

- The market value of the total assets of the Scheme at 30 September 2012 was £420 million.
- Performance of the return-seeking assets over the quarter was 3.04%, which was 2.09% ahead of the objective.
- The total investment strategy (both the return-seeking and the matching assets) returned 12.2% over 12 months which was 7.4% ahead of the increase in liabilities. Over three years performance is 5.3% per annum ahead of liabilities.

Allocation of Assets

At 30 September 2012 the Trustee held 73% of the Scheme's assets "on-risk" and 27% "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). In light of the current position of surplus within the Scheme and the continuing difficult market conditions, the Trustee had adopted a tactical 70%:30% split and 10% of the Scheme's assets were moved off-risk during July and August 2012. Although the on-risk/off-risk split was 73%:27% as at 30 September 2012 the Trustee agreed that this was within an appropriate tolerance of the target.

TIGS strategy

The Trustee has received a report from Glyn Jones on the future developments of the TIGS strategy. In particular, this reiterated the difficult market conditions prevailing, the preference for income generating assets (such as high yield) and the continuing search for assets with alternative source of return.

Statement of Investment Principles (SIP)

The Trustee has signed a revised SIP after identifying some minor updates.

Additional Voluntary Contributions review

The Trustee intends to adopt P-Solve's delegated solution for AVCs which is similar to the TIGS investment product used for the main scheme assets, but designed for "money purchase" investments.

The PCC discussed options to improve the attractiveness and flexibility of AVCs and the link with the SBS option for members of the 2000 section.

Planning is currently underway and more information will be provided in due course.

The PCC members received a training session on the new AVC strategy.

Administration

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

Benefit Statements for deferred members were issued in December.

The Trustee has undertaken an effectiveness review and the results were positive and did not highlight significant training shortfalls.

Trivial commutation factors

The Trustee has adopted a new set of trivial commutation factors following new legislation. Members with a pension of less than £100 per annum within the Scheme, or total pension benefits worth less than £18,000, can now commute their pension for a lump sum. Eligible pensioners will be contacted shortly.

Training

The PCC members received training sessions on auto-enrolment and paying part of a severance paying into voluntary savings.

Member nominated trustee of FuturePlanner

The PCC had provided assistance to the Trustees of Finmeccanica FuturePlanner in the selection of a new member nominated trustee from Selex ES. The successful candidate is Brian Airlie who is based in Edinburgh.

Single State pension

The Government has proposed changes to create a single State pension from 2017. This could have implications for aspects of the Scheme benefits design which 'integrate' with the State pension and the PCC asked for training on the proposals.

Date of the Next Meeting

The next meeting of the PCC will be held on 30 April 2013.

Contact Details

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