

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 15 JULY 2014**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 15 July 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 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	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wyllie	Edinburgh	
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 1 July 2014.

Quarterly Funding Update to 31 March 2014

The quarterly funding update showed that the Scheme had an estimated surplus of £72 million. There had been no change in the surplus over the quarter since 31 December 2013. The cost of future accrual had increased over the quarter, and is 4% 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).

Valuation

The next actuarial valuation of the Scheme is due on 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 results of the valuation are expected towards the end of the year.

Communications have commenced between the Company and the Trustee on the key objectives for the valuation process and potential methods for dealing with the increasing future service cost - there is an estimated 4% of earnings per annum shortfall based on current contribution rates.

There is a forthcoming legislative change to State pensions which will see the ability to contract-out of the State second pension being removed from April 2016. This will result in an increase in National Insurance costs for both the Company and members. The Company, Trustee and PCC are considering the options available to the Selex Pension Scheme for dealing with the impact of the changes to the State pension.

An important factor in the valuation process is the assumption around mortality (life expectancy rates). The Trustee has commissioned an updated mortality analysis which looks at standard mortality projections and then incorporates Selex scheme specific factors.

The Trustee commissioned accountancy firm, Ernst & Young LLP, to complete a full review of the financial strength of the companies supporting the Selex Pension Scheme. This involved looking at the financial position of both Selex ES Ltd and Finmeccanica SpA. Overall, Ernst & Young confirmed that the financial covenant strength provided to the Scheme was strong, representing a grade 4 on the covenant rating scale which is the highest rating.

Investment Performance

- The market value of the total assets of the Scheme at 31 March 2014 was £519 million.
- Performance of the return-seeking assets over the quarter was 1.01%, which was 0.14% ahead of the objective. In the longer term the assets were outperforming by 0.64% over twelve months and 0.23% per annum over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned -0.1% over 12 months which was 2.9% ahead of the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is 0.6% per annum ahead of the change in liabilities.

Allocation of Assets

At 31 March 2014 the Trustee held 69.54% of the Scheme's assets "on-risk" and 30.46% "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).

Citigroup added to panel of financial institutions

The Trustee has a panel of banks with which it can conduct investment trades. The Trustee is putting in place a new investment contract with Citigroup which will broaden the panel of banks with which the Trustee is able to trade.

Administration

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

The Pensionline Modeller for the Selex Pension Scheme is unavailable until further notice, whilst some data updates are made following the change in Company payroll provider. All parties are working to resolve matters and will provide an update when more definitive timescales are available. Member understanding is appreciated during this time.

Aon Hewitt are currently experiencing a challenging period in terms of production of benefit illustrations, due to the current unavailability of automated data. Benefit illustrations are therefore currently requiring a high level of manual intervention which increases the time for production. For this reason, there is a temporary restriction on non-urgent benefit illustrations 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 updated and available. Please contact your PCC representative if you wish to discuss your individual circumstances.

DWP State Pension Forecasts

The Trustee is planning to add individual members' State pension forecasts to the online retirement tool, Pensionline. Work is progressing with this project and more information will be provided in the October edition of the InFocus newsletter.

2000 Section SBS funds

The Trustee has received legal advice confirming that a legislative change due to come into force in July 2014 will change the classification of the SBS retirement account funds from 'money purchase' to 'defined benefit'. The PCC reviewed a draft communication to members who hold SBS funds. The communication contains further detail on the impact of the legislative change and will be issued to members in due course.

Joint DC investment committee meeting

The second joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 21 May 2014. 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.

Some of the P-Solve 'blend funds' which make up the default fund in the DC investment strategy had under-performed their targets over the quarter, but remained ahead of their long term targets since the inception of the funds.

Retirement options

The Trustee is reviewing 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.

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 are also looking at other actions which can be taken to control the fund costs.

Segregated funds

Typically DC investment funds are inflexible in their operating rules, for example when they are priced and the assets that insurers are prepared to include in them. The ability to provide “segregated funds” was a key differentiator when Skandia were appointed as the investment platform provider last year.

Segregated funds can be set up by Skandia to contain specific assets P-Solve believe suit the needs of investors in each blend fund. This has the following advantages:

- More flexible trading is possible (e.g. intraday and more specific market segments);
- Assets can be held more cheaply (e.g. direct gilts rather than passive pooled funds);
- Different asset classes can be used to improve diversification.

The effect is that more of P-Solve’s ‘best ideas’ used for the defined benefit funds can now also be offered within the DC investment choices.

Administration

A review of the administration and communication practices has been completed to enable compliance within the 31 quality features of the Pensions Regulator’s code of practice for DC schemes.

The investment return assumptions used within the annual AVC and 100+ Retirement Account benefit statements have been set, with a slight reduction in the assumed returns.

Jim Thomson

This is the last meeting which Jim Thomson will attend as a PCC representative. The committee would like to thank Jim for all his hard work as a PCC representative and as a Selex Pension Scheme Trustee.

Date of the Next Meeting

The next meeting of the PCC will be held on 14 October 2014.

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 4134
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	