

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 21 OCTOBER 2014**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 21 October 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	
Scott McMillan	Basildon	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Colin Wyllie	Edinburgh	
Martin Flavell	HR - Finmeccanica	
Andrew Letton	HR – Selex ES	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	

The meeting was held to receive feedback from the Trustee meeting on 23 September 2014.

Quarterly Funding Update to 30 June 2014

The quarterly funding update showed that the Scheme had an estimated surplus of £84 million. This was an increase in surplus over the quarter to 30 June 2014. The cost of future accrual had also increased over the quarter, and is 4.4% 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 preliminary results of the valuation have been presented to the Trustee by the Scheme Actuary, and have been shared with the Company.

Communications have commenced between the Company and the PCC on the preliminary results of the valuation and potential methods for dealing with the increasing future service

cost - there is an estimated 5.7% of earnings per annum shortfall based on the preliminary valuation calculations.

As previously communicated to members through these Reports, 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 some members, and will require consideration of the elements of the Selex benefit structure which are integrated with the State pension benefits. The Company has been in discussion with the PCC regarding the options available to the Selex Pension Scheme for dealing with the impact of the changes to the State pension. The options will be discussed in further detail over the coming months.

Investment Performance

- The market value of the total assets of the Scheme at 30 June 2014 was £537 million.
- Performance of the return-seeking assets over the quarter was 1.87%, which was 1% ahead of the objective. In the longer term the assets were outperforming by 3.65% over twelve months and 0.98% per annum over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned 8.6% over 12 months which was 3.1% ahead of the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is 0.3% per annum ahead of the change in liabilities.

Allocation of Assets

At 30 June 2014 the Trustee held 68.41% of the Scheme's assets "on-risk" and 31.59% "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).

Administration

Work levels at Aon Hewitt had remained high over the quarter and performance against the agreed service levels had reduced. The reason for the underperformance is the additional work required to resolve the data issues which arose following the change in Company payroll provider and Aon Hewitt's focus on developing a fully functional electronic system which will provide payroll and HR data from the payroll system into Aon Hewitt's pension administration system on an automated basis.

The Pensionline Modeller for the Selex Pension Scheme is unavailable until further notice, whilst these data updates are made. All parties are continuing to focus on resolving these matters and member understanding is appreciated during this time.

Aon Hewitt continue to experience 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.

The production of the Selex Benefit Statements will be later than usual this year due to the changes in the Company's payroll provider and the Scheme's AVC provider. The Trustee apologises for this delay, and every effort will be taken to keep the delay to a minimum.

2000 Section SBS funds

The Trustee received legal advice which confirmed that a legislative change in July 2014 changed the classification of the SBS retirement account funds from 'money purchase' to 'defined benefit'. Members who have an SBS retirement account will have received a letter in August 2014 advising them of this change in legal status and advising that a further communication will be issued in due course.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 4 September 2014. The Selex benefits which are invested in the DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

The P-Solve 'blend funds' which make up the default fund in the DC investment strategy had out-performed their long term targets over both the quarter to 30 June 2014 and since the inception of the funds.

Retirement options

The DC Committee has continued to review 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. The Committee is liaising with a number of external providers to establish what retirement service options are available to supplement the current member annuity service.

P-Solve are providing advice to the DC Committee on how the 'lifestyle' investment fund profile could be amended to reflect the various retirement options which will become available to members following the 2014 budget announcements. The 'lifestyle' fund currently adopts a strategy to reach 25% in a cash fund and 75% in an annuity pricing protection fund at retirement.

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 continuing to look at other actions which can be taken to control the fund costs.

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 report is available on the Selex Pension Scheme website.

Skandia name change to Old Mutual Wealth, and online fund choice information

The DC investment platform provider, Skandia, has changed its name to Old Mutual Wealth. Skandia has been part of the Old Mutual Group for a number of years and is making this name change to align its branding with its parent company. This change will not affect the service provided to the Selex Pension Scheme. Old Mutual Wealth will continue to provide the investment platform for the Selex AVCs and Retirement Accounts (for members of the 100+ Section).

AVC/100+ Retirement Account fund choice information will now be available on Old Mutual Wealth's 'microsite' which can be accessed via a link from the Voluntary Savings pages of the Selex Pension Scheme website. The website contains further information about Old Mutual Wealth, Selex fund factsheets and historic fund performance.

Interactive access to members' AVC/100+ Retirement Account fund values, and investment switching facility, will continue to be provided via Pensionline which can be accessed via the Scheme's online modeller page.

Date of the Next Meeting

The next meeting of the PCC will be held on 13 January 2015.

Contact Details

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