

**PENSIONS CONSULTATIVE COMMITTEE  
REPORT TO MEMBERS FOLLOWING THE MEETING ON 29 APRIL 2014**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 29 April 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	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
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 14 January 2014 and to receive training on the valuation process and the 2014 Budget changes.

Quarterly Funding Update to 31 December 2013

The quarterly funding update showed that the Scheme had a surplus of £72 million. This was an increase in the surplus from £49m at 30 September 2013. The employer's cost of future accrual had remained the same 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).

Annual rates

The Trustee has set the 2014 annual rates as follows:

- 2000 Section Credited Interest rate: 10.5%
- Main Section Revaluation for Individual Pension Account: 6.2%
- Main Section Revaluation factor for Protected Rights Account: 6.2%
- Shadow earnings cap for 2013/14: £146,400.

The Credited Interest rate is a product of the previous five years' strong investment returns and it should not be assumed that future Credited Interest rates will continue at this high level.

### 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.

The Trustee has received some preliminary advice from the actuary on the valuation process and assumptions. There is a new funding Code of Practice which has been issued by the Pensions Regulator and which will apply to the 2014 Selex valuation.

The Trustee has commissioned Ernst & Young to carry out a full review of the employer covenant (the financial strength of the companies supporting the Scheme) during the July Trustee meeting.

### Investment Performance

- The market value of the total assets of the Scheme at 31 December 2013 was £495 million.
- Performance of the return-seeking assets over the quarter was 2.75%, which was 1.88% ahead of the objective. In the longer term the assets were outperforming by 4.23% over twelve months and 0.34% per annum over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned 5.6% over 12 months which was 4.2% ahead of the increase in liabilities. Over three years performance is 2.3% per annum ahead of liabilities.

### Allocation of Assets

At 31 December 2013 the Trustee held 71.62% of the Scheme's assets "on-risk" and 28.38% "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).

### P-Solve

P-Solve (the Scheme's investment adviser) has merged with an equity manager, River & Mercantile, to form River & Mercantile group. The service P-Solve provides to the Selex Pension Scheme is not anticipated to change as a result of the merger and will result in a larger investment team with greater depth of knowledge.

### Audit of P-Solve's processes

The Trustee instructed Ernst & Young to undertake an audit of the internal processes at P-Solve. This looked at items such as the recording and processing of transactions, how the Scheme's assets are valued, controls in place for reconciling information held by the

Scheme's custodian, authorisation procedures and the processes for reporting to the Trustee. The outcome was good and there were no areas for concern.

### Administration

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

The change of Company payroll provider to NorthGate Arinso from January 2014 has resulted in a significant amount of work for Aon Hewitt to establish new payroll processes. Members may find that some data, for example salary figures, used in the online pensions modeller is not up-to-date and we appreciate members' understanding during this transition period whilst the new payroll processes are established.

### Audit of Aon Hewitt processes

The Trustee has reviewed the results of Aon Hewitt's annual internal controls review. The outcome was good and no further action is required.

### InFocus Newsletter

The April 2014 edition of InFocus has been issued, with 800 members electing to receive their copy electronically rather than through the post. Since InFocus has been issued additional members have signed up for electronic versions of the newsletter. Members wishing to receive the newsletter electronically can sign up via the Scheme website at [www.selexpensions.co.uk/162/sign-up](http://www.selexpensions.co.uk/162/sign-up)

### Training on the actuarial valuation process

The PCC representatives received training on the actuarial valuation process as the next Scheme valuation will be conducted during 2014.

### Training on the 2014 Budget changes

The PCC representatives received a training session on the changes to pensions announced in March 2014 as part of the 2014 Budget. The Company and Trustee are looking at whether any changes are required to the Scheme in relation to the Budget announcement.

### Joint DC investment committee meeting

The first joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 10 March 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.

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 and the 12 months to 31 December 2013.

Skandia, the investment platform provider, attended the meeting and commented in detail on the security of the money deposited with them. The legal relationship is that the Scheme owns a life policy with a notional value of the underlying assets. Skandia provided the Trustee with assurance around their low risk appetite and the fact that Skandia is a strong financial institution with backing from its parent company, Old Mutual.

The investment committee is also working on producing a Governance Statement to demonstrate their compliance with the Pensions Regulator's code of practice for schemes with DC pension benefits.

Date of the Next Meeting

The next meeting of the PCC will be held on 15 July 2014.

**Contact Details**

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