

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 10 JULY 2012**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 10 July 2012.

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	
Martin Johnson	Basildon	
Stuart McMillan	Basildon	
Phil Slade	Capability Green	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wyllie	Edinburgh	
Martin Flavell	HR – Finmeccanica UK Ltd	
Andrew Letton	HR – SELEX Galileo Ltd	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	

The meeting was held to receive feedback from the Trustee meeting on 26 June 2012, seek feedback on an alternative AVC investment strategy, provide training on the SELEX Pension Scheme benefit structure and provide an update on FuturePlanner, the defined contribution pension arrangement available to Finmeccanica employees in the UK.

SELEX PENSION SCHEME

Quarterly Funding Update to 31 March 2012

The quarterly funding update showed that the Scheme had a surplus of £34 million. This was an increase in the surplus of £13 million since 31 December 2011. Over the quarter there had been a higher than expected return on the Scheme's assets and the value of the liability hedge had decreased by less than the decrease in the value of the liabilities, thereby improving the funding position.

Abolition of “protected rights” contracting out on a defined contribution basis

The Trustee has now received legal advice on how the Rules of the SELEX Pension Scheme need to be amended to reflect the changes to the contracting-out basis for the Main Section. A document to amend the Rules is now in the process of being signed and other Scheme documentation is to be updated to reflect the changes.

Investment Performance

- The market value of the total assets of the Scheme at 31 March 2012 was £405 million.

- Performance of the return-seeking assets over the quarter was 4.50%, which was 3.49% ahead of the objective.
- The total investment strategy (both the return-seeking and the matching assets) returned 18.9% over 12 months and 15.2% per annum over 2 years.

Allocation of Assets

The Trustee currently holds 80% of the Scheme's assets "on-risk" and 20% "off-risk". On-risk assets are those seeking to generate an investment return (ie: equities, commodities, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (ie: Government gilts, cash). Given the current position of surplus, the Trustee is taking additional assets "off-risk" whilst the economic conditions remain uncertain.

New "Condor 3" Strategy

The Trustee has entered into a new investment product known as "Condor 3". Previous Condor strategies have provided good returns for the Scheme and the market conditions were appropriate to enter into another similar product. The Condor 3 strategy aims to provide a targeted return based on the level of the FTSE100 Index whilst providing a level of capital protection.

Additional Voluntary Contributions review

The Trustee has undertaken a more detailed review of options for improving the AVC fund selection available. In particular, they have focused on P-Solve's delegated solution (which is very similar to the TIGS investment product used for the main scheme assets, but is designed for AVC "money purchase" investments). The PCC were provided with a training session on this alternative option and confirmed they would be supportive of such a strategy for the AVC arrangement.

Feedback is now being provided to the Company and the Trustee from the PCC meeting.

Administration

Work levels at Aon Hewitt have decreased over the quarter and they continue to perform at or above agreed service levels. The complexity of the queries being raised by members has increased in some areas and therefore the Trustee is looking at whether additional information can be provided to assist members in understanding how their pension benefits are calculated.

Bonus payments into AVCs

A query was raised regarding how members can pay bonuses into the AVC arrangement should they wish to do so. This would provide tax relief on the AVC contribution. As well as regular contributions, members are able to make single lump sum payments into AVCs at any time by completing the 'AVC Amendment' form available from www.selexpensions.co.uk/44/additional-voluntary-contributions. Bonuses can either be paid into member's AVC accounts in the month in which the bonus is received (if the member knows in advance what the amount will be), or lump sums can be paid using an estimated bonus figure, or in a subsequent month once the amount of bonus is known. One of the most effective ways to save into AVCs is through a regular monthly contribution.

Please note, 2000 Section members contributing to SBS cannot also contribute to AVCs. Lump sums can be paid into SBS but this is capped at 15% of earnings (including ordinary scheme contributions).

FINMECCANICA FUTUREPLANNER

FuturePlanner Update

The PCC were provided with an update on the FuturePlanner pension arrangement. FuturePlanner recently adopted a new investment strategy using P-Solve's delegated DC solution and the performance results for the first quarter have been positive.

Following the change in investment strategy, FuturePlanner's Statement of Investment Principles, which sets out the Trustees' chosen investment strategy, has been finalised.

Benefits Statements are due to be issued in July which will show values under the investment funds. Deferred members who have left service for more than 12 months will be encouraged to consolidate their pension savings through a "buy out" exercise.

A benchmarking exercise has been carried out comparing the pension benefits provided by FuturePlanner with those of a large company within the same industry and this shows that FuturePlanner provides a very competitive benefit structure.

There will be a process carried out in September 2012 to select a new FuturePlanner member-nominated trustee to sit on the trustee board. Members of FuturePlanner will receive a communication on this in due course.

Date of the Next Meeting

The next meeting of the PCC will be held on 16 October 2012.

Contact Details

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