

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 20 JANUARY 2010**

The twentieth meeting of the Pensions Consultative Committee (PCC) took place in London on 20 January 2010.

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 fourteen representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Paul Murrell	Christchurch	Deputy 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	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Adviser	

Apologies were received from:-

Scott McMillan	Basildon
Andrew Letton	HR – SELEX Galileo
Martin Flavell	HR – Finmeccanica UK Ltd

The meeting was held to receive feedback from the Trustee meeting held on 10 December 2009.

Quarterly Funding Update

The quarterly funding update showed that the Scheme's estimated deficit had decreased from £63.7 million at 30 June 2009 to £49.5 million at 30 September 2009.

There have been higher than expected returns on the Scheme's assets over the quarter. There has been an underperformance in the swaps which increased by less than the increase in liabilities.

Voluntary Savings

The PCC had put forward a proposal in relation to voluntary savings, which had been considered by the Company.

Contributions to SBS retirement benefits are restricted to 15% of earnings, less core contributions. The PCC's proposal was for members paying into SBS for retirement benefits to also be permitted to contribute above 15% of earnings to AVCs.

The Company had re-considered the previous decision in relation to this matter and it was confirmed that members who contribute to SBS for retirement benefits would not be able to also contribute to AVCs. The Company had confirmed that the reasons behind this decision included the potential for SBS members to 'select' against the Scheme on both life expectancy and investment risk. Furthermore, a significant implementation exercise had now been undertaken to adopt these changes. This involved changes to the Scheme rules, updating Scheme documentation, adopting new payroll/administration/actuarial processes and calculation systems. Members had been informed of the changes individually and had made decisions based on the new processes. Members have all had their decisions confirmed. The Company's view is therefore that any changes at this point would require a re-communication exercise which is likely to cause confusion.

Factors Review

Early Retirement from Active Service

The Company is finalising the changes to the SELEX early retirement factors to move to a consistent cost neutral factor across all sections of the Scheme. Following discussion regarding the proposed date of change the Company has consented to an implementation date of 1 May 2010 (rather than 6 April 2010 as previously proposed).

Late Retirement

The Company and Trustee have reviewed the late retirement factors used to increase a member's pension if they leave the Scheme and defer drawing their pension until after their Normal Retirement Date. A single factor has been adopted across all sections of the Scheme.

Investment

Custodian and AVC Review

The Trustee commissioned a review of the Scheme Custodian and of Standard Life, including the range of AVC funds available. The review confirmed that the current provider and funds remain appropriate and therefore the Trustee is not making any changes at this time.

Investment Performance

- It was a very good quarter for investment returns with TIGS significantly outperforming its benchmark over the quarter.
- The market value of the assets within TIGS at 30 September 2009 was £170 million.
- The value of the swaps at 30 September 2009 was £28.7 million. The liability hedge had risen in value by less than the liabilities over the quarter, underperforming its target.

Swaptions

The Trustee has been reviewing the Scheme's investment strategy with its investment adviser and has recently entered into a portfolio of "Swaptions".

Swaptions are options with a bank to enter into interest rate swaps at a date in the future. As interest rates rise, the Trustee will want to build up the number of interest rate swaps it currently holds and Swaptions will enable them to do this.

Administration

Work levels at Aon have been high with an increase in the number of members requesting retirement quotations.

Member feedback has remained positive and Aon received six member satisfaction surveys since the last meeting, five of which rated the service as very good or excellent.

As announced on the Scheme website in January 2010, after careful consideration, the Trustee has decided to target the launch of the new Aon online facility in May 2010. There are a number of changes coming into effect in or around April 2010 and the Trustee wishes to incorporate these into the facility before it is launched. The notice on the news page of www.selexpensions.co.uk contains further details.

Communications

A reminder notice has been added to the Scheme website regarding the increase in the minimum pension age from age 50 to age 55 with effect from 6 April 2010. In order to ensure that pensions can be processed within the legislative deadline before 6 April 2010, members between ages 50 and 55 who are planning to retire before 6 April 2010 need to speak to their HR contacts regarding a leaving date and confirm their retirement decisions to Aon (and BAE Systems where applicable) as soon as possible.

Edition 10 of In Focus is being prepared and will be issued in March 2010.

Members who pay Additional Voluntary Contributions (AVC) or contributions to the Selected Benefits Scheme (SBS) have received letters regarding their AVC/SBS contributions and been asked to confirm that the current contributions on Aon's records correctly reflect the contributions the member wishes to pay. Any members who have not yet returned their forms will need to do so as soon as possible.

Date of the Next Meeting

The next meeting of the PCC will be held on 27 April 2010.

Contact Details

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Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	