

Welcome to the Spring edition of Pension news, your Trustee Board have spent the last few months working on a number of major projects.

We were pleased that the Company took account of our representation and comments from Scheme members through the consultation process on the Defined Contribution Section. We believe the new Section which, came into effect on 1 April, provides a suitable alternative for members who wish to limit their pension scheme contributions to 5%. We show the key elements of the Defined Contribution Section on page 7 of this newsletter. We wrote to Active members in January detailing this process and the conclusions reached by the Trustee Board; this document is available to all members on our website.

In the Spring 2006 newsletter we detailed the changes in investment strategy following our Funding Agreement with the Company in March 2006. We implemented the changes to our Bond portfolio during last summer and have recently concentrated on changes to the Higher Performance Fund, which are detailed on page 5 of this Pension news.

Pensioners will have received notification their pensions will increase with effect from 1 April. The amounts of these increases are laid down in the Trust Deed and Rules for each specific section of the membership.

These increases place an additional financial burden on the Scheme and it is therefore important that we maintain the appropriate investment strategy to ensure that funds continue to be available to meet the increased pensions as they fall due.

We have recently agreed with the Company a change in the structure of the Trustee Board which we consider better reflects the current membership structure of the Scheme. As you are aware, there are now far more pensioner and deferred members than Active members and it is right that this balance is represented on the Trustee Board. Also, changes in legislation mean we need to meet current regulations regarding the election of members to our Board.

Also at this time we to have to say goodbye to three Trustee Directors who over the past few years have spent their time helping to ensure your Scheme remains as strong as possible. I would like to thank Peter Tompkins, Geoff Campion and Douglas O'Keeffe for all their efforts on behalf of the members. All of the changes to the Trustee Board are summarised on pages 2-4 of this newsletter.

We are determined to ensure that the Scheme remains strong and provides members with benefits as they fall due. The Scheme will continue to evolve and develop over many years and it is important that an effective Trustee Board is there to govern and manage the interests of all members. If you wish to play a part in your Scheme please consider the opportunity of serving as a Trustee Director as detailed on page 4 of this edition of Pension news.

**KATHLEEN O'DONOVAN**

CHAIRMAN OF THE TRUSTEE OF THE  
INVENSYS PENSION SCHEME

Due to new requirements brought about by the 2004 Pensions Act we have reviewed the constitution of the Trustee Board. This has led to changes in the way the Trustee Board will be structured.

# The Trustee Board and Member Nominated Directors

Since 1988 the Trustee Board has been comprised of eleven Directors drawn from Company nominees, the United Kingdom Pensions Consultative Committee (UKPCC) and retired members elected by the Company and UKPCC appointees.

Due, in part, to the changing membership profile (i.e. far fewer Actives and more Deferred and Pensioner members) the Trustee Board will in future be made up of nine Directors as follows:

Four Company nominated Trustee Directors  
Five Member nominated Directors (MNDs)

Of the five MNDs three will be Pensioner members and the remaining two will be Active members.

The Company will nominate their representatives as before and will be responsible for appointing the Chairman, from the total Board.

The Active members route to the Trustee Board is through participation on the UKPCC, a forum set up by the Company at the inception of the Scheme. Active members of participating companies are invited to nominate themselves to sit on the UKPCC. Nominations must be proposed and seconded by Active members in the same company, and an election held as appropriate. The UKPCC will then nominate at least two of its members to sit on the Trustee Board, selection will then be made by the Governance and Audit Committee of the Board (GAC).

A change will take place in the selection of Pensioner members to become MNDs. Any retired member of the Scheme in receipt of a pension may put themselves forward and their candidature must be supported by nominations from two other Pensioner members who are in receipt of an Invensys Scheme pension. A selection process will then be carried out by the GAC and final approval given by the Trustee Board.

The role of a trustee is an onerous one. Although not expected to be experts, Directors have a legal duty to exercise such care and skill as is reasonable in the circumstances, given the knowledge and experience they have. Trustees have joint and several liability under the Trust Law and can be individually responsible for actions of the Trustee Board.

All Directors of Invensys Pension Trustee Limited must be able to meet the duties and responsibilities outlined on page 4 and comply with the requirements of Trust Law and preference will be given to those with relevant professional experience.

Our Directors, who are usually professionally qualified, must be prepared and able to give the necessary time for reading Trustee Board papers, attending meetings (at least four per annum, which are generally held in London, plus other meetings as appropriate) and keeping abreast of changes to the Scheme and pensions legislation by undergoing formal and ad-hoc training. For instance, the number of days spent on Trustee business in the last 12 months by a current Pensioner Director amounted to 15 days. Expenses incurred in connection with the discharge of their duties are reimbursed, and Pensioner Directors are also remunerated at a daily rate.

If you are interested in this challenging but fulfilling role and would like to receive more information, please write to Nigel Casson, General Manager at Invensys Pensions, for a Nomination Form. Nominations must be received by 18 May 2007. From the nominations received a shortlist will be drawn up and the successful candidates will then be invited to an interview with the Scheme's Governance and Audit Committee who will, in turn, make a recommendation to the Trustee Board, who will make the final decision on the appointments.

### Changes to the Trustee Board

In March 2007 three Directors retired from the Board. Douglas O'Keeffe, a Member Nominated Director since December 2005, and Peter Tompkins, who has been a Company Nominated Director since May 2003, both retire from Company service and join the ranks of our Pensioner Members. We wish them a long and happy retirement. Geoff Campion has taken on many additional duties as VP Finance, Invensys Rail Business Group and can no longer spend the time necessary to be a Director. We are grateful to Geoff, Douglas and Peter for the time they have spent acting as a Trustee Director of your Scheme. Geoff's replacement as a Company Nominated Director on the Board, Eleanor Whitfield, attended her first meeting on 8 March 2007. Eleanor is VP Legal for Invensys Rail Systems and has been with the Company since December 1999.

We thought it would be helpful to ask the outgoing Directors to give a short insight into the role they undertook.

**Geoff Campion**

*At the beginning I had little appreciation of the requirements of being a Trustee and after four years I am now aware that there is a lot more to the role than I could have ever imagined.*

**Douglas O'Keeffe**

*I enjoyed my time as a Trustee Director. Until I became a Trustee Director I did not appreciate the time, effort and professionalism that was needed to ensure that there are sufficient funds to pay pensions for the next 50 years or more. I found the whole experience fascinating and very rewarding.*

**Peter Tompkins**

*The role of the Trustee entails complex and difficult decisions although our professional advisers provide guidance to enhance our understanding. I believe we have strengthened the Scheme in recent years but there remains a challenging role for future Trustee Directors.*

For those members interested in becoming a Trustee Director we have provided below a job description which will help you understand the duties and responsibilities you will have to undertake.

# Trustee Director

## The Role of a Director

To join with the other Directors of Invensys Pension Trustee Limited in administering the Trust in accordance with the law and the Scheme's Trust Deed & Rules for the benefit of the members and the Principal Employer.

## General duties

- To prepare for and attend at least four full Board meetings per annum, plus other meetings as necessary.
- To participate in sub-committee meetings as appropriate.
- To have an understanding of pensions legislation and the Scheme's Trust Deed & Rules.
- To undertake the Trustee Knowledge and Understanding training as specified by the Pensions Regulator.

## Key responsibilities

- To act in accordance with the Trust Deed & Rules within the framework of the law.
- To act in the best interests of all beneficiaries.
- To act impartially between the interests of different classes of beneficiaries.
- To act prudently, conscientiously and honestly and with the utmost good faith.
- To ensure that funds are properly and prudently invested.
- To take professional and expert advice on technical matters and any other matters which you do not understand.
- To contribute actively to the Trustee Board.
- To ensure the effective and efficient management and administration of the Scheme.

During the last six months the Scheme's Investment Committee, together with the Investment Advisers have reviewed in detail the investment strategy of the Higher Performance Fund (HPF).

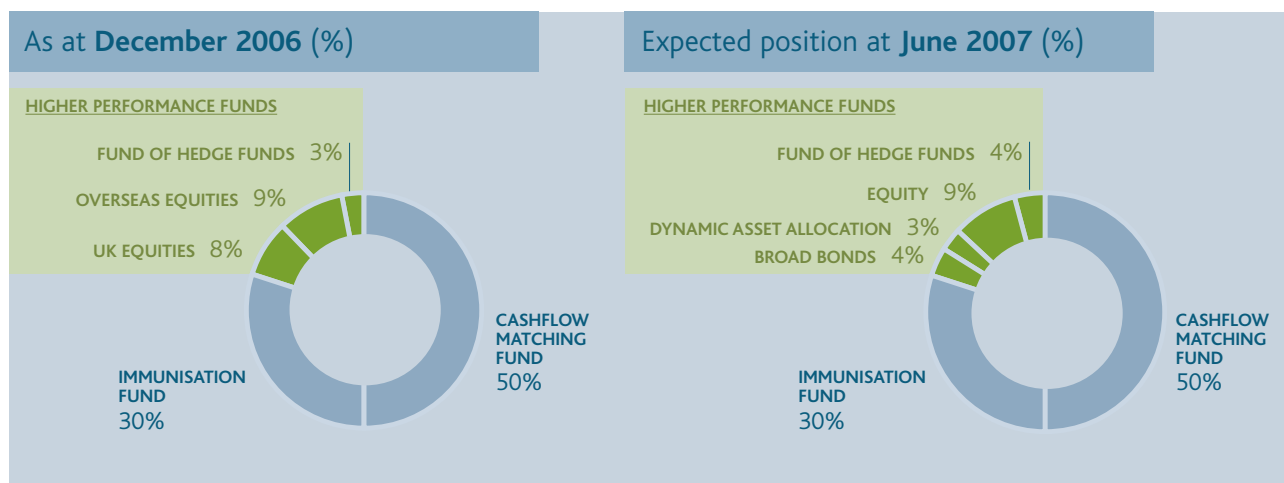
# Higher Performance Fund

This fund accounts for around 20% of the Scheme's assets (£800m) and is currently invested in UK and Global Equities. These assets should be expected to have a higher return than the lower risk bond portfolio, but they inevitably come with a higher risk and volatility.

We need to invest in these higher return assets because the long-term funding plan recognised the low tolerance for an increase in the funding deficit. We have accepted the increased risk attached to higher return assets in order to have the best chance to eliminate the deficit in the pension fund. With a fund as mature as ours there are only two ways to meet a deficit – either the assets outperform the liabilities or the company sponsor has to contribute. We have been over in detail in earlier newsletters the company circumstances and it is clear that their resources are limited.

The equity market has had a very good run over the last year, but it is sobering to note that if it dropped by 10% we would be under the funding plan target. Therefore it is preferable to spread that risk over different types of higher return assets - thereby reducing the chance that the HPF assets could suffer a simultaneous material drop. Prior to 2006 we were unable to reduce this unprotected exposure because of the amendment to the Trust Deed we have reviewed in past newsletters. That restriction has been removed and since the approval of the 2006 funding plan our aim, in consultation with the Company, has been to reduce our unprotected exposure to equities whilst maintaining an exposure to other asset types which target the required return.

We intend to spread HPF investment over four funds of between £175-£275m each. These will also be diversified over a number of investment managers. Two of these funds effectively exist already 1) the absolute return fund of hedge funds – which will receive additional funds and 2) equities – which will have a smaller allocation than at present and will be managed in a different way and have an absolute return target. The new asset classes (both with an absolute return target) will be 3) broad bonds – these are corporate and government bonds with higher risk and higher return characteristics and 4) dynamic asset allocation - which will invest in a much more flexible way into specialist equity/bonds, property and commodities amongst other assets. These changes are expected to take place in the first half of 2007.



There are a number of financial and economic indicators published regularly that have an effect on pension schemes. We summarise below the changes that occur to our Scheme when these indicators rise or fall.

# Key Performance Indicators

A pension fund will continue for a very long time into the future and therefore daily, monthly and even annual changes in inflation or investment performance do not necessarily have an immediate effect on the strategy for the Scheme. When undertaking a Valuation the Actuary uses long term assumptions when considering how both the assets and liabilities will move over the long term future of the Scheme. However, it is important to remember the following points when reading the current news on financial indicators.

## **Inflation**

When inflation increases the annual increase paid to pensioners means that higher payments are required to be made from the Scheme. In a similar fashion, increased inflation increases the non-pensioner liabilities as it results in higher increases to pensionable salaries for the Active members and greater revaluation of deferred pensions.

## **Pension increases**

The pension increases are guaranteed under the terms of the Trust Deed and Rules and therefore must be honoured. If the Retail Prices Index is below 3% a 3% minimum increase must be paid to most of our Pensioner members. However, if the Retail Prices Index increases above 5% then the maximum increase payable is limited to 5%.

## **FTSE indices**

If the stockmarket indices fall the value of our equity investments also falls. For this reason we continue to diversify our investments away from equities in order to reduce the volatility of our asset values.

## **Bond prices**

Our commitment to pay regular pension increases to our retired members has many of the characteristics of a Bond. It is therefore sensible to invest most of the Scheme's assets in Bond instruments that will ensure we can meet our pension commitments as they fall due. So, when Bond prices change (up or down), the value placed on our commitments (our liabilities) changes in the same way and the security provided to your benefits remains at the same level.

## **Members living longer**

Where we see reports that people are living longer this affects the Scheme as we must ensure that we have enough money available to pay pensions throughout our Pensioner members' lives. The Actuary makes a number of assumptions on the age that people live to each time he undertakes a Valuation. However, the Scheme liabilities will increase if the trend continues that people live longer than was previously expected.

From 1 April 2007 it is expected that around 200 Active members will join the new Defined Contribution Section of the Invensys Pension Scheme.

# Defined Contribution Section

Members who make a Defined Contribution (DC) Section choice will continue to pay the same contribution as they have done previously in the Defined Benefit Section and the Company will match the member contribution plus 5%. From April 2008 these contribution amounts can be increased further.

## Key points about the DC Section

- As from April 2007 a gross employee contribution of 5% (including increased contracted-in NI contributions).
- A gross employer contribution of 10% (including contracted-in NI contribution and an allowance for Death and Disability benefits).
- From April 2008, the employee contribution can be increased up to 10% and the employer's will rise correspondingly to 13%.
- The DC arrangement will be a Section of the current Invensys Pension Scheme.
- Death and Disability benefits will be the same as those in the DB Section.
- The DB pension already built up will not be affected: it will continue to be based on final pensionable salary.
- Members can opt to join the DC Section at any time on or after 1 April 2007, but then cannot rejoin the DB Section.
- A member's DC "pot" may be transferred out. On retirement it may be taken as part of the tax free cash entitlement, added to the DB benefits and form a single pension, or can be taken separately on the "Open Market".
- The proposed new arrangements will be administered by Invensys Pensions from the Newcastle office. Invensys Pensions has set up a new administration system to manage the DC Section and members will receive specific information annually on the status of their fund.

The DC Section is only open to existing members of the Scheme. Should any members require further information they should contact their HR Department or Invensys Pensions.

## Investment options

Members who join this Section will have the chance to invest in a variety of funds provided by Legal & General. A member is able to invest in one or more of five specific funds. These funds represent a broad range of different asset classes: UK Equity, Global Equity, Corporate Bonds, Index-linked Gilts and Cash.

If the member wishes they may invest in a Lifestyle fund, which is a mixture of the above funds where the percentage investment in each fund is changed dependent on the age of the member. Effectively as the member moves nearer to retirement more investments are made into the more secure, less volatile, funds such as Gilts and Bonds. This Lifestyle fund is also a default fund into which investments are made should the member not instruct us to invest in one or more of the specific fund options available.

There are many ways members can help the administration of the Scheme. Please read the following points carefully and help us to ensure we provide you with the best possible service.

# Help us to help you

## Return to sender, address unknown!

Each year, the Royal Mail returns several hundred letters to us because of out-of-date addresses. We also get some pension payments returned to us from banks because pensioners have forgotten to tell us that they have changed their bank details.



It is vitally important that you tell us **IN WRITING** if you move address or change your bank details. If you don't tell us, we will temporarily suspend your pension payment until you let us know your new details. Our contact details are shown below.

### So don't forget to tell us if:

**You change the bank account to which your Invensys pension is paid; or you change your home address.**

## P60 tax form (end of year certificate)

Pensioners can expect to receive your P60 during the month of April. This document shows the pension paid by us during the last tax year and any tax deducted. You must keep this document for income tax purposes.

## Tax

We cannot help you with questions regarding your tax code. You must contact the tax office on **0845 302 1456** and quote your **PAYE reference number 504/8560** and your National Insurance number.



## Death Benefit Nominations

For Active and Deferred members

Member nominations are essential to help the Trustee decide who should receive a lump sum death benefit. Often we have no nomination on file. Members who have not previously completed a nomination or whose circumstances have changed are urged to make or amend their nominations now. A form is available on our website or by contacting Invensys Pensions.



## Pensioner members

If you are in receipt of an Invensys Pension and have been receiving your pension payment for more than five years, or you are over State pension age, you DO NOT need to complete a Nomination form.

## How to contact us

 **Please write to:** Invensys Pensions, Higham House, New Bridge Street West, Newcastle upon Tyne NE99 1TG

 **Local rate telephone** 0845 300 0549 **or phone** 0191 206 1035

 **Email to:** enquiries@invensyspensions.co.uk

 **Or for further information visit our website at:** [www.invensyspensions.co.uk](http://www.invensyspensions.co.uk)