

DECEMBER 2009 EDITION OF IPS PENSION NEWS

pension news



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News from the Chairman



Welcome to the December 2009 edition of the IPS Newsletter.

I realise now that we are sending this newsletter later than usual, but I delayed this edition because the Board and the Company have been working together to reconsider IPS's Board structure.

Page 9 of this newsletter will give you the background to the changes. In summary, as a result of the reducing number of actives and increasing maturity of the Scheme, we have agreed to reduce the number of UKPCC representatives from two to one and therefore an additional member nominated by the pensioners will be needed.

In connection with this, I would like to mention to you the retirement of Russell Walker from the Board. Russell has been a UKPCC member representative for seven years. Throughout that time, he has given tremendous value to the Scheme through his intelligent questioning, his energetic pursuit of knowledge through extensive training and development and his wise perspective. We will miss him on the Board and I personally would like to thank him on behalf of the Board and its members for his valuable contribution over the years.

Regarding the wider world, we are seeing evidence of a recovery – sponsored, as we know, by government (i.e. our) money. Markets have not yet recovered to the levels experienced in summer 2007 but enough that we might be allowed to think the worst is over.

You might have read much about V, U, W and L shaped recessions in the financial press: V being a steep decline followed immediately by a sharp rise, U being a steep decline followed by a period of no-growth and then a sharp recovery, W being a steep decline followed by a period of limited recovery and then another decline followed by a sustained recovery and, finally, L being a sharp decline followed by an extended period of no-growth. There is still talk of a W recovery, but none of us has a crystal ball so we will continue to proceed carefully.

The following indicators could be interpreted as "green shoots":

The FTSE100 (the index representing the 100 biggest publicly listed UK companies) rose from a low of 3,512 at March 2009 to 5,190 at the end of November 2009, an increase of 48%. This is still far from the high of 6,732 in 2007 but it is encouraging.

Another important indicator is the GBP IBOXX Corporate (an index that represents the price of bonds issued by UK companies). The index reached a low of 88 in January 2009 but reached 102 at the end of November 2009, an increase of 15%.

In addition, several US and European banks have repaid the monies lent to them by their respective governments, implying that they have been able to re-build and consolidate their balance sheets. Hopefully this should now allow them to inject sufficient liquidity into the real economy to allow our companies and entrepreneurs to grow their businesses again.

These "green shoots" have had a positive impact on the Scheme's asset base, increasing its level from £3,572m in March 2009 to £3,792m in September 2009. Our funding position has also improved from 86% to 88% (we were 93% in 2008). The Scheme's liabilities have remained relatively stable due to historically low UK government Gilt yields, which are maintaining their present value at high levels. The funding position is monitored by the CEO and our investment consultants continually.

This better news has enabled us to focus this edition of the newsletter away from investments and closer to the executive and administrative management of the Scheme, the latest news on the Board of Trustee, governance and various initiatives undertaken by the team in Newcastle.

Firstly, the CEO will guide you through the achievements of the IPS team and their advisers over the past twelve months. The summary will look at the main projects undertaken and implemented since he joined in October 2008.

A reminder of "how we do things" or how the governance at IPS is organised should also provide you with comfort that our oversight responsibilities are being fulfilled.

Finally, we will mention two initiatives undertaken by the team in Newcastle, regarding fraud and the tracing service.

I wish you and your families a Merry Christmas and a Happy New Year. Let us hope that 2010 will be a year of recovery and stability.



Kathleen O'Donovan

Chairman of the Trustee
of the Invensys Pension Scheme

One year on...



Dear Members

When contemplating the content of IPS's December 2009 newsletter I realised that its publication will coincide with my first anniversary of joining the Invensys Pension Scheme. It is apt then to use this letter to review the events in what has been an interesting time both for the Scheme and the wider financial world.

Looking back at the Autumn 2008 Newsletter you may remember that:

- Steve Leake, IPS's Actuary, had finalised the triennial actuarial valuation, showing a deficit of £285m as of 31 March 2008 and a funding position of 93%. The Scheme had also agreed a recovery plan with the corporate sponsor until 2017.
- Some of the world's political and business leaders came very close to believing that the global banking system would freeze following the events of September 2008, when so many financial institutions failed, like Lehman Brothers, AIG, HBOS and Bradford & Bingley.
- On a positive note, the Invensys Pension Scheme was awarded the "Scheme of the Year" title at the Pensions and Investment UK Scheme Awards 2008.
- IPS said goodbye to Nigel Casson and I joined as CEO.

From there, where did we go, what did we do, what did we achieve?

To best tell the story of the last year, I have divided the journey by topic.

Benefits Administration and Executive office

• Pension Protection Fund levy

The Pension Protection Fund (PPF) is a statutory fund run by the Board of the Pension Protection Fund, a statutory corporation established under the provisions of the Pensions Act 2004.

The PPF was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

freeze created in short-term debt markets...

A working group composed of representatives of IPS, Invensys plc (the Company) and Punter Southall was set up in November 2008 to address all matters relating to the PPF and its levy. One of the first assignments was to contest the 08/09 and 09/10 levy and its risk assumptions. Although we did not expect a change it was important to register our points. The group was also tasked with reviewing and identifying ways to improve the participating employers' ratings, with the aim of reducing future levies. In addition, IPS and the Company continue to lobby the PPF by responding to their consultation papers. This year's PPF levy amounted to £1.3m.

• **Monthly deposit of cash and Company contributions**

Following an internal review of the Scheme's cash management led by Alan McRobb, Scheme Accountant, and with the help of the Company's Treasurer, we have significantly improved the process of managing the Scheme's cash and contributions. We estimate the gain to the Scheme to be £90,000 for the year.

• **Impact of the government's VAT cut**

The government cut in VAT from 17.5% to 15%, which has generated approximate savings of £50,000 for the Scheme. This saving will cease on 1 January 2010 when the government reverts to the 17.5% rate.

• **National Fraud initiative 2008/2009**

We participated in the Audit Commission exercise which matches databases against a variety of others (e.g. HMRC) to identify unreported deaths.

The outcome of this exercise was positive and is explained in more detail in the section entitled "Tackling Fraud".

• **New pensions accounting system**

Following the decision reached last year to replace our accounting software, the Scheme appointed Profund Ltd to provide a SORP compliant package. Profund is a leading provider of accounting, investment and reporting systems to the pensions market as a whole. A smooth transition saw the new system going live on 1 April. It currently processes all benefit and creditor payments, analyses expenditure, produces pensioner payroll cheques and records the receipt of pension contributions.

- **Electronic Data Interchange**

Mick Southern, the Scheme's IT Manager, put into place an electronic and secured exchange that allows a direct link between IPS and HMRC. This system allows both faster and more accurate data processing. The inbound data from the Revenue is now automatically uploaded into our payroll replacing the exchange of around 700 paper notices per month (P6, P45 and P46) with electronic data helping IPS become more environmentally friendly.

- **New payroll workflow system**

The implementation of this system allows for a much more efficient processing of pensioners information, from processing new starters to change of address and bank details. This is another example of how we aim to become more efficient in every area of our operations.

- **Upgraded virtual environment**

We have operated a virtual server environment for a number of years. It was time IPS upgraded the environment to a cluster of servers providing High Availability. This means that now, in the event of a host failure, any applications running will restart on a working host and therefore minimise the downtime of the application services provided from the cluster.

The Company

Invensys plc, as sponsor and Principal Employer of the Scheme, provides financial support to the Scheme, through the Recovery Plan.

- **Financial situation**

The Company's financial situation has improved significantly over the past few years, with revenues of £2,284m in 2009 (£2,108m in 2008). The Company has also generated a free cash flow of £296m (£64m in 2008). It has continued to strengthen its financial position, in that it has no debt, a net cash and deposits position of £309m and a £400m banking facility. Given the Scheme's deficit, the fact that the Company entered the economic downturn with no debt was critical for IPS. In addition, S&P, one of the main rating agencies, increased the Company's credit rating to investment grade in 2009. All these are positive events.

- **Review of the Company's covenants**

The Trustee's ongoing priority remains the constant monitoring of the sponsor's financial health and covenant compliance. We have asked PricewaterhouseCoopers to perform the Company's annual covenant review, and this year's was presented to the Trustee Board on 3 December 2009.

- Improved and ongoing communication with the Company: David Thomas (Head of Risk at Invensys plc) and I now hold monthly meetings, which allow the Company and Scheme to communicate and progress outstanding matters in a more efficient manner. The Scheme also invites the Company to attend all Investment Committee meetings/calls (we will have had 13 Investment Committee meetings/calls this year) to allow their input and views on any major investment-related decision.

Investment management

Upon joining IPS, and in the middle of the financial debacle, my main focus was on the risk management framework of the Scheme, with special attention demanded in the following areas:

Bank counterparty risk management

1. Improvement of the Scheme's collateral legal agreements: in the second half of 2008, the systemic risk in the banking system was very significant and we needed to ensure that the Scheme was best protected against any subsequent bank failures. Previous agreements under which our bank trades were secured had been drafted to meet asset managers' requirements first and secondly those of the Scheme. At our insistence, all legal agreements have been reviewed and tightened so all terms and conditions are specific to IPS's requirements.

2. Design and implementation of a bank counterparty credit quality monitoring tool: that tool allows us to monitor the credit quality of each bank we have trades with or each bank that has a financial impact on the Scheme.

3. Design of a bank counterparty disaster recovery plan: if a bank you have ongoing trades with defaults, it is imperative to act swiftly to reduce potential collateral losses. We have designed a user-friendly guide with clear processes, outlining individuals and institutions to contact, enabling the Trustee and Investment Committee to react swiftly and efficiently to the default of one of the Scheme's bank counterparties if the need arises. The quality and speed of our reaction will have a positive impact on reducing IPS's potential losses.

4. Creation of a single collateral management platform: We have created an important bank counterparty risk mitigating tool by bringing in technology from the banking sector, not previously used by the pensions industry. We believe this platform to be a first for a UK pension scheme. The platform has the following advantages in allowing:

- a. IPS to reduce its risk to banks to the minimum extent possible;
- b. more efficient use of the Scheme's eligible collateral;
- c. ability to free cash for investment purposes; and
- d. economies of scale

This innovative platform might be the reason why IPS was nominated at the IPE Awards 2009 (17 November in Dublin) for "Outstanding Industry Contribution".

Investment risk management

1. Design of the Scheme's capital markets risk management framework: this new framework allows us to increase the precision with which we can identify and quantify the capital markets risks that the Scheme incurs through its investments. This has led to the implementation of a Trustee and Company risk budget and allows the Scheme to make investment decisions armed with the best information.

Our investment portfolio has been restructured into a Government bond portfolio (50% and managed by one unique manager) and corporate bond portfolio (30%). This new structure increases the Scheme's investment flexibility, improves transparency, monitoring and simplifies the way we hedge the Scheme's interest rate and inflation risks.

Looking back, we have done a significant amount of work to ensure IPS is best placed to face the future and the Investment Committee will have met its targets in 2009!

This would not have been possible without the help and teamwork of the core team in Newcastle, our advisers **P-Solve** and **Norton Rose** (all of whom have worked tirelessly to make all this happen), **Punter Southall** (always aware of the latest developments in the pensions industry) and **Merchant/David Ronsdale of Castle Print** who produce this newsletter.

I would also like to thank the Trustee Board and the Investment Committee for their continuous input and support.

I wish you my very best greetings and a Happy New Year.

Regards

Robin Claessens

Chief Executive Officer

of the Invensys Pension Scheme

Project Nominate

IMPORTANT



following a retirement the Board has created a vacancy...



The Trustee Board and Member Nominated Directors

In our Spring 2007 edition we advised members about some changes being made to the structure of the Trustee Board and we believe that these have worked well.

We have recently had cause to reconsider the Board structure following the retirement of Russell Walker who was a UKPCC-nominated Director.

Trustee composition

The Trustee Board ordinarily has nine Directors of which four (including the Chairman) are nominated by the Company and the remaining five are member nominated directors (MNDs). Currently, the UKPCC which represents active members has two MNDs appointed to the Trustee Board and three MNDs are nominated by the Scheme's pensioners.

In view of the ever-maturing nature of the Invensys Pension Scheme (we have only about 1,000 active members out of a total membership of approximately 92,000), the Company and the Trustee Board have reviewed the balance of representation. It has been concluded that the UKPCC-nominated MNDs on the Trustee Board should reduce to one and the pensioner-nominated MNDs should increase to four.

Nominations

As a result of this change, we are seeking an additional MND to be nominated by the pensioners. If you are keen to be nominated in this capacity, please read the specification and criteria below and contact Mike Leggett at Invensys Pensions

to obtain a Nomination Form and Job Description. That form, supported by two other Scheme pensioners, must be received by Mike Leggett not later than 15th January 2010.

Role specification

The role of a trustee is onerous and requires strong capabilities and experience. It carries with it important responsibilities. Whilst training is made available to Trustees, please refer to the guidance from the Pensions Regulator on its website as to the responsibilities and minimum knowledge thresholds expected of a trustee at: <http://www.thepensionsregulator.gov.uk/pdf/trusteeGuidance.pdf> and <http://www.thepensionsregulator.gov.uk/pdf/TKUcode2009.pdf>.

Eligibility criteria

Whilst we are keen to consider a breadth of candidates, preference will, inevitably, be given to people with pension experience and/or financial background.

Selection of candidate

Once potential candidates have been nominated, the Governance and Audit Committee of the Trustee will run a selection process to identify the most suitable candidate. If there is only one nominee, such nominee may be deemed to be selected automatically, but the Governance and Audit Committee may still vet candidates if they consider it appropriate.

Procedural change

Additionally, we will be introducing a minor procedural change to permit the Trustee, when it is faced with a vacancy in the future, to choose to select from those already nominated during the preceding year. This should enable a more efficient process.

Contact

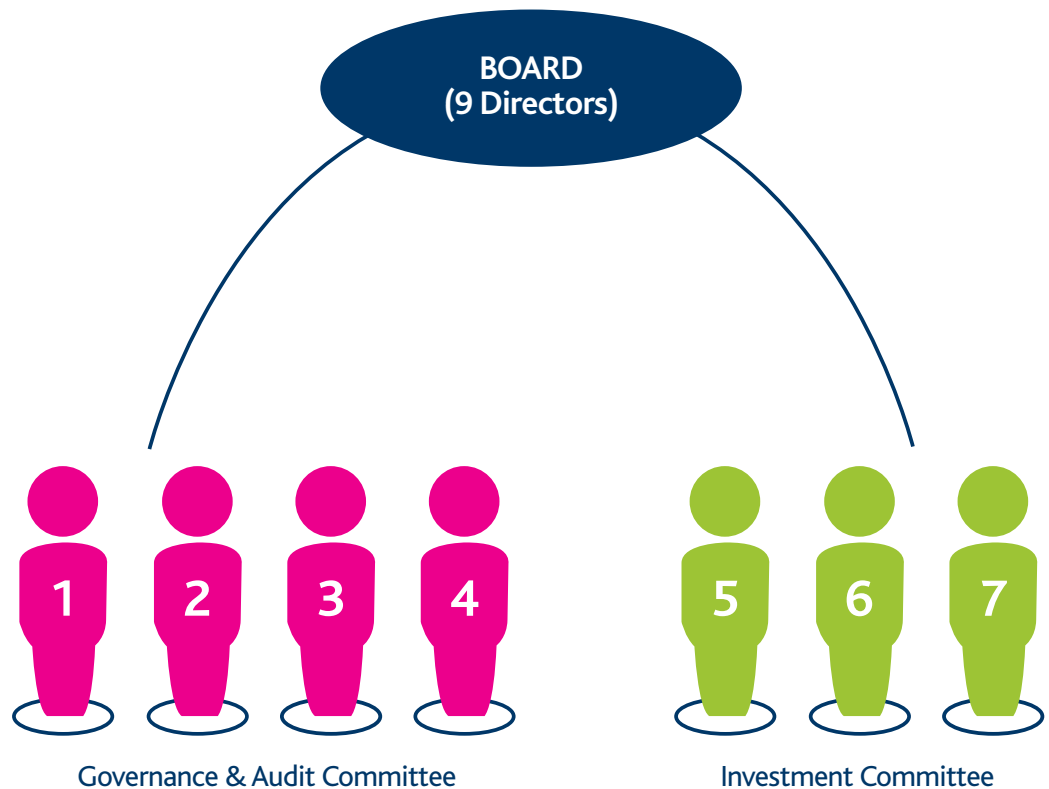
If you have any queries in relation to the above or would like to receive a Nomination Form and job description please contact:

Mike Leggett

Higham House, New Bridge Street West
Newcastle upon Tyne, Tyne and Wear NE1 8AN
Tel: 0191 206 1030
Email: Mike.Leggett@invensyspensions.co.uk

preference given to people with pensions experience...

Scheme governance



Having the appropriate governance structure in place is essential for pension scheme trustees and is increasingly under the spotlight, especially in the light of guidelines issued by the Pensions Regulator.

Put simply, governance means "the way we do things". This includes the number of Directors that make up the Trustee Board, how many meetings they have and how they delegate their work to advisors, investment managers, custodians and administrators.

The Trustee of the Scheme is Invensys Pension Trustee Limited, what is known as a "corporate trustee" independent of Invensys plc (the Scheme's Founder and Principal Employer).

The Trustee Board comprises of nine Directors, four nominated by Invensys plc and five by the Scheme's membership, and currently includes three Pensioner Directors. This reflects the fact that the Scheme is very mature with well in excess of 50,000 retired members and dependants on the payroll.

The Board meets quarterly, with extraordinary meetings called as and when necessary. As one can imagine, the meetings primarily deal with investment strategy, management and performance together with other financial reviews and the exercise of discretion in the award of, typically, death benefits. At the meetings the Directors call on advisors to be present in order to assist with various specialist areas – such as legal, actuarial, financial and investment.

The Trustee is aided in the complicated process of the Scheme's management by two principal sub-committees who meet regularly to discuss and draft proposals for the Board to consider and approve. The committees and a brief outline of their responsibilities are:

The Governance & Audit Committee

This committee, comprising of four Board Directors, primarily oversees the administrators of the Scheme, Invensys Pensions, to ensure that service standards and levels are met. They also ensure that the Scheme is being run efficiently, within budget, and that Invensys Pensions are applying the Rules of the Scheme and current legislative requirements.

A further duty of the Governance & Audit Committee is to review the annual audit programme and sign off on the Accounts before submitting them to the Trustee Board for approval.

The Investment Committee

This committee, comprising of three Board Directors (and certain Company representatives by invitation) defines the Schemes long-term and strategic investment strategy, establishes the Trustee's risk budget (ie risk tolerance) and manages its investment accordingly. It also proposes which fund managers and custodians should be appointed (or, when the occasion arises, changed) and monitors the performance and management of the Scheme's investments. Finally, the committee sets the terms of reference for the fund managers, and reviews and updates the Statement of Investment Principles.

The Trustee Board comprises nine directors...

Tackling fraud

Occasionally pensions continue to be paid to a member after their death. This is usually because their surviving spouse or relatives have not informed us about the death. In most cases this is a genuine oversight, however, on rare occasions it is because someone is trying to receive benefits that they are not entitled to.

Over the last few months Invensys Pensions has been working closely with the Audit Commission, the creators of the National Fraud Initiative. The Audit Commission checks the data that the government holds on registered deaths against our records and sends us the results. Of the 56,000 or so records submitted, we found that 73 members had died, but payments were still being made to them.

The pensions were stopped and the process of recovery set in motion. The Trustee must, and does, take this matter very seriously. Where overpayments to a member are found the money owed will always be recovered by whatever means available. This includes court action and informing the police.

Finally, if the above seems harsh then consider this: those who make fraudulent claims are taking money from the pension fund which belongs to you.



Pension tracing service

Many people leave an employer with a deferred pension and over the years lose touch with the trustees or administrators of the scheme.

If you think you may have an old pension but are not sure of the details, the Pension Tracing Service (part of the government's Department for Work and Pensions) can often help by tracing it for you.

The above has access to a database of over 200,000 occupational and personal pension schemes and can be used, free of charge, to search for your missing benefits.

If the search is successful, the Pension Tracing Service will provide you with a contact address for the scheme in question which you can then use to pursue your enquiries.

In order to get a trace write to Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA;



Or telephone 0845 6002 537



Or go online to www.thepensionservice.gov.uk



Important message for APV and Ranco members

Change in the Minimum Retirement Age for APV and Ranco members

Following legislative changes, the minimum age at which APV and Ranco members can start receiving their pensions will rise from 50 to 55 years with effect from 6 April 2010.

If you are one of these members, you should take into account these changes when considering your future personal plans. If you are in doubt about your membership position, you may contact Invensys Pensions.

A message for deferred members

Have you changed your address recently or are you planning to do so soon?
Has your marital status changed?
Do you have plans to emigrate?

We're not being nosy! Invensys Pensions really do need to know so that information on file is fully updated. If you are a deferred pensioner and forget to inform us of any of the above changes it could mean that you never receive your benefits, so please contact us whenever your circumstances change.

PLEASE DON'T FORGET



Scheme administration

Invensys Pensions
Higham House
New Bridge Street West
Newcastle upon Tyne
NE1 8AN

Phone 0191 206 1035

Fax 0191 206 1011

email enquiries@invensyspensions.co.uk

RETIRED MEMBERS



Retired members in receipt of a pension **ONLY** may call us on **0845 300 0549**.

Members who require further information about the Scheme or their own pension position can write to Invensys Pensions quoting their National Insurance number.

You can also visit our website **www.invensyspensions.co.uk**

IMPORTANT



Please have your National Insurance number available when phoning us

This newsletter is also available on CD for members who are blind or partially sighted. If you would like a copy please phone Amy MacKnight on 0191 206 1062.