

pensionnews

A photograph of a beach with waves washing onto the shore. The water is shallow and clear, revealing the sand beneath. The sky is a pale blue. In the foreground, there are some pieces of coral or sea glass on the sand.

Welcome to IPS Pension news, the newsletter for all members of the Invensys Pension Scheme

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News from the Chairman



Welcome to the Spring 2009 edition of the IPS Newsletter.

Since I last wrote to you, the world has experienced much turbulence: volatile financial markets hitting lows not seen since 1996, government intervention in national economies the like of which has not been seen since the second world war, the Bank of England reducing rates to the lowest ever seen in its 315-year history, regulators recommending that financial companies stress test for the conditions of the Great Depression and serious frauds emerging.

Given the seriousness of the events we all have been facing since summer 2007, our pension scheme has inevitably been affected. However, IPS has managed to weather the worst of the storm in absolute terms (we were able to maintain a 86% solvency as at March 2009) and also relative to the pension industry. The Trustee Board, the team in Newcastle, all our advisers and our chief executive have done a good job during these difficult times and they are continuing to position the Scheme for the financial and economic recovery.

In this edition of this newsletter, we provide you with an update of the financial situation of the Scheme as well as the Summary Funding Statements for March 2008 / 2009, as required by the regulator (pages 5 to 7).

We also remind you how your benefits are protected: through a conservative investment strategy, a financially healthier corporate sponsor, a robust deficit contribution schedule and the Pension Protection Fund (pages 8 to 10).

Finally, we summarise the increases received by our members and we address important points for the members of our DC Section and those with AVC arrangements (pages 11 to 15).

Since the Autumn edition, we have received letters and calls from many of you, voicing your concerns about what you read in the press, specifically on the subject of corporate bonds and the fact that their price had gone down materially, which impacts the Scheme given our many investments in that asset class.

As you will see in this edition, the reduction in corporate bond prices has had an impact on the Scheme, leading to an increase in the deficit from £285m in March 2008 to £594m in March 2009. This increase represents about 8% of our assets and needs to be put in context to fully understand its meaning:

1. We invest in corporate bonds because their profile is closest to that of our liabilities: they are long-term investments, their price is a function of interest rates and they can be inflation-linked.
2. The price of a corporate bond goes down for two main reasons:
 - i) concerns over the quality of the bond issuer; and
 - ii) the lack of liquidity in the markets - meaning that there are not many buyers.

We believe that the current reduction in bond prices is mainly due to the lack of liquidity in these markets, as opposed to serious concerns over the viability of issuers. As evidence of that, the Scheme has not experienced a single default over the past 18 months, although past performance should not obviously be interpreted as a guarantee of future performance.

The key is that if liquidity is a large part of the value drop, one would expect this to improve as markets recover and financial institutions become more confident to use their capital to buy bonds.

Importantly, this means that if we hold the bonds to maturity and experience no default, their current value should recover and the deficit reduce.

Other factors which help us in this regard are:

- a) the estimated deficit in April has reduced to £538million;
- b) the results of Invensys plc announced in May showed a solid performance, a good cash position and the share price increased;
- c) the equity markets continue to recover.

As has been said many times in our newsletters, we are long term holders of assets. Whilst valuations can be significantly impacted in the short term, we do not need to realise our assets in this market and therefore when markets recover assets should recover.

As we know, the biggest event for us is not the day-to-day movement in asset values but the health of the Corporate Sponsor, and Invensys plc has recently announced it has a good cash position and adequate financing for its operations.



Kathleen O'Donovan

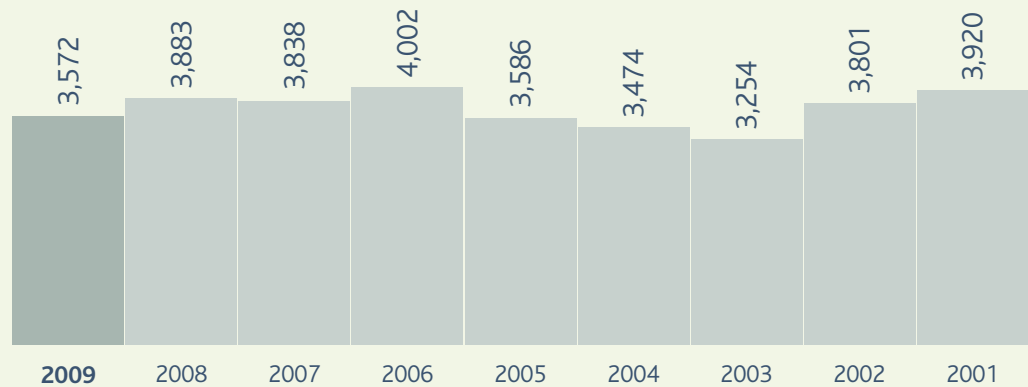
Chairman of the Trustee of the Invensys Pension Scheme

Financial highlights

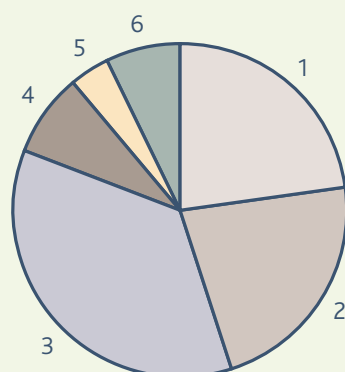
March 2009

Following a comprehensive review of the Scheme's funding position, contributions schedules and investment strategy in the Autumn 08 edition, we summarise below the key financial highlights of the Scheme for the year ended 31 March 2009.

Value of Scheme assets (£m)

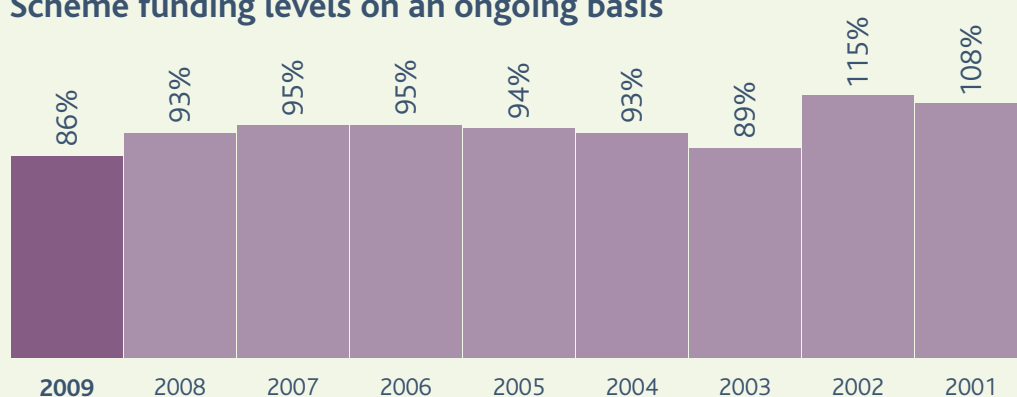


Distribution of investments by asset



- 23%** UK government gilts (1)
- 22%** UK government index-linked gilts (2)
- 36%** Corporate bonds (3)
- 8%** Equities (4)
- 4%** Fund of hedge funds (5)
- 7%** Cash and cash equivalent (6)

Scheme funding levels on an ongoing basis

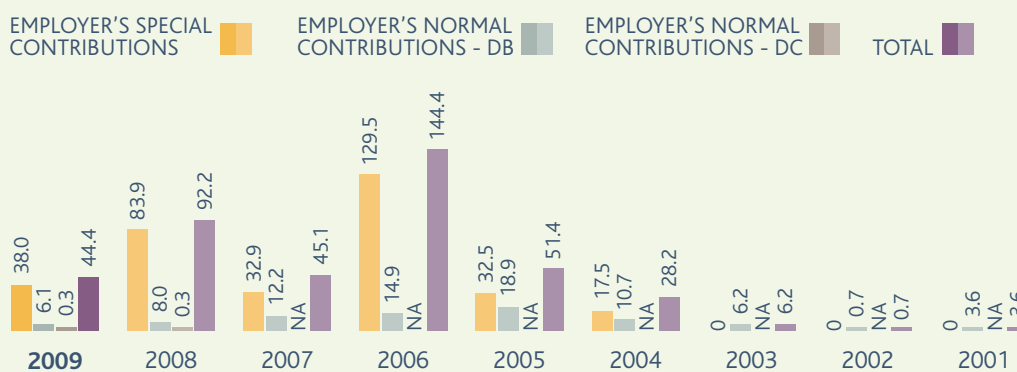


Investment returns %

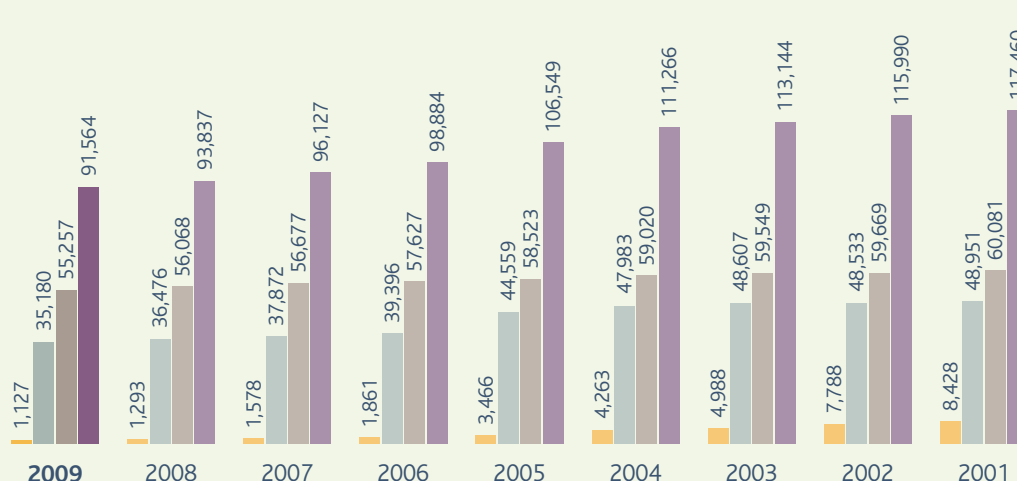
	2009	2008	2007	2006	2005	2004	2003	2002	2001
Actual return	(3.9)	4.7	0.4	14.0	7.8	13.1	(9.2)	0.0	(0.9)
Benchmark return	4.9	10.3	1.0	10.4	7.4	12.4	(9.0)	(0.5)	(4.0)

Benchmark return is based on a series of performance indices against which the investment return is measured.

Company contributions to the Scheme (£m)



Number of members



Following the Actuarial valuation

Summary funding statement as at 31 March 2008/2009

This statement is for information purposes only. It does not require you to take any action and the key details have already been communicated to you in the Autumn 2008 newsletter.

Purpose of statement

This statement is issued on behalf of the Trustee of the Invensys Pension Scheme ("the Scheme"), to provide you with information about the Scheme's funding position. This information is now required under the Pensions Act 2004 to be provided to all members by the Trustee on an annual basis.

Previous ongoing actuarial valuation

The most recent actuarial valuation of the Scheme was carried out as at 31 March 2008 and an annual updating report was produced as at 31 March 2009. The funding positions at these dates were:

	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Market value of assets	3,572	3,883	3,838
Value of technical provisions	4,166	4,168	4,047
Past service shortfall	(594)	(285)	(209)
Funding level	86%	93%	95%

As a result of the actuarial valuation as at 31 March 2008, it is clear that there is a shortfall. Accordingly a "recovery plan" has been put in place, whereby Invensys plc have agreed to pay the following contributions with the aim of making good this deficit:

	£m		£m
1 January 2009	10.0	31 March 2013	20.0
31 March 2009	18.0	30 September 2013	20.5
30 September 2009	18.5	31 March 2014	20.5
31 March 2010	18.5	30 September 2014	21.5
30 September 2010	19.0	31 March 2015	21.5
31 March 2011	19.0	30 September 2015	22.5
30 September 2011	19.5	31 March 2016	22.5
31 March 2012	19.5	30 September 2016	23.5
30 September 2012	20.0	31 March 2017	23.5

As required by regulation, a copy of the Recovery Plan has been submitted to the Pensions Regulator. The Regulator has confirmed that no further action by them is necessary.

Change in funding position

The funding position has worsened by £76 million between March 2007 and March 2008 and by £309 million between March 2008 and March 2009. The principal factors which have affected the funding position are as follows:

	31 March 2009 £m	31 March 2008 £m
Special company contributions in respect of the deficit	38	84
Returns on the Scheme's investments	(338)	(21)
Other factors (including changes in discount rates, expected future inflation, life expectancy and membership)	(9)	(139)

Solvency funding position

As at 31 March 2008 it was estimated that the amount required to secure the benefits of the Scheme in full with an insurance company, in the event of the Scheme winding up, was £5,288 million, which is a shortfall of £1,405 million. This figure is just an indication and does not imply that the Trustee or Invensys plc are considering winding up the Scheme.

Payment to Invensys plc

No payments have been made to Invensys plc or any of its subsidiary companies out of Scheme funds in the past 24 months.

Summary funding statement *continued*

Notes

1) Operation of the Scheme

This statement is in respect of the Final Salary section of the Invensys Pension Scheme. Within this section, money to pay for members' pensions is held in a common fund and is not held in separate funds for each individual. The Trustee's objective is for the fund to be sufficient to pay pensions now and in the future.

Active members (excluding SMART members) pay a fixed percentage of earnings to the Scheme (deducted from their pensionable salaries) whilst Invensys plc pays the balance of the amount needed to meet the Trustee's objective. The Trustee obtains regular valuations of the benefits earned by members, at least every three years. Using this information, the Trustee comes to an agreement with Invensys plc on the level of future contributions to be paid. Successfully achieving the Trustee's funding objective relies on Invensys plc continuing to support the Scheme.

2) What is the Scheme invested in?

The Trustee's policy is to invest in a broad range of assets. The Scheme assets were invested at 31 March 2009 as follows:

■ Matching Fund	80%
■ Higher Performance Fund	20%
■ Total	100%

3) Leaving the Scheme

If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.

The Scheme

How well protected are your benefits?

At a time when financial markets are volatile and bad news is all too common, it is important that members realise that the Trustee, the executives and the investment consultants to the Scheme are aware of its main risks and are continuously monitoring its exposures.

We set out below some key questions and answers regarding the Scheme:

Q. What kind of investment strategy is adopted?

As mentioned in the financial highlights pages, the Scheme's investment strategy remains conservative, which allows us to weather the storm better than UK pension schemes with higher risk profiles.

UK government bonds (37%) and cash and cash equivalents (12%) represent nearly 50% of the Scheme's asset portfolio. These assets are the least risky assets that a UK investor can be invested in. Following a flight to safe haven over the last 12-18 months, these assets had a positive performance over the past 12 months.

Q. Do we have any other investments?

In addition, the Scheme is invested in corporate bonds (13%) and asset-backed securities and financial institutions bonds (17%), representing 30% of lower risk assets.

Finally, the Scheme has designed hedges against interest rate and inflation risks, which further reduces its risk profile.

How well protected are your benefits? *continued*

Q. What effect does having 80% of low risk assets and tailored hedges mean to our performance?

This has clearly allowed the Scheme to perform better than the capital markets in general.

We strongly believe that the conservatism of the Scheme's current investment strategy is one of the key protections for our members' benefits. It should allow us to weather the exceptional crisis the markets are currently facing and, more importantly, it should position the Scheme more appropriately when markets start to rally.

Q. What is the situation regarding Invensys plc?

The improved financial strength of Invensys plc

Following the March 2008 Actuarial Valuation, we have agreed with Invensys plc a deficit recovery contribution schedule of £285 million over 9 years. The Company have confirmed that they believe they are in a position to make these payments in the future.

The Company has shown encouraging signs of financial improvement over the past few years: its credit rating has improved (to BB+), and is expected to continue to improve, and the Company has entered the current economic downturn with a net cash position and positive free cash flow. This is critical for the Scheme given our reliance on Company deficit recovery contributions.

Q. Are our assets tied into Invensys plc?

Your assets are segregated from Invensys plc

By law and by deed, the Scheme's assets are legally and physically segregated from the corporate sponsor. Were the Company to meet difficult financial conditions, it does not have any legal power to use or transfer the assets for their own purposes. Our asset managers and custodians guarantee that only the Trustee Board can use, transfer or dispose of these assets.

Q. What if Invensys plc were unable to meet the outstanding liabilities?

If the Company were unable to meet the outstanding liabilities of the Scheme or went into some form of bankruptcy, the Trustee may be required to enter the Pension Protection Fund (PPF) provided by the Government under the Pensions Act 2004 if it was unable to secure the pension payments above the level provided by the PPF.

However, if the Trustee believed that there were enough assets to pay more than PPF benefits it could continue to run the Scheme as a closed fund (pension payments would be made in the normal way) or effect a buy-out and secure individual annuities for members.

Q. What are the roles and powers of the Pension Protection Fund?



Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk. Alternatively, you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

The PPF was established under the provisions of the Pensions Act 2004. The PPF's main function is to provide a cushion for members of eligible private sector defined benefit ("final salary") schemes whose employer(s) become insolvent and where there are insufficient assets in the pension scheme to cover the PPF's capped level of compensation.

If this situation arises, the PPF will provide members with most, but not all, of the benefits to which they were entitled under their own scheme.

Broadly speaking the present levels are:

- a) 100% compensation for members who have reached their scheme's normal pension age and those in receipt of survivors' or incapacity pensions;
- b) 90% compensation for retired members below normal pension age or deferred members not in receipt of a pension subject to a pension limit which, in the current (2009/10) year, is £31,936 for those aged 65 years old (note that Actives would automatically become Deferreds if the Scheme joined the PPF); and
- c) There is no inflation-linkage (no increase) for the benefits accrued up to 5 April 1997; benefits accrued thereafter will increase by RPI with a maximum of 2.5%.

The Scheme pension

Pensions in payment

The April 2009 increase

In April each year, retired members in receipt of a Scheme pension receive an increase under the rules of the Scheme.

For the majority, the percentage increase is the rise in the Retail Prices Index (RPI) in the 12 months to December, up to a maximum of 5% and a minimum of 3% per annum.

**GUARANTEED
INCREASE OF 3%**



The reported increase in the RPI to 31 December 2008 was 0.9%, so the minimum increase of 3% was due.

The 3% is applied differently depending on the timing of the benefits earned as follows:

- 1** Retired members who have reached State Pension Age:
 - 3% applied to pension in excess of the GMP.
 - No increase to any GMP earned between 6 April 1978 and 5 April 1988.
 - 3% to any GMP earned between 6 April 1988 and 5 April 1997.
 - In addition, the government is responsible for additional increases to GMP up to the level of the RPI.
- 2** Retired members below State Pension Age will receive the 3% increase on all pension in payment from the Scheme (i.e. including GMP).

Certain classes of pensioners who were members of merged schemes or joined the Invensys Pension Scheme on or after 6 April 2000, and those with post 5 April 2006 accrual, will have different increase guarantees or promises (which can either be better or worse than this). In accordance with Scheme Rules, these members will have had the appropriate increase applied to their pension.

Questions on State Pension Benefits

Members over State Pension Age should already have received details of their State pension benefits including GMP (or SERPS equivalent) from the government's Department for Work and Pensions (DWP). Any questions relating to these benefits or the increases applied by the State should be directed to the member's local DWP office, not to Invensys Pensions.

IF YOU HAVE ANY QUESTIONS



Defined Contribution (DC) governance

More detailed information

PLEASE
NOTE



Pages 13 and 14 only relate to members of the Defined Contribution Section of the Scheme and those with AVC arrangements

Defined contributions within the Scheme cover two areas: the DC Section which was established in April 2007, and AVC arrangements which have been in place for many years. The Trustee has the same responsibility to members in these arrangements as to the Scheme as a whole, but there are three specific areas relating to DC governance which it is worth mentioning in more detail here:

- Investment
- Contributions
- Retirement choices

Investment

It is the responsibility of the Trustee to select and offer appropriate investment vehicles to Scheme members. These 'vehicles' are usually managed by insurance companies. Once a member has chosen their preferred investment vehicle, it is considered inappropriate for the Trustee to give members investment advice, as this can only be provided through a regulated person known as an "independent financial adviser". What the Trustee will do is provide members with sufficient information to allow them to make informed decisions concerning their investment options. The Trustee also regularly reviews the performance (both investment and administrative) of the chosen provider and offers appropriate advice as to other alternatives.

On transferring to the DC Section, members are provided with an explanatory booklet prepared by the Trustee together with information materials as to investment choices produced by Legal & General, who are the chosen insurance company. Members may invest in a range of funds or, if they so choose, default to the lifestyle option.

Although the AVC scheme was closed in April 2006, existing policy holders were allowed to continue making payments to the Scheme's main provider – which is the Prudential; some smaller arrangements from merged schemes also exist. The Prudential provides a wide range of funds and investment opportunities that can be found in their literature, which is available through Invensys Pensions.

Each year, members in these arrangements receive a statutory money purchase statement showing contributions paid in, current fund value and the estimated pension at normal retirement date. Members are encouraged to study this document and review their investment strategy so as to ensure they have made the best choice from the options available.

Contributions

A key area of responsibility for DC schemes is the prompt collection, allocation and payment of contributions. The Invensys payroll arrangements work exceedingly well, and monies received from the company are invested well within the prescribed time limits. So as not to be complacent, though, the procedures are monitored as a matter of course (by Invensys Pensions and the Scheme's auditor) and any delays reported to the Trustee.

Retirement choices

Under the present regime, contributions are normally paid out at retirement as part of the member's tax-free cash lump sum. However, if desired, a pension can be arranged internally or through the "open market option" which would involve an insurance company of the member's own choosing.

PLEASE ALSO
NOTE



Please also note that in these volatile times and if you are considering (early) retirement you might want to seek independent financial advice. Lifestyling might not be the most appropriate investment strategy given its high allocation to equities and the potential for these to fall during the period leading to your benefits being finalised.

Retired members: Important information

PLEASE
NOTE



Tax office change of address

Please note that the Newcastle Tax office (who you should contact if you have any queries about your Notice of Coding, etc) has moved to the following address:

HM Revenue & Customs
Washington Group Strategic North
BP4301
Chillingham House
Benton Park View
Longbenton
Newcastle upon Tyne
NE98 1ZZ

The telephone number remains unchanged and is **0845 302 1456**.

In all communications please quote their reference **504/8560** and your National Insurance number.

PLEASE
NOTE



Please also note that if anyone in receipt of a widow's pension remarries, Invensys Pensions should be notified immediately, in writing, and be sent a copy of the marriage certificate. Thank you for your cooperation in this important matter.

RETIRED
MEMBERS



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

IMPORTANT



Please have your National Insurance number available when you phone us

Scheme administration

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e-mail: enquiries@invensyspensions.co.uk

You can also visit our website:

www.invensyspensions.co.uk

This newsletter is also available on CD for members who are blind or partially sighted. If you would like a copy, please phone Wendy Moore on 0191 206 1032.

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