

WINTER 2010/11 EDITION OF IPS PENSION NEWS

pension news



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News from the Chairman



Welcome to the Winter 2010/11 edition of the IPS Newsletter

We are sending this newsletter later than usual because the Board and the Company were required to produce an S251 notice to the members of the Invensys Pension Scheme, which you should all have received by now. Further information regarding the S251 notice is included on page 13.

2010 has seen a better year for our Scheme:

- World economies and financial markets have experienced a recovery, although some uncertainties remain around its sustainability.
- The Scheme's assets value improved by 6% (£3,977m as at 31 December 2010 compared to £3,763m as at 31 December 2009) and the Scheme's funding improved from 90% in December 2009 to 93% in December 2010.
- The IPS team focussed on consolidating the new systems and platforms put in place in 2009 and the Board approved the hiring of a Chief Investment Officer to add to the Executive Office's capacity in this critical area.
- IPS's London offices have also been relocated to improve resources and effectiveness of the Executive Office team and the Administration Office in Newcastle will also be relocating in March to more modern offices. Page 12 gives you more details related to the Newcastle office move.

Page 11 gives you important information regarding the annual pensions increase. Due to the complexity of the various legacy schemes consolidated over the years there is no single increase that covers all members. However the vast majority have increase measured by reference to RPI, with a floor of 3% and a cap of 5%. The increase in RPI for the year was 4.8% and this will therefore be the increase for most of our members.



Following rumours in the press regarding a possible take-over of Invensys plc, we have received a number of letters from you enquiring about the consequences of such an event.

If Invensys plc were to be taken over by another company, its powers and legal obligations would remain unchanged. The Invensys Pension Scheme would continue its separate existence. In other words no immediate change would be felt.

However, a new owner might later seek to modify the operations and policies of Invensys plc and we have no way of knowing what changes those might be.

As you know, the Scheme, although owning its own assets, still relies on future cash contributions from the Company and there are currently arrangements in place for approximately £40m of special contributions to be made each year until 2017. These funding arrangements, or any new ones which may be set up following the March 2011 triennial valuation for example, would continue as long as Invensys plc is in a position to fulfill them.

The Trustee, backed by the Pensions Regulator, would seek to protect members' interests in all circumstances.

In connection with this, the CEO, the Trustee's Actuary and legal advisers as well as I will be concentrating during the next six months on the Scheme's assets and liabilities triennial valuation. We will also be preparing ourselves to discuss the overall funding position of the Scheme with the Company and agreeing the payment from the Company of annual contributions.

This newsletter gives you further information regarding the 2010 year, clarification of pension indexation, relocation details and an important message on the National Fraud Initiative.

Kathleen O'Donovan
Chairman of the Trustee
of the Invensys Pension Scheme



The year in review

Although the economy and markets have generally fared better in 2010 compared to 2009, shown by the strong performance of the Scheme's assets and its robust funding level (£3,977m and 93% as at 31 December 2010), the world experienced significant volatility over the past twelve months.

The year 2010 can be summarised as a year of consolidation for IPS, as we saw the new processes, systems, platforms designed and implemented in 2009 delivering as intended over the year.

Provided below is the review of the year 2010 split by topic along with an insight to our main goals for 2011.

Benefits Administration and Executive Office

Tax Recovery

It has been a busy year for our Accounts department, who are leading IPS's involvement, alongside other UK pension schemes, in various tax recovery projects.

Relocation of the Benefits Administration's Office in Newcastle

After ten years, the Benefits Administration Office is to move from Higham House to more modern facilities in Citygate in the centre of Newcastle. The move will take place in March 2011. More details on the move are provided on page 12.

Relocation of the Executive Office's in London.

Anticipating the hire of a new CIO, the Executive Office moved to new premises in London which has scope to grow in the future. The team remains close to the Chairman's, the investment advisers' and the Company's offices.



A new Chief Investment Officer (CIO) for the Scheme

I am pleased to announce that IPS has hired a CIO, who joined the Executive Office in London on 1 November 2010.

The size of the Scheme, the increasing risks in the pension / financial arena and the increasing complexity of investment (and liability) management mean that a scheme of over £4 billion needs a fully resourced Executive Office.

Thomas Mercier joins us from Goldman Sachs where he was an Executive Director within the Corporate Pensions Advisory Group. During the last six years, he advised corporations across Europe and their pension schemes on all aspects of pension strategy with a specific focus on the design and implementation of their capital markets risk management framework. Prior to this, he developed strategies to invest in the European credit markets and advised companies in the Telecom and Utility sectors on debt financing and financial risk management.

Thomas will oversee the Scheme's investments on a day-to-day basis and liaise with the advisors and asset managers. He will be based in London.



The year in review continued

Governance

As you will have read in the Spring 2010 edition of the IPS Newsletter, Nigel Casson-Moss, was appointed to the Trustee Board in February last year.

The Company

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

Financial situation

The Company's financial situation has improved over the past few years, with revenues of £2,243m in 2010 (£2,284m in 2009 and £2,108m in 2008). The Company has also generated a free cash flow of £100m (£296m in 2009 and £64m in 2008). It has maintained a strong financial position despite tough conditions in 2010, in that it has no debt, a net cash and deposits position of £363m and a £400m banking facility. Given the Scheme's deficit, the fact that the Company entered the economic downturn with no debt was important for IPS. In addition, S&P, one of the main credit rating agencies, increased the Company's credit rating to investment grade in 2009, which is a good sign of their increased creditworthiness.



Review of the Company's covenants

The employer covenant, which is the employer's legal obligations to our scheme and its ability to meet them, remains a crucial element in protecting members' benefits.

Perspectives from the Trustee

- The Trustee's on-going priority remains the constant monitoring of the sponsor's financial health and covenant compliance. As such we asked PricewaterhouseCoopers to perform the Company's annual covenant review, which was presented to the Trustee Board on 7 December 2010. We will also be working with PwC in 2011 to design a framework to monitor and respond to changes in the Company's covenant.

Perspectives from the Pensions Regulator

- A covenant assessment can feed through to the setting of technical provisions and recovery plans. A covenant should therefore be assessed objectively and trustees should have a framework for assessing and reviewing covenant, including monitoring.
- Encourage best practice
 - seek to strengthen the employer's covenant where this is necessary or desirable through the pledge of the employer's contingent assets to hedge specific risks, implementing actions if certain performance metrics are breached;
 - maintain an open and co-operative relationship between employer and trustee
 - employers should make available to the trustees covenant studies prepared for other creditors



The year in review continued

Improved and ongoing communication with the Company

The Head of Risk at Invensys plc and I hold monthly meetings, which allow the Company and Scheme to communicate and progress outstanding matters in a more efficient manner. The Scheme also requests the Company's presence at relevant Investment Committee meetings/calls (we have had seven Investment Committee meetings/calls last year) to encourage involvement, early debate and transparency.

Investment and Risk management

We focused last year on building the Scheme's new risk management pillars (new tools to reduce and better manage bank counterparty risk, improved capital markets risks monitoring tools, simplification of the Scheme's Liability Driven Investment portfolio, etc.). This year, we "tested" these pillars and we believe they are effective and efficient.

The single collateral management platform

A "leading edge" initiative for a pension scheme in the UK, it allows us to minimise the risk we have to the Scheme's bank counterparts and to optimise the use of eligible collateral and free cash for investment purposes.

The simplified Liability Driven Investment portfolio

We mentioned last year that the Cashflow Matching Fund (the Bond portfolio) had been restructured into a Government bond portfolio (50%) and corporate bond portfolio (30%).

This simplification has allowed the Scheme to make the most of dislocations in very low risk assets (mainly UK Government bonds) and we were able to generate c. £80m of value for the Scheme.



Additional investment in the Dynamic Asset Allocation Fund (DAA)

The simplification of the Cashflow Matching Fund allowed us to free £150m of cash which was invested in the DAA. This investment has currently generated c.£7.5m in additional returns.

Review of certain exposures within the Scheme's portfolio

We received during the year correspondence from members who were concerned about the Scheme's exposure to specific companies or countries.

We have been monitoring very closely, with the help and advice of our asset managers and investment consultants, our investments in companies such as BP, who experienced considerable political, regulatory and financial pressure during 2010, and countries such as Greece, Ireland, Portugal and Spain.

Pre-crisis, our exposure to BP was minimal, and our exposure to the countries mentioned above is small.

Priorities for 2011

Next year, in addition to the on-going management of the Scheme, we will be focusing on the following main priorities:

1. Working with the Trustee Board and the Actuary on the Scheme's triennial actuarial valuation and support them in their discussions with Invensys;
2. Acquiring and implementing a data management platform that will allow the Executive Office and the Investment Committee to continue to improve its management of the Scheme's liabilities, assets, capital markets and actuarial risks;
3. Performing a strategic review of the Scheme's investment strategy, investment governance and risk budget.

Robin Claessens

Chief Executive Officer of the Invensys Pension Scheme



Clarification of occupational pension schemes' inflation indexation

On 22 June 2010 the Government's emergency budget announced that future inflationary increases for public sector pensions would be set using the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI).

This measure is likely to reduce the value of public sector pension benefits because future increases in CPI are expected to be lower than RPI, as has generally been the case over the past decade.

Two weeks later, Steve Webb (the pensions minister) made a statement suggesting similar changes when determining statutory minimum deferred and pension increases for private sector occupational pension schemes. He also indicated the Government intended to amend legislation to ensure this change could be applied fully in every circumstance, which would have potentially impacted the majority of the deferred and pensioner members of the scheme whose benefits are linked to RPI.

These proposals generated much confusion as there are various protections in pensions law which restrict changes to accrued pension benefits. In particular, the question of whether the proposed changes would apply depended on the provisions in each scheme's individual rules and the extent of any overriding legislation the Government made.

Five months later, the Department for Work and Pension announced a long anticipated consultation process on the proposed changes. At the same time, the statutory minimum revaluation order in respect of deferred pensions for 2010 was published: it was based on CPI for the latest year of revaluation as expected from the Government's announcements.

While the statutory minimum has been changed to reference CPI, the extent to which this will apply to an individual scheme's benefits will depend on any legislative changes and these are subject to the consultation process.



The consultation period runs up to 2 March 2011, so it will be a while before we have the final legislation. However, the consultation sets out clearly DWP's proposals, the key points of which are explained below. Its main conclusion however, is that the legislation changes required for the changes proposed in July to happen to all occupational pension schemes would prove too difficult from a legal perspective.

Key points:

1. there will be no override of scheme rules; if scheme rules state RPI as the index for setting increases, the trustee must follow that rule;
2. inflation increases which do not state RPI as the basis for setting the increases in the scheme rules may move to CPI; and
3. the DWP will take steps to ensure that there is no underpin if schemes pay RPI increases, i.e. in years where CPI exceeds RPI, granting RPI increases will be sufficient.

Potential impact on Invensys Pensions

The potential impact on Invensys Pension Scheme members is as follows:

- The majority of our pensioners' increases are linked to RPI in the Scheme's rules and under the consultation proposals will continue to be so.
- However, the DWP's proposed changes will have an impact on certain member categories and guaranteed minimum pensions accrued after 5 April 1988: these are expected to reference CPI for future indexation;
- The majority of deferred members' benefits revalue over the period from leaving employment to retirement, in line with the statutory minimum requirement. This statutory minimum has changed to reference CPI and future revaluations will therefore be in line with this.



Annual pensions increase

As with all good pension arrangements, the Rules of the IPS provide retired members and beneficiaries with valuable protection against inflation by automatically applying a guaranteed increase at the start of every Scheme year.

Because of the complexity of the Scheme, guarantees vary. In general, though, payments are increased by reference to the rise in the Retail Prices Index (RPI) over the 12 months to December, with a minimum of 3% and a maximum of 5% per annum (over and above any part increased by the Government in respect of those over State pension age). The reported RPI in the 12 months to December 2010 was 4.8% so this becomes the general increase.

The above is a simplified overview, and a more detailed notification will be included with the March payment advice slips.



Invensys Pensions is relocating



PLEASE NOTE

After nearly ten years at Higham House, the lease on the premises will soon expire and the Trustee has decided on a move to more compact and modern premises, but still in the vicinity of Newcastle City Centre.

The move is expected to happen on 22 March and will last no more than 2 days.

The new office for the 16-strong staff will be located at the following address:

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

All telephone numbers currently in use will remain unchanged. Any mail in transit posted to the Higham House address will be redirected to Citygate by the Royal Mail.

There will inevitably be some disruption to our normal services during the course of the move. In particular, computer and telephone systems might not be in operation for two days, for which we apologise in advance.

In the event of an emergency, members can use the following phone number to reach the team in Newcastle: 07815010581.

This number will be turned off following the completion of the move.





Update on the Notice letter about possible payments to the Company

You received a letter from IPS at the beginning of January 2011 notifying you that the Trustee may pass a resolution under the Pensions Act to retain the ability to pay sums to the Company (Invensys plc). As we explained in the notification, this power would only be able to be exercised if the pensioner liabilities were already fully met. This resolution was to be made under the Section 251(3) of the Pensions Act and would take effect from 5th April 2011.

We are writing to you to update you on a development that has arisen since the letter was sent:

On 12 January 2011, the Government introduced the Pensions Bill 2011 (the Bill) to the House of Lords. The Bill extends the transitional period, during which S251 will apply, to 6th April 2016. The Bill however is not yet Law: this means that it is still a proposal from the Government but confirms the Government's intent is to delay the S251 deadline by 5 years.

On that basis,

- a. the Trustee will not pass the resolution,
- b. discussions with the Company will resume over the next five years, the outcome of which you will be notified of in due course, and
- c. we will notify you again before 5th April 2011 only if the deadline is not extended.





A National Fraud Initiative message



FOR INFORMATION ONLY – YOU DO NOT NEED TO TAKE ANY ACTION

IMPORTANT

In accordance with the Data Protection Act 1998 we are required to inform you that, along with other organisations, Invensys Pensions is taking part in the Audit Commission's latest National Fraud Initiative.

This initiative checks the data that we hold against registered deaths to identify cases where pensions are still being paid despite the pensioner's death. We are extending the remit to include unreported deferred pensioner deaths. This data matching exercise meets the requirements of data protection law.

The Audit Commission will be processing the data for this purpose only, and will comply with data protection principles.



Please don't forget.



PLEASE NOTE

Scheme administration is moving to:

Invensys Pensions
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Phone 0191 206 1035

email enquiries@invensyspensions.co.uk



IMPORTANT

This newsletter is also available on CD for members who are blind or partially sighted.

If you would like a copy please phone Amy McKnight on: **0191 206 1062**.
Please have your National Insurance number available when phoning us.



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

Pensioners please note

Since planning our payment dates for 2011 it has been confirmed that Friday 29 April will become a Bank Holiday.

For the avoidance of any doubt, this means that pensions will now be paid one day earlier on Thursday 28 April.

2010 Report & Accounts

A summary of the 2010 report and accounts of the Scheme is enclosed with this newsletter. The full report and accounts for 2010 for the IPS are also now available. You can request a copy by writing to the Pensions Manager at the above address. Or those of you who have access to the internet can visit our web site and view it on-line.