# PENSION NEWS

SUMMER 2016 EDITION OF INVENSYS PENSION NEWS

## WHAT'S INSIDE

# News from the Chairman of the Invensys Pension Scheme Trustee

Dear Member,

Welcome to the Summer edition of the IPS Newsletter.

I always write to you around this time with details of the Scheme's financial position. By way of background, we completed the 31 March 2015 triennial valuation earlier this year. In this valuation, we calculate the amount required to cover the Scheme's liabilities, known as the Technical Provisions. In the 2015 valuation, the Technical Provisions amounted to £5,082m. This gave a Scheme surplus of £67m and a funding level of 101%.

We monitor the funding position of the Scheme using the assumptions that were put in place for the 2015 valuation. This way, we make sure the funding arrangements remain appropriate. The Scheme Actuary has produced his actuarial report, which estimates the funding position at 31 March 2016. This showed that there had been a slight deterioration in the funding position, with the Scheme showing a deficit of £73m and a funding level of 99%. Given the strength of the support provided by the Invensys covenant and the guarantee from the wider Schneider Electric Group, the Trustee considered the funding level to be satisfactory.

You can find full details of the Scheme's financial position in the Annual Review in section 4.

Recently we also finished consolidating the Scheme's rules, creating the fourth definitive Trust Deed and Rules. We took the opportunity to make a number of changes which we believe will be beneficial to members or will simplify Scheme administration. In summary the changes are:

- Giving members the right to take a transfer value within 12 months of their Normal Retirement Age. Members already have a statutory right to take transfers before that time.

- Giving the Trustee the discretion to allow members to take transfer values after their Normal Retirement Age. Please note that under the rules of the Scheme, a member must claim benefits within six years of those benefits becoming payable, or they lose the chance to claim. If you wish to take late retirement you should let us know so that you don't risk losing any benefits.
- Enabling members' DB and DC benefits to be transferred separately (on an individual or group basis).

Following the Government's abolition of Protected Rights, it is also proposed to consolidate and remove the underpin previously required to comply with protected rights legislation. We have included an insert for any members affected by this proposed change.

The Invensys Pension Scheme, along with most other large pension schemes, was 'contracted out'. This meant the employer and the members paid lower National Insurance contributions than otherwise. In return, members gave up part of their future State Pension, and the Scheme committed to pay benefits of at least a minimum level. This minimum level is known as the Guaranteed Minimum Pension (GMP).

Historically, the Trustee has made sure that its GMP records are the same as HMRC's, one case at a time. As a result of the Government introducing the single-tier State Pension, schemes have to reconcile all their GMPs with HMRC's records. We have until December 2018 to do this.

The single-tier State Pension is only relevant for members who reach State Pension Age after 6 April this year. There is more about the single-tier State Pension in section 2.

**As a result of having to meet the GMP deadline, the Company is not offering Pension Increase Exchange (PIE) to retired members until their GMPs have been reconciled. This inevitably means that there will be a delay in some members getting their PIE offer. Some members will now not get an offer until next year.**

You may recall that in my last newsletter I let you know that the Company decided not to make a PIE offer to some members. This includes those with small pensions who are eligible to take their whole pension as a cash lump sum. If the value of your pension pot is below £10,000, you have the option to take it as a lump sum and you will not be made a PIE offer. We have included an insert in this newsletter if you are one of the members who has this option.

There has also been a recent change to the Lifetime Allowance. This is the total amount of pension savings (or equivalent DB benefits) a member can have across all their pensions, beyond which they must pay an extra tax charge. This allowance has been reduced to £1m. This lower allowance is still only likely to affect people with quite large pension savings. If you think you may be affected, please read section 3.

You may have seen the news about the collapse of the retailer BHS, and the problems with their pension scheme. I'm pleased to say that the Trustee of the Invensys Pension Scheme remains confident that the IPS is well positioned to pay the pensions promised to its members, as demonstrated by the 2015 valuation.

Finally, no news article at this time would be complete without mentioning the implication of the European Union referendum which took place in June. The wider ramifications of the country's decision to leave the European Union will take some time to become clear. As Trustee of the Scheme our focus has been on managing the investments through the volatility that resulted from the decision to leave. We prepared well for the potential consequences and as a result the funding level of the Scheme has not deteriorated substantially. The decision to leave the European Union does not change the benefits that the Scheme pays.

I hope you find the rest of the Newsletter interesting and informative.

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

# New single-tier State Pension

The new single-tier State Pension means changes if you reach State Pension Age on or after 6 April 2016.

## State Pension: What is changing?

If you reach State Pension Age on or after 6 April 2016, then you will receive the new single-tier State Pension. If you reached State Pension Age before this date, you will get your pension under the old rules.

Previously, the State Pension was made up of two elements – the Basic State Pension and the Additional State Pension. The additional State Pension is sometimes called State Second Pension or SERPS. The Government has now introduced a simpler, single-tier structure. This new State Pension replaces the existing Basic and Additional State Pensions.

The full amount of new State Pension is £155.65 a week for 2016/17. To get this full amount, you need to make National Insurance contributions for a certain number of qualifying years. Anyone who is just starting to make contributions on or after 6 April 2016 will need 35 qualifying years to get the full amount. Under the old rules, people needed 30 qualifying years.

## Contracting out

Since 1978, the government has allowed people with defined benefit pensions to contract out of the additional State Pension. Contracted out workers and employers paid reduced National Insurance contributions. In return, members did not build up the Additional State Pension (the State Second Pension/ SERPS). The IPS was a contracted out scheme.

If you paid into IPS, or another contracted out pension scheme, between 6 April 1978 and 5 April 2016, and you reach State Pension age after 5 April 2016, you might get a lower single-tier State Pension. This is to reflect the fact that you and your employer paid less National Insurance. Exactly how this applies to you will depend on your National Insurance record and how many qualifying years you have after April 2016. However, your IPS pension is intended to make up the difference for the years you were active in the IPS.

The Government refers to this difference as the Contracted Out Pension Equivalent (COPE) amount. Your COPE amount will be shown on your State Pension statement. This amount will only be an estimate. It will also only be a single figure for all the contracted out pension benefits you have built up. So if you have paid into any other contracted out pension schemes, you won't see separate COPE amounts for each one.

You can find more information about the new State Pension at **www.gov.uk/yourstatepension**. If you are over 50, you can ask for an estimate of the State Pension you will get under the new system. Go to **www.gov.uk/state-pension-statement.**

**When you get your State Pension**

- Your State Pension is paid from your State Pension Age (SPA).
- Your SPA depends on your date of birth.
- Men can currently claim their State Pension from age 65.
- Women's SPA has been increasing in steps. It will be age 65 by 2018.
- From 2018 the SPA for everyone will start to increase to reach age 66 by October 2020.
- The SPA will then rise from 66 to 67 between 2026 and 2028. The government reviews these plans every five years, taking into account changes in life expectancy.

Please note: The government's five-yearly review of the ages above means that they could change.

# Changes to Lifetime Allowance

If your combined pensions are worth over £1m, you could face a tax charge. But there are ‘protections’ that could help.

In April this year, the Lifetime Allowance (LTA) reduced from £1.25 million to £1 million. The LTA will increase by Consumer Price Index inflation from 2018-19 onwards.

### What is the LTA?

The LTA is the limit on the total value of pension savings and defined benefits that you can build up over your working life without incurring a tax charge. When you come to use the money in your pension, anything over your tax-free lump sum will normally be taxed at your marginal rate of income tax. If your total pension savings, including the value of any benefits from defined benefit pensions, are higher than the Lifetime Allowance, then you will be charged additional tax on the amount above the allowance.

You might be able to offset the change to the LTA, by using a ‘protection’ from HMRC.

### How do I know if I will be affected?

You need to add up your pension savings and defined benefits across all of the pension schemes you are in.

You work out the value of benefits in a final salary pension scheme, like the IPS, by multiplying your yearly pension entitlement by 20. If you are entitled to a lump sum in addition to the pension, you will need to add this too.

For money purchase (defined contribution) pensions, you need to estimate how much will be in your pension pot when you come to take the money out. This includes your future contributions and future growth in the value of your pot. A financial adviser should be able to help you estimate this.

## HMRC Protections

HMRC has created various 'protections' to help people who are affected by the LTA. If you think you might be affected by the new LTA, you could think about applying for one of these – even if your retirement is a long way off.

This year there are two new protections that might help you:

- Fixed Protection 2016
- Individual Protection 2016

## How to apply for individual protection

You or your authorised representative can apply for Fixed Protection 2016 and Individual Protection 2016 through HMRC's website. For the 2016 protections, HMRC will not give you a paper protection certificate. Instead they will give you a protection reference number. For Individual Protection 2016, they will also give you your individual LTA electronically. You will need both when you apply for your pension savings to be paid out.

# Annual Review

## The key facts and figures from our Annual Report and Financial Statements.

The following is an extract of the key information from the Trustee's Annual Report and Financial Statements 2016. You can see the full report on our website or by requesting a copy by writing to us at our usual address, which can be found on the back page.

## 1. The year in summary

This section summarises the year to 31 March 2016.

### Triennial valuation

I am pleased to report that we finished the 2015 triennial actuarial valuation well within the statutory time frame allowed.

The valuation showed that the Scheme was fully funded on a Technical Provisions basis and consequently no contributions were required from the Scheme's Sponsor, Invensys Limited (the Company). Legislation introduced the concept of triennial valuations in 2005 and this is the first time that the Scheme has reported a surplus under the regime.

The improvement from the £478m deficit reported at the last triennial valuation to a small surplus of £67m resulted mainly from mitigation payments from the Company following the sale of the Invensys Rail Division, as outlined previously.

The Scheme is also better protected by having a guarantee of up to £1.75bn from Schneider Electric SE, which was negotiated during the acquisition of Invensys. This Guarantee means that the Trustee can take account of the financial strength of Schneider Electric when assessing the security of the Scheme.

### Estimated funding position

Each year, the Scheme Actuary provides the Trustee with an estimated funding position, based on the assumptions agreed at the previous triennial valuation. As at 31 March 2016, the Defined Benefit assets of the Scheme were £4,914m and the liabilities were estimated to be £4,987m. This indicated that the Scheme had a small deficit of £73m and a funding ratio of 99%.

### Schneider Electric results for 2015

Schneider Electric reported its 2015 results on 17 February 2016. Adjusted earnings before interest, taxes and amortisation (EBITA) was €3.6bn (2014: €3.5bn). Free cash flow was €2.0bn (2014: €1.7bn). Total market capitalisation of Schneider Electric at 31 March 2016 was €32.6bn (circa £26bn).

## Closure of the Scheme to future accrual

The Scheme closed to future accrual at the end of the last financial year. All the active members became deferred members from 1 April 2015.

The Scheme has 71,312 members, 4.7% fewer than last year. 47,914 are receiving a pension and 23,398 are deferred members.

## New option for members in retirement – Pension Increase Exchange

Members reaching retirement have been able to opt for a Pension Increase Exchange (PIE) since January 2015. This gives members the option to exchange some of their future pension increases for a higher initial pension.

During the 2016 financial year, the Company decided to extend this option to members in retirement. This is a very large exercise and so the Company is making the offer in a series of tranches. The first pensioners were made an offer in October 2015 and the project is expected to continue for some time.

## New regulatory requirements

This year, the main legislative and regulatory challenges have been focused on defined contribution (DC) arrangements. We have reviewed our governance arrangements to ensure that the DC section of the Scheme complies fully with the new requirements. Our Statement regarding DC governance included within the annual report shows how we have addressed this.

This is the first year that the financial statements included in the annual report have had to comply with Financial Reporting Standard 102 and the new Statement Of Recommended Practice (SORP). The main impact has been an increased level of disclosure about our investments and the financial risks associated with them. In addition, there are some further disclosures about the funding position of the Scheme. We have therefore taken the opportunity of including all the relevant information that the Trustee is required to provide to members in the annual Summary Funding Statement.

# Annual Review

## 2. Our investment summary

### Our investment strategy

Our investment strategy is:

1. to secure members' future benefits by reducing risk and delivering consistent, reliable investment performance.
2. to meet the requirements of the Company to achieve 1% above the return on gilts. This requires the Trustee to invest in assets that have an element of additional risk associated with them.

### The Scheme's assets had a lower risk profile than in previous years

Financial markets were very volatile during the year. Global equity prices, with the exception of US equities, generally fell and displayed significant movement during the year. Credit spreads generally widened and government bond yields, and those of gilts in particular, mainly fell during the year.

The Scheme entered the financial year with a low risk positioning relative to previous years. Assets had a positive return of 0.9% during the year, but this was below our target return on assets of 3.6%.

During the year, the Investment Committee and the Executive Office (EO) focused on the following investment initiatives:

- Enhance management of inflation risk
- Increase cash flow generation
- Increase flexibility to manage asset re-allocations and transitions.

You can find further details in the Investment report on page 16

## 3. The outlook

### The Scheme is well positioned for the future

The funding level, along with the security provided by Invensys Limited and the Schneider Electric Guarantee, gives the Trustee confidence that the Scheme is well positioned to pay the pensions promised to its members.

### The Trustee will continue to assess the financial security of the Scheme

Looking to the future, the Trustee will continue to monitor both the funding level and the security provided by the Company. Where there are opportunities to improve the security of our members' benefits, we will seek to work with the Company to achieve them.

The wider ramifications of the country's decision to leave the European Union will take some time to become clear. As Trustee of the Scheme our focus has been on managing the investments through the volatility that resulted from the decision to leave. We prepared well for the potential consequences and as a result the funding level of the Scheme has not deteriorated substantially. The decision to leave the European Union does not change the benefits that the Scheme pays.

The Trustee will continue to monitor the Scheme's investments closely, looking for ways to deliver the current investment target while managing investment risk.

### Thank you to the Board

Once again, the Board has had an eventful year. On a personal note as Chairman, I would like to praise the Board members for their involvement, effort and enthusiasm. They had to tackle an increasing number of technical issues and significant projects, in order to meet the responsibility of providing a safe and secure Scheme for all members, now and in the future.

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

12 July 2016

# Annual Review
## Trustee's report: the year in summary

### The accounts in brief

| | £m |
|---|---|
| **Fund value at 31 March 2015** | **5,161** |
| **Income** | |
| Contributions paid by Invensys Limited and Scheme members | 1 |
| Income and capital gains/(losses) from investments | 44 |
| **Outgoings** | |
| Benefits payable to members (pensions and lump sums) | (254) |
| Payments to leavers | (15) |
| Fees and expenses (administration, advisers, investment managers) | (12) |
| **Fund value at 31 March 2016** | **4,925** |

### Funding position

The Scheme Actuary provides the Trustee with an update of the Scheme's funding level each year. This is either a formal valuation, which is carried out at least every three years (the triennial valuation), or an annual estimate in the intervening years.

The last formal valuation was carried out at 31 March 2015. The amount required to cover the Scheme's liabilities is known as the Technical Provisions. In the 2015 valuation, the Technical Provisions amounted to £5,082m, giving a Scheme surplus of £67m and a funding level of 101%. This represented an improvement from the previous actuarial report, which showed an estimated surplus of £16m as at 31 March 2014.

The Trustee continues to monitor the funding position of the Scheme using the assumptions that were put in place for the 2015 valuation to ensure the funding arrangements remain appropriate. The Scheme Actuary has produced his actuarial report, which gives an estimated funding position as at 31 March 2016. This reports a deficit of £73m compared with a surplus of £67m at 31 March 2015.

The movements through the last two years that led to the change in funding position are set out below.

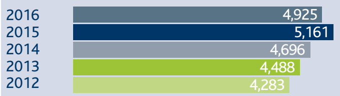
### Estimated evolution of the Technical Provision funding level:

| | 12 mths to 31 Mar '16 £m | 12 mths to 31 Oct '15 £m |
|---|---|---|
| **Estimated surplus/(deficit) as at year start** | **67** | **16** |
| Contributions paid by Invensys Limited to improve the funding level | – | 105 |
| Income and capital gains/(losses) from investments versus expected return | (28) | 650 |
| Change of assumptions (from 2015 valuation negotiations) | – | 63 |
| Effect of changes in economic conditions and other factors | (112) | (767) |
| **Estimated surplus/(deficit) as at year end** | **(73)** | **67** |

# Annual Review
# The year in summary: investment summary

## Value of pension fund
(£m)

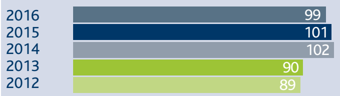
2016 **£4,925m**




*The 2014 asset figure includes the proportion of the Reservoir Trust attributed to the Scheme.*

## Scheme funding level
(%)

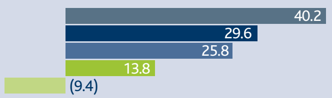
2016 **99%**




*Based on the actuarial assumptions used for funding the Scheme. The 2014 asset figure includes the proportion of the Reservoir Trust attributed to the Scheme.*

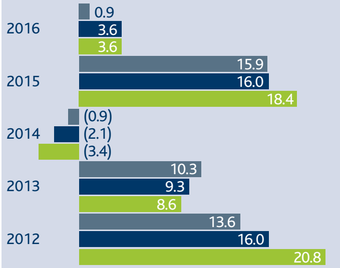
## Distribution of investments by type
(%)

2016




| | |
|---|---|
| UK Government fixed interest gilts | 40.2 |
| UK Government index-linked gilts | 29.6 |
| Corporate bonds | 25.8 |
| Managed/Unitised funds | 13.8 |
| Equities | 2.5 |
| Fund of hedge funds | 0.1 |
| Other absolute return funds | 10.0 |
| Loans | 1.3 |
| Cash and Other | (9.4) |
| Cash and others | 3.6 |
| Repurchase Agreements | (8.1) |
| Derivatives | (5.0) |

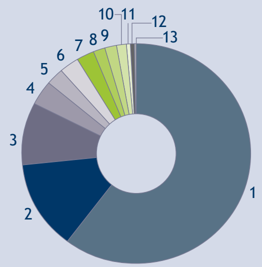
## Annual investment returns
(%)




- Assets return
- Aggregate Manager Target
- Strategic Target

*The actual and investment target returns for 2013, 2012 and 2011 have been recalculated to reflect in particular the Libor + 4% target of the equities mandate and the net current assets*

## Distribution of investments by investment manager
(%)




| | | |
|---|---|---|
| 1. | BlackRock LMF* | 60.3 |
| 2. | AXA* | 13.1 |
| 3. | M&G (IG Bonds)* | 9.3 |
| 4. | Barings DAA | 3.5 |
| 5. | GLG* | 2.6 |
| 6. | Pioneer | 2.6 |
| 7. | LGIM | 2.5 |
| 8. | AllianceBernstein | 1.9 |
| 9. | BlackRock (Fixed income) | 1.6 |
| 10. | M&G (Loans) | 1.3 |
| 11. | BlackRock (Cash vehicle) | 0.6 |
| 12. | Protected Rights and AVCs | 0.6 |
| 13. | BlackRock (Hedge Funds) | 0.1 |
| 14. | Psigma | 0.0 |

*These mandates are run on a segregated basis and the securities are held directly via the Scheme's custodian platform with BNY Mellon.

# Annual Review
# Investment report

**The Trustee aims to secure members' future benefits by reducing risk and delivering consistent, reliable investment performance.**

The Invensys Pension Scheme is a mature scheme. On 31 March 2015, the Scheme closed to future accrual. All active members became deferred members, and the Scheme stopped receiving ongoing contributions from the active membership. The Scheme is a substantial net payer of benefits. This therefore erodes its asset base naturally every year. We can measure the extent of its maturity in the net payments made each year: approximately £280m or 6% of its asset base was paid out in the 2016 financial year.

## Scheme Investment Strategy

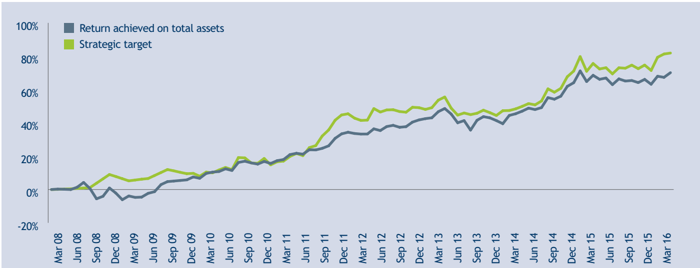
The Scheme's investment objective is to achieve investment returns that ensure the assets of the Scheme are sufficient to meet each member's benefits and the Scheme's expenses as they fall due over time.

The Scheme's Technical Provisions imply a required return on investments equivalent to UK Government gilt yields + 1.0% per annum. The Trustee has been set a Strategic Target which is to deliver the return implied by the Technical Provisions over the long term. The Trustee's investment policy for the Scheme's Defined Benefit section is designed to achieve the Strategic Target. In order to deliver gilts + 1.0%, the Trustee has to invest in assets that have an element of risk associated with them. The risks, and the framework for managing them, are described in detail in the notes to the financial statements.

This Strategic Investment target is primarily driven by:

- the Scheme's profile:
  - the nature of the liabilities
  - the structure of the membership base
- the Trustee's overall risk tolerance
- the Trustee's evaluation and perception of the covenant provided to the Scheme.

From the Strategic Target, the Trustee derives a Strategic Asset Allocation. This is designed to deliver asset returns of gilts + 1.0% per annum over the long term, and therefore to perform in line with the liabilities measured on a Technical Provisions basis.




The chart excludes contributions received, changes to the Technical Provisions' assumptions, and membership updates.

At the investment level, the Trustee sets specific performance targets for each underlying investment manager. These specific targets naturally have shorter time horizons than the Strategic Target. The aggregation of these targets determines the Scheme's Investment Manager Target (IMT).

Year on year, the IMT might be above or below the Strategic Target. The Trustee is responsible for:

- long-term monitoring of the performance of the assets against the Strategic Target, equivalent to the Technical Provisions (as above)
- ongoing monitoring of the performance of the assets against the IMT (see investment managers' performance section).

The Strategic Target corresponded to a return of 3.6% in the year to 31 March 2016. Its value reflects the impact of lower gilt yields, which decreased in aggregate by 0.1ppts, increasing the value of the Technical Provisions by c. £70m. The IMT corresponded to a return of 3.6%.

The Trustee determines the investment strategy after taking advice from a professional investment adviser. The investment strategy and objectives, together with full details of the investment process, are set out in the Statement of Investment Principles. This document is updated regularly. A copy is available to members of IPS.

### Strategic asset allocation

To a large extent, the Trustee has invested in assets that have a profile that closely matches the liabilities by using bonds or 'bond-like' assets. This helps the assets to match the valuation movements in the liabilities, thereby reducing the volatility of the Scheme's funding position.

The Trustee is not able to match fully the liabilities of the Scheme with its assets. This is mainly because of the requirements imposed by the Company. This requires the assets of the Scheme to target a performance return equal to the discount rate used for the valuation of the liabilities on a Technical Provisions basis, currently gilt yield + 1.0% per annum.

The Scheme's investments are classified in two categories:

1. A Liability Matching Fund (LMF). This is used to mitigate the Scheme's interest rate and inflation risks. The LMF is composed exclusively of assets perceived to have a relatively low risk:
   - UK Government bonds
   - Network Rail bonds
   - cash
   - cash equivalent instruments.

   BlackRock, the asset manager managing this portfolio, is also permitted to use derivative instruments, such as interest and inflation swaps, and gilt repurchase agreements. The LMF currently represents 60% of the assets, which are held directly via the Scheme's custodian platform with BNY Mellon.

2. An Investment Portfolio. This seeks to access the risk premium of a diversified portfolio of return-seeking assets. It also seeks to benefit from the additional performance available from active management, where considered appropriate. The total Investment Portfolio currently represents 38% of the assets.

   Mandates using primarily investment grade bonds make up 25% of the assets and were managed by:
   - AXA
   - M&G
   - GLG.

   The remaining 13% comprise:

   - a Fixed Income Global Alpha (FIGA) Fund (Hedge Funds: BlackRock)
   - a Dynamic Asset Allocation mandate (DAA: Barings)
   - two broad bond portfolios (AllianceBernstein, Pioneer)
   - a listed equity portfolio (LGIM)
   - a loans mandate (M&G).

Around 2% of the Scheme's assets were allocated to DC and AVCs plans or left in cash to satisfy the Scheme's short-term payment obligations.

## Investment managers' performance

The assets are managed by independent investment managers under the guidance of the Trustee and its Investment Adviser. The Scheme's investment managers are continuously reviewed over 12-month to 36-month rolling periods. Medium to long periods of review are essential, as they enable managers to be judged over a business cycle.

The investment managers' performance in any given year is expected to be a function of the capital markets environment and their capacity to navigate the markets to deliver relative outperformance.

The year to 31 March 2016 was marked by an increased divergence in macro-economic performance around the world and in the policy responses from central banks and governments. This in turn contributed to significant volatility in financial markets.

On one hand, GDP growth remained relatively strong in the US and the unemployment rate continued to fall. This gave the US Federal Reserve sufficient confidence to increase its base rate in December for the first time in ten years. On the other hand, economic performance in China, a significant engine to global growth in the past few years, has disappointed. It remains unclear as to whether the interventions of Chinese authorities will prove sufficient to stem the slowdown.

In Europe, central banks have pursued policies aimed at fending off the prospects of low inflation. The ECB pushed its deposit rate further into negative territory in December and announced that it would include corporate bonds in its bond purchase programme. Expectations of rate increases by the Bank of England have been pushed further into the future. This, in particular, contributed to gilt yields falling during the year.

Financial markets were very volatile during the year. Global equity prices, with the exception of US equities, generally fell and displayed significant movement during the year: the peak-to-trough on US and UK equities was around 15% and 25% respectively. Credit spreads generally widened and government bond yields, and those of gilts in particular, mainly fell during the year.

The Scheme entered the financial year with a low risk positioning relative to previous years. But this was not sufficient to fully protect the funding level. The Scheme's assets achieved a return of 0.9% over the year. This was 2.7ppts below the Investment Manager Target and the Strategic Target, each of 3.6% (see page 17 for graphical analysis). The Investment Management Target is split between the target for the LMF and the target for the Investment Portfolio. Most of the shortfall from the Investment Management Target was due to the underperformance of the Investment Portfolio.

The LMF had a total return of 1.8% for the year as a result of the fall in gilt yields. The return was 1.7ppt below the LMF's target of 3.5%. This is largely because the LMF holds some gilts for the purpose of generating a return over swaps over the long term. This meant that, as swap rates fell more in value than gilt yields during the year, the LMF underperformed its target. The relative movement of swap rates and gilt yields has been more significant than in previous years and seems to have resulted from the impact of regulatory changes on banks and insurance companies.

The Investment Portfolio had an overall disappointing performance with a total return of minus 0.4% for the year against a target of 3.7%. Among the worst-performing mandates were the allocation to equities and a dynamic asset allocation fund, which both suffered from the fall in equity prices. Within the mandates that seek to achieve a return from investing in credit markets, the performance was quite diverse. The largest mandates, AXA and M&G, which tend to pursue a lower risk strategy and the M&G Loans and AllianceBernstein Broad Bonds remained relatively shielded against credit spreads widening, with some of them still generating a positive performance. The mandates with a larger risk profile, such as the IG Bonds mandate with GLG and the Broad Bonds mandate with Pioneer, were more negatively affected. Fixed Income Global Alpha managed to capture opportunities from the more volatile environment, although its return was below the longer-term expectations.

## Investment managers' historical performance

| | | | | Investment return % pa | | | |
|---|---|---|---|---|---|---|---|
| | | Holdings at 31 March 2016 | | 12 months to 31 March 2016 | | 3 years to 31 March 2016[1] | |
| Investment Manager | Style | £m | % of total | Actual % | Target % | Actual % | Target % |
| **Liability Matching Fund (LMF)** | | | | | | | |
| BlackRock[2] | | 2,955 | 60.0 | 1.8 | 3.5 | 6.4 | 6.7 |
| **Investment Portfolio** | | | | | | | |
| AXA | IG bonds | 644 | 13.1 | 1.2 | 4.1 | 3.7 | 3.7 |
| GLG | IG bonds | 127 | 2.6 | (3.9) | 4.6 | 3.2 | 4.6 |
| M&G | IG bonds | 454 | 9.2 | (0.5) | 1.9 | 2.0 | 2.2 |
| AllianceBernstein | Broad bonds | 95 | 1.9 | 0.9 | 3.6 | 1.7 | 3.6 |
| Pioneer | Broad bonds | 125 | 2.5 | (1.2) | 3.6 | 1.9 | 3.6 |
| Barings | DAA | 171 | 3.5 | (3.3) | 4.6 | 2.7 | 4.5 |
| LGIM[3] | Equity | 121 | 2.5 | (5.6) | 4.7 | 7.3 | 4.7 |
| Blackrock (FIGA) | Hedge funds | 80 | 1.6 | 3.5 | 6.0 | 3.7 | 8.4 |
| M&G | Loans | 65 | 1.3 | 3.3 | 4.6 | 4.4 | 4.6 |
| **Investment Portfolio[4]** | | **1,882** | **38.2** | **(0.4)** | **3.7** | **2.9** | **3.8** |
| **Cash** | | **31** | **0.6** | **0.5** | | | |
| **Managed assets[4]** | | **4,868** | **98.8** | **0.9** | **3.6** | **5.0** | **5.6** |
| Protected rights/DCs/AVCs | | 29 | 0.6 | | | | |
| **Net financial assets** | | **4,897** | **99.4** | | | | |
| Net current assets[5] | | 28 | 0.6 | | | | |
| **Net assets of the Scheme** | | **4,925** | **100.0** | | | | |

The numbers in this table may not add up exactly because of rounding differences.

1 Or since inception if performance monitoring period is shorter (Barings: August 2013, M&G Loans: June 2013).

2 BlackRock's performance includes the swaptions portfolio from its inception in July 2011 to closure over Q4 2013. The target calculation methodology changed from 30 June 2014. Target returns up to and after this date have been chain-linked.

3 The LGIM target shown above is the Scheme target of Libor + 4% for the investment, whereas the manager aims to track an equity index.

4 The target for the IP and the managed assets reflects the IMT.

5 Other includes BlackRock FoHF, which is in wind-up

## Key initiatives performed during the year

- **Enhance management of inflation risks.** The Trustee continued working towards enhancing its approach to managing inflation risks. It focused on better aligning the inflation-linked assets held by the Scheme with the promised pension increases, which mainly rise in line with inflation, subject to a minimum of 3% and a maximum of 5%. This was achieved by using inflation swaps that are subject to the same minimum and maximum within the LMF. The calibration of the Trustee's inflation risk management strategy was also reviewed in light of the bulk PIE exercise, which has an impact on the liabilities' inflation exposure.

- **Increase asset cash flow generation.** The Trustee regularly reviews the efficiency of its asset allocation in delivering both the required returns and cash flows to pay pensions. As part of this, the allocation to index-linked gilts, which pay a low cash coupon and are used to generate a return above swaps within the LMF, was reduced and the allocation to fixed-interest gilts increased. This also allowed the Trustee to reduce the funding level sensitivity to the difference between gilt yields and swap rates.

- **Increase flexibility to manage asset re-allocations and transitions.** The Trustee has taken a number of steps to facilitate the process of re-allocating its investment between different asset classes or asset managers and reduce potential transition costs. This included adding investment funds to the roster of mandates that the Scheme can contribute to and increasing, where appropriate, the dealing frequency of the mandates.

## Custody arrangements

Trust law and the Pensions Act 1995 impose specific duties on the Trustee to safeguard the assets of the Scheme. Since 2001, the Trustee has appointed a global custodian. The global custodian holds the Scheme's assets that make up the various portfolios managed by the investment managers. Since 1 September 2006, the Bank of New York Mellon SA/NV has been the Scheme's global custodian. A separate branch of the custodian, based in the US, safeguards the Fund of Hedge Funds.

The custodians are responsible for the safekeeping and administration of assets. They ensure that assets are only released with appropriate authorisation.

The administrative functions of the custodians include:

- settlement of transactions
- collection of income arising from the investments
- recovery of any tax paid that is due
- reporting and accounting for the Scheme's investments.

The Scheme uses some pooled and collective investment arrangements, where custody services are arranged through the fund provider.

The Trustee, together with its Investment Adviser, keeps the effectiveness of the custodial arrangements under review. The custodians are required to publish a report on their internal controls, which has been audited by a third party auditor in accordance with agreed standards.

## Largest investments

The Scheme had three holdings with a value greater than 5% of the net assets of the Scheme as shown in the table below.

| | Market value £m | Percentage of net assets % |
|---|---|---|
| United Kingdom gilt 4.500% 12/07/2042 | 335.4 | 6.8 |
| United Kingdom gilt 4.250% 09/07/2039 | 286.0 | 5.8 |
| United Kingdom gilt 4.250% 17/07/2055 | 256.8 | 5.2 |

An analysis of investments is shown in the notes to the Scheme's financial statements on pages 29 to 33 of the full Annual Report. The aggregate amounts of sales and purchases of investments during the year are also shown in those notes.

## Additional Voluntary Contributions (AVCs) and Defined Contribution (DC)

The AVCs scheme was closed to new accounts from April 2006. Scheme members stopped being able to make AVCs payments under the Scheme from 31 March 2015.

AVCs are invested separately from other Scheme assets to ensure there are individual funds for each member that are clearly identifiable. Members currently have the choice of investing in a number of funds provided by Prudential.

Members either invest with Prudential or, where they have joined the Scheme following amalgamation with other schemes, have been permitted to continue to invest with the AVCs provider of their original scheme.

The Trustee reviews the fund range and lifestyle options for the DC section at least every three years. This was last reviewed following the introduction of the flexibilities that arose under the 2014 budget. The AVC fund range was reviewed at the same time.

# Annual Review
# Financial account

## Financial account For the year ended 31 March 2016

| | £m |
|---|---|
| **Income** | |
| Employer's contributions | 1.3 |
| Investment income | 122.0 |
| | **123.3** |
| **Expenditure** | |
| Pensions and benefits payable to members | 253.5 |
| Payments to and on account of leavers | 14.6 |
| Administration and investment expenses | 12.6 |
| | **280.7** |
| | |
| Fund value at the beginning of the year | 5,160.7 |
| Decrease in value of investments | (78.0) |
| Difference between income and expenditure | (157.4) |
| **Fund value at the end of the year** | **4,925.3** |

## Investments

| | £m |
|---|---|
| Fixed interest securities | 3,163.4 |
| Index linked securities | 1,524.1 |
| Pooled investment vehicles | 676.7 |
| Derivative contracts | (243.2) |
| Repurchase agreement liabilities | (398.5) |
| Cash instruments | 125.2 |
| AVC investments | 7.1 |
| DC investments | 3.7 |
| Other financial assets and liabilities | 35.6 |
| Cash deposits | 7.3 |
| | 4.901.4 |
| Current assets | 31.9 |
| Current liabilities | (8.0) |
| **Fund Value** | **4,925.3** |

# Annual Review
## Actuarial liabilities and valuation

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its Technical Provisions, which represent the present value of benefits to which members are entitled. This is assessed at least every three years using assumptions agreed between the Trustee and the Company and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request. Annual updates are presented to the Trustee in other years.

The Scheme Actuary is independent of the Scheme and the Company. He assesses the funding position of the Scheme, i.e. the balance between assets and liabilities.

The latest full valuation was as at the effective date of 31 March 2015. An annual update was performed on 31 March 2016. The positions at these dates, together with the previous annual update, were as follows:

| | 31 March 2016 £m | 31 March 2015 £m | 31 March 2014 £m |
|---|---|---|---|
| Net assets of the Scheme | 4,925 | 5,161 | 4,591 |
| Less AVC and DC investments | 11 | 12 | 12 |
| Value of DB assets | 4,914 | 5,149 | 4,579 |
| Value of Technical Provisions | 4,987 | 5,082 | 4,563 |
| Surplus/(shortfall) | (73) | 67 | 16 |
| Funding level | 99% | 101% | 100% |

In accordance with the Pensions Act 2004, the Trustee set the method and assumptions for the Scheme Actuary to calculate the Technical Provisions (the amount required by the Scheme to provide for the Scheme's liabilities on an ongoing basis). These Technical Provisions were then agreed by the Company. In setting the method and assumptions, the Trustee took into account both the strength of the Covenant provided by Invensys Limited and the parental guarantee of up to £1.75bn, which it secured from Schneider Electric in January 2014.

A summary of the method and key assumptions is given below:

### Method

The actuarial method used to calculate the Technical Provisions was the defined accrued benefits method.

### Key assumptions

The assumptions agreed with the Company for the 31 March 2015 valuation were as follows:

- a discount rate set to be the yield available on the nominal fixed interest gilt yield curve plus 1.0% per annum
- an RPI inflation assumption derived from nominal and real gilt yield curves
- a CPI assumption, which has been derived by making a suitable adjustment to the RPI inflation assumption. A deduction of 0.75% per annum has been used for this valuation, which reflects a prudent adjustment given observed past levels and future expectations. The assumption could not be derived directly as there was no reliable market-based method for deriving an assumption for CPI price inflation
- pension increases assumptions based on the relevant inflation assumption and a model to allow for the pension increase collars (e.g. 3% and 5%) and future inflation volatility of 1.5% per annum
- the pre-retirement mortality table based on AC00 tables
- a post-retirement mortality assumption of 103% of the S2PA tables for males and 114% of the S2DA tables for females, both projected in line with the Continuous Mortality Investigation Model (CMI_2014) for future improvements with a 1.5% per annum long-term rate of improvement.

The agreed assumptions gave rise to a funding surplus of £67m as at 31 March 2015. As the Scheme was in surplus, there was no requirement for deficit funding from the Company for the immediate future.

The next full valuation will take place with an effective date not later than 31 March 2018.

### Solvency funding position

As at 31 March 2015, 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 £7,287m, which is a shortfall of £2,138m. This figure is just an indication and does not imply that the Trustee or Invensys Limited are considering winding up the Scheme.

### Invensys Limited

There have not been any payments made to Invensys Limited or any of its subsidiary companies out of Scheme funds in the past 24 months.

# Annual Review
## Trustees, the Board, its committees, advisers and investment managers

### Appointed by Invensys Limited

**Kathleen O'Donovan (Chairman)**
Kathleen has been a member of the Board since 1991 and was appointed Chairman in February 2003. As Chief Financial Officer of BTR and Invensys between 1991 and 2002, she has been deeply involved in the Scheme for many years. Previously a partner with Ernst & Young, Kathleen has held a number of non-executive directorships, including at ARM Holdings plc, Prudential plc, the Bank of England and O2 plc.

**Geoff Campion**
Geoff is a Chartered Management Accountant. He retired from his position as the Chief Financial Officer of Invensys Rail in March 2011, having worked with the Company for 22 years. Geoff previously served as a Trustee Director between 2003 and 2007 and has also been a member of the Pensions Committee for the Westinghouse Section of the Railway Pension Scheme since 2006. He was reappointed to the Board in February 2013.

**Eleanor Ager**
Eleanor joined Invensys in 1999. She has held various positions at Invensys plc, including Business General Counsel for Invensys Rail and, more recently, Head of Legal Services. In 2013, Eleanor took up a role supporting commercial compliance in the Major Projects team. She qualified as a solicitor in 1989 and has since been involved in a variety of international corporate and commercial projects, both in private practice and with National Power plc. Eleanor was appointed to the Board in March 2007.

**Steve McDonnell**
Steve is Vice President Tax for Schneider Electric. He was appointed following the acquisition, after joining Invensys as Head of Group Tax in January 2005. Previously, he had similar roles with Tibbett & Britten Group plc, Thorn Lighting and Laporte plc. Steve is a Chartered Accountant and a member of the Chartered Institute of Taxation. He was appointed to the Board in March 2006.

### General Membership Director

**Nathan Blackwell**
Nathan worked for 12 years at Invensys' London HQ, where he was ultimately appointed as Director of Corporate Finance. He later joined Thales as UK M&A and Commercial Director. Nathan now works as a director for PwC within its pensions consulting team. He has worked on a number of pension initiatives and he brings that experience with him to the Board. He was appointed to the Board in December 2013.

## Pensioner Directors

### Ian Fyfe (Deputy Chairman)

Ian is a Chartered Accountant and a Chartered Management Accountant. He worked for 21 years in various financial and management roles in the Angus and Dunlop Groups. He then managed the Dunlop Group Pension Scheme from 1982 until its merger with other BTR schemes in 1988, when he became General Manager of the BTR Group Pension Scheme until his retirement in 1996. Since then, Ian has served as a Director of the Trustee Company.

### Nigel Casson-Moss

Nigel has 30 years' experience as a Finance Director in the UK manufacturing industry. He became a Trustee Director of the T&N Retirement Benefits Plan in 1999. He subsequently became Pension and Benefits Manager for the T&N Group in 2001. He joined Invensys Pensions in January 2004 as General Manager, working for the Trustee Board, with executive responsibility for the Scheme, including the Administration Office in Newcastle. Nigel retired in September 2008 and was elected as a Pensioner Director of the Invensys Pension Scheme in February 2010.

### Tony Ferris

Tony is a Chartered Accountant who retired in 1999. He was Finance Director of Westinghouse Brake & Signal Holdings. He also served as Finance Director of Hawker Siddeley's Rail division until 1991, and then as Group Controller of the BTR Rail Group. He was a Trustee of the Westinghouse pension schemes until they were merged with the BTR Group Pension Scheme in 1993, and was also Chairman of the South West Region's Pensions Consultative Committee.

### Peter Vos

Peter is a Chartered Accountant and a trustee with financial responsibilities for four charities. He retired in 2012 from Parker SSD Drives, a former subsidiary of Eurotherm, where he worked for 31 years, holding a variety of senior financial roles until moving into general management to head SSD Drives Europe. After Invensys bought Eurotherm, he also worked as Chief Financial Officer at Baan in the Netherlands. As a Member-Nominated Trustee Director since February 2013, Peter brings substantial pension experience, having been a Trustee of many of the schemes of his former employers.

# Frequently asked questions

Questions members commonly ask us. If you have a question that is not here, please get in touch.

**When will I find out how much my annual pension increase is?**
Most members receiving a pension get an increase on 1 April each year. We will tell you what your increase is when we send you your April payslip.

**I'm getting close to my Normal Retirement Age. What will happen?**
If you are a deferred member who is close to your Normal Retirement Age (usually 65), our administration team will contact you approximately 12 weeks before your birthday. In the meantime, if you would like to get a benefit statement, please write to the team at the address on the back page.

**I'm a deferred member. Can I find out what my pension's transfer value is?**
Yes. Please write to our administration team at the address on the back page. You can get one free transfer value a year. If you want a second transfer value, you will need to pay £250.

**I'm retiring, when will I get my first pension payment?**
We aim to start paying your pension as soon as possible after your retirement date. If you have chosen a tax-free cash sum, that money will usually go into your bank account a few days after your retirement date, as long as we received all your documents on time. We pay all new pensions through our monthly payroll on the first day of each month. So, if your retirement date is in the first half of the month, we can usually pay your pension on the first day of the following month. If your retirement date is in the second half of the month, it is usually too late for us to put the payment through payroll, so we'll pay you on the first day of the month after. This means that we might start paying your pension as much as seven or eight weeks after your retirement date.

**I have got HMRC protection for my pension. Does the Trustee need to know about it?**
If you have a larger pension – usually more than £50,000 per year – and you have not yet retired, you may have arranged with HMRC to protect some or all of your pension savings against an excess tax charge. If you have done this, it is important that you let us know, so we can pay your benefits correctly. Please give us a copy of your HMRC protection certificate or HMRC protection reference number for our records.

### What if I can't remember – or have changed my mind about – who I've nominated to receive any lump sum death benefits from the Scheme?

If you have been receiving your pension for less than five years, or you are a deferred member, please make sure your nomination form is up to date. That way, we will know who you would like to receive benefits if you die. You can download a nomination form from **www.invensyspensions.co.uk/Useful_information/forms.html** or you can ask our administration team to post you a form.

If you have been a pensioner for more than five years, or you are receiving a spouse's pension, child allowance or dependant pension, there would be no further benefits if you died. So you don't need to complete a nomination form.

### I'm a pensioner and I get sent a P60 each year. What is it for?

We send you a P60 each May that states your income from the Scheme for the previous tax year. HMRC can ask you to show them this document at any time, so please keep it in a safe place. Every year lots of members call us to ask for a duplicate P60 because they've lost the original. So please look out for your P60 arriving with your payslip in May.

### How do I change my bank details so that I get my pension paid into a new account?

If you need to tell us about a change to your UK bank account, please use the form included with this newsletter. If you would like your pension paid to an overseas bank account, we can arrange this through Western Union. We need some additional information to do this, so please phone our helpline and ask us to send you the correct form.

### How do I report the death of an IPS deferred or pensioner member?

If you need to tell us that a member has died, you can download a Death Notification form from **www.invensyspensions.co.uk/useful_information/forms.html** or you can telephone, email or write to our administration team. You need to do this even if you have contacted the Department of Work & Pensions about the member's State Pension.

**If you or your child is receiving a child allowance from the Scheme, please respond to our recent letter as soon as possible. This is to make sure that we continue to pay the allowance throughout the Scheme's academic year.**

# Contact details

Here's how to contact the Scheme Administration office:
PS Administration Ltd
36 Gallowgate
Newcastle upon Tyne
NE1 4TD

Helpline: **0191 341 0600**

Pensioner Helpline: **0845 300 0549** (BT local rate)

Email: **Invensyspensions@puntersouthall.com**

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

If you would like this newsletter as an audio CD, please contact Amy MacKnight on **0191 341 0647**.

## The National Fraud Initiative

This is for your information only – you do not need to do anything.

In accordance with the Data Protection Act 1988, we have to tell you that, along with other organisations, IPS took part in the Audit Commission's National Fraud Initiative in 2014/15. This initiative checks the data that we hold against registered deaths to identify cases where pensions are still being paid after the pensioner's death. This data-matching exercise meets the requirement of data protection law.

Unfortunately, we continue to identify cases of fraud. In such cases, it is our policy to pursue fraudsters. We have successfully prosecuted individuals through the courts when we have found evidence of fraud.