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PENSION NEWS

SUMMER 2015 EDITION OF IPS PENSION NEWS

WHAT'S INSIDE

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News from the Chairman

Dear Member,

Welcome to the Summer edition of the IPS Newsletter.

Pensions continue to be a hot topic in the media, with the new 'pension freedoms' still hitting the headlines. There is so much information that it can be confusing. We hope this newsletter will keep you updated of developments.

For example, we know that many of the changes that have been announced are not directly relevant to IPS members. Most of the pension freedoms apply to Defined Contribution (DC) benefits, while IPS members' benefits are mostly Defined Benefit (DB). However, DB members who have not yet started drawing their pensions may be able to access the benefits if they transfer their benefits to another scheme. In section 3 of this newsletter, I've included a summary of the main changes that are relevant to you.

As a reminder, here are definitions of how DB and DC schemes work. The type of scheme you belong to will determine the benefits you are entitled to.

- Defined Benefit (DB) scheme: pays you a guaranteed income for the rest of your life, based on the number of years you worked and the salary you earned. For IPS, it's your pensionable salary that counts here. All IPS members have defined benefits.
- Defined Contribution (DC) scheme: builds up an individual pot of money from contributions paid by you, your employer, or both. The pot is invested to give it a chance to grow. The value of your pension pot depends on how much goes into it and on how well your investments perform. You have various choices about how to take the money out of your pension pot, to give yourself money to live on. Only around 2% of IPS members have DC funds. They are deferred members who either paid additional voluntary contributions (AVCs) or worked for Invensys after 2006 and chose to be in the DC section of the Scheme.

News from the Chairman continued

One change announced in the 2014 Budget that we highlighted in the last newsletter was the increase in the size of pension fund that members can convert to a cash lump sum, which has changed to £10,000 (in total, not per annum). To make sure you know about this opportunity, I've included a reminder about it in section 4.

As usual at this time of year, I have included full details of the financial position of the Scheme in section 2. This includes the Annual Review, which shows the financial position of the Scheme at 31 March 2015. The Scheme remains fully funded on a Technical Provisions basis, and the Trustee remains confident that all benefits can be paid in full.

Please also have a look at the important information on the inside back cover and back page of this newsletter. You'll find our contact details there, if you need to get in touch.

Finally I wanted to make you aware of a project that the Company is running, which will give members who are already receiving a pension the opportunity to take a Pension Increase Exchange (PIE). You may recall, this is the opportunity to swap future pension increases for a higher starting pension. This starting pension will then only increase at the rate required by legislation, instead of the more generous Scheme increases. At the start of this year we introduced this option for members at retirement and the Company has now decided to offer it to members who are already receiving a pension from us. The offer is on similar terms to the at retirement offer, which means the present value of the increases you can give up is calculated, and 80% of this value is used to increase your current pension.

If you are eligible for the offer, we've inserted a flyer from the Company which gives further details. You don't need to take any action at this time, other than to read the flyer. Over the coming months we will write out individually to retired members to see if they would like to receive an offer from the Company. Those wishing to receive an offer will then get an individual letter from the Company with details of what the offer would mean for them. This is a big exercise and the Company are phasing the offer over several months so you may not get your individual letter for some time.

Remember, you do not need to take up the offer, it is your decision. To help you make the decision the Company has agreed to pay for independent financial advice, at no cost to you. This is in accordance with the best practice guide to making such offers. The offer of a PIE gives members another option in planning their future. PIE offers have both short term and long term consequences for members. So we encourage you to take the decision very carefully, and to take advantage of the advice that is being made available to you.

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

Invensys Pension Scheme Annual Review 2015

Chairman's review

There are four parts to this review:
1. Executive summary
2. The year in summary
3. Our investment summary
4. The outlook

1. Executive summary

The year 2014/15 has seen a number of significant developments for the Scheme. This page summarises the main points.

The financial security of the Scheme remains good

The Scheme continues to be fully funded. It received its share of the Reservoir Trust's assets in April 2014, which improved the funding position of the Scheme.

This improved funding position prompted the Trustee to reduce the exposure of the Scheme to interest rates. This took place in advance of a significant fall in Government Bond yields, and helped the Scheme to reduce the resulting impact on the funding level.

Together with the security provided by the Invensys Covenant and the £1.75bn Guarantee from Schneider Electric SE, the Trustee continues to believe that the Scheme's security is good.

The Company closed the Scheme to future accrual on 31 March 2015

When Schneider Electric acquired Invensys (the Company), it said it would review the pension arrangements for active members, and promised it wouldn't make any changes without consulting members.

A consultation process with the Scheme's active members took place between October 2014 and January 2015. Following this, the Company decided to close the Scheme to future accrual.

Under the rules of the Scheme, the Company has the unilateral power to remove any group of members from active membership of the Scheme. As the Trustee, our power to intervene was therefore limited. However, the Company kept us updated throughout the process and agreed some improvements in benefits for members, as a result of the consultation process.

The outcome of the process was that on 31 March 2015 all active members of the Scheme became deferred members.

New options are available for members

During the year, a new retirement option was introduced for members at the point when they retire. From 1 January 2015, members have been given the option to exchange future pension increases for a higher initial pension, which will then not increase by as much in the future. This is known as a Pension Increase Exchange (PIE).

The Company is planning to make a Bulk PIE offer to pensioner and dependant members in the future. This will require consultation with the Trustee before any offer is made.

As a result of changes announced in the 2014 Budget, the Scheme increased limits for paying out lump sums in respect of small pension entitlements. This mainly affects people with pension entitlements valued at £10,000 or less in total (not per annum).

Investments performed well

The Scheme's assets performed well, delivering a return of 15.9% over

the year. This was in line with the Investment Manager Target of 16.0%. Movements in gilt yields overall led to a decline in the surplus of the fund. However, the Scheme remains fully funded on a Technical Provisions basis (the normal valuation method used for pension schemes).

The outlook is positive

The Trustee is confident that the Scheme is well positioned to pay the pensions promised to its members. Over the coming months, the Trustee will complete the Scheme's triennial valuation, with an effective date of 31 March 2015. The triennial valuation is expected to be finalised this year and we will report on this in the Winter newsletter.

2. The year in summary

This section summarises the year to 31 March 2015, and provides additional detail regarding the points raised in the executive summary.

Scheme security under Schneider Electric

The Company became a wholly owned subsidiary of Schneider Electric SE on 17 January 2014. Shortly after this, the Trustee reached an agreement with Schneider Electric where it provided additional financial security to the Scheme. The main elements of the agreement were as follows:

- Schneider Electric SE provided a £1.75bn Guarantee
- The Reservoir Trust (created during the sale of Invensys' Rail division) was split equally between the Scheme and the Company
- Various other arrangements between the Trustee and the Company came to an end, giving Schneider Electric greater flexibility to reorganise the Invensys group of companies.

The security provided by the Guarantee is ongoing and ensures that the Scheme has formal recourse to the wider Schneider Electric group.

Approximately £105m of assets were transferred from the Reservoir Trust to the Scheme in April 2014. A similar value of assets was transferred to the Company, increasing the assets of the Company, which remains the Scheme Sponsor.

During the year, Schneider Electric made a number of changes to the Invensys group of companies. The most significant change was to transfer Invensys' US business to Schneider Electric Holding Inc in return for an inter-company loan. The Trustee reviewed the implications of the transaction for the Scheme's Covenant and concluded that there was no change to the overall Covenant rating as a result.

Schneider Electric also sold Invensys' appliances business for £150m in June 2014.

The Trustee will continue to review the strength of the Covenant that the Company provides. In light of the £1.75bn Schneider Electric Guarantee, the Trustee will also assess the additional security afforded to the Scheme through the strength of the wider Schneider Electric group.

Invensys Pension Scheme Annual Review 2015

Chairman's review continued

Schneider Electric results for 2014

The Schneider Electric 2014 full year results ending 31 December 2014 were the first to consolidate Invensys. Schneider Electric reported adjusted earnings before interest, taxes and amortisation (EBITA) of €3.5bn (2013: €3.4bn). Free cash flow was €1.7bn (2013: €2.2bn). Schneider Electric has reported that integration of Invensys is on track. Total market capitalisation of Schneider Electric at 31 March 2015 was €41bn (circa £30bn).

Scheme funding level

In addition to the strength of the Covenant provided by the Company and the Guarantee, the security of the Scheme and its ability to deliver the pensions promised to its members are also a function of its funding level. As at 31 March 2015, the Scheme was 100% funded, with a surplus, based on assumptions agreed for the October 2012 valuation, of £4m.

The combination of the security provided by the Company and the 100% funding level gives the Trustee confidence that it can deliver the Scheme's pension promises.

The assumptions to be used for the latest triennial valuation, with an effective date of 31 March 2015, are being discussed with the Company in accordance with normal practice. Finalisation is expected this year.

Closure of the Scheme to future accrual

When Schneider Electric acquired Invensys, it said it would review the pension arrangements for active members, and promised it wouldn't make any changes without consulting members.

A consultation process with the Scheme's active members took place between October 2014 and January 2015.

The proposal by the Company was to close the Scheme to future accrual and to offer active members the opportunity to join the Schneider Electric DC Trust as an alternative way of saving for retirement. The consultation ended on 9 January, and the Company then considered the representations it had received from members. The Trustee also received representations, and we made the Company aware of these and our own views. We then worked with the Company to make improvements to the proposal.

On 31 March 2015, the active members of the Scheme became deferred members. Under the rules of the Scheme, the Company has the unilateral power to remove any group of members from active accrual in the Scheme. As the Trustee, our power to intervene was therefore limited. However, the Company kept us updated throughout the process and, based on members' representations, the following improvements were agreed:

Scheme improvements

- A one-off increase of 2.3% to final pensionable salary for members who were active on 31 March 2015. This represented a total improvement of around £2m in value
- A guarantee that, after this one-off increase, no member will receive a pension lower than they would have received had they retired over the last five years
- A late retirement option for all members, which means those who are not yet receiving their pensions may put off taking their benefits beyond age 65
- Additional flexibility to take early retirement for the members who were active on 31 March 2015.

New option for members at retirement – Pension Increase Exchange

During the year, the Company made a proposal to the Trustee to introduce a Pension Increase Exchange (PIE) option for members at the point when they retire. A PIE option allows members to exchange some of their future pension increases for a higher initial pension. Following discussions on the terms of this option, the Trustee and Company updated the Scheme's rules to make the option available for retirements on and after 1 January 2015, with the flexibility to make the offer available more widely in the future.

Increased flexibility for members with small pension entitlements

In the March 2014 Budget, the Government increased the limit for small pension entitlements to £10,000 (in total, not per annum) from the previous limit of £2,000. As a result, legislation now allows pension schemes to pay out larger one-off cash lump sums instead of regular pension benefits to members over 55 with small pension entitlements.

During the year, the Trustee and Company signed a deed of amendment to give the Trustee the power to make payments in accordance with the new legislation. Therefore, the option is now available to members.

Review of Defined Contribution (DC) fund choice and 'lifestyle' option

In November 2014, our Investment Committee undertook a performance review of the DC funds and the lifestyle option. As a result, we introduced a new lifestyle option for DC members who intend to take their DC savings as part of their tax-free cash when they retire, rather than buying an annuity.

At the same time, we made some changes to the choice of Additional Voluntary Contributions (AVCs) funds available to members. The changes were made where the Investment Committee was not satisfied with the performance of certain AVC fund managers.

Invensys Pension Scheme Annual Review 2015

Chairman's review continued

3. Our investment summary

Our overall strategy

Now that the Scheme is in surplus, our overall strategy is:

- to reduce exposure to risk over time
- to increase security of members' benefits
- to maintain or improve the funding position of the Scheme in a way that controls risk.

The Scheme's assets performed well

The year to 31 March 2015 was eventful in both the overall macro-environment and financial markets. Oil prices and interest rates both moved sharply during the year.

Against this background, the Scheme's assets performed well, as they achieved a return of 15.9% over the year. This was in line with the Investment Manager Target of 16.0%, but 2.5ppts below the Strategic Target of 18.4% (see page 13 for further details and a graphical analysis). The main cause of the difference from the Strategic Target was a fall in gilt yields combined with the fact that the Scheme assets' value was in aggregate less sensitive to movements in gilt yields than the Technical Provisions.

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

- Reviewing the Investment Strategy and assessing opportunities to enhance the risk return profile of the assets
- Winding up the Reservoir Trust (RT)
- Reducing the exposure to interest rates and enhancing the management of inflation risks
- Increasing matching between the assets and the liabilities.

You can find further details in the Investment report.

4. The outlook

The Scheme is well positioned for the future

The agreement between the Trustee and Schneider Electric has enhanced the Scheme's financial security. The funding level, along with the greater security provided by 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 assess the quality of the Covenant provided by the Company, and the support provided by the Schneider Electric Guarantee.

The Trustee has started the triennial valuation and is in discussions with the Company. This involves looking at the experience of the Scheme and considering what assumptions are appropriate for mortality and asset performance. The valuation is being carried out under a new code of practice. This code takes account of the new statutory objective given to the Pensions Regulator (tPR), which requires tPR to minimise any adverse impact on the sustainable growth of a scheme's sponsoring employer.

The triennial valuation will determine whether any future contributions are required from the Company.

Throughout the period, the Trustee will continue to monitor the Scheme's investments closely, looking for ways to deliver the current investment target (and any revised target following the triennial valuation), while managing investment risk.

The Trustee will consider the implications of the increased pension flexibilities permitted by legislation

The 2014 Budget announced plans to increase the flexibility and choices available predominantly for DC members, and these will also have a number of impacts for Defined Benefit (DB) members. The Trustee will continue to consider ways to support members with the increased options open to them, and endeavour to provide effective communication to members on this and other relevant topics in this newsletter.

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

14 July 2015

Invensys Pension Scheme Annual Review 2015

Trustee's report: the year in summary

The accounts in brief

	£m
Fund value at 31 March 2014	**4,591**
Income	
Contributions paid by Invensys ltd and Scheme members	109
Income and capital gains/(losses) from investments	725
Outgoings	
Benefits payable to members (pensions and lump sums)	(240)
Payments to leavers	(6)
Fees and expenses (administration, advisers, investment managers)	(18)
Fund value at 31 March 2015	**5,161**

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 October 2012, as a result of the sale of the Rail division. The amount required to cover the Scheme's liabilities is known as the Technical Provisions. In the 2012 valuation, the Technical Provisions amounted to £4,781m, giving a Scheme deficit of £478m and a funding level of 90%.

The Trustee has agreed with the Company to carry out a full valuation as at 31 March 2015. This will bring the triennial valuation date back into line with the Scheme's accounting year. The Trustee has begun the valuation process and is aiming to complete the process later this year. This will include agreeing new actuarial assumptions with the Company to determine the Technical Provisions.

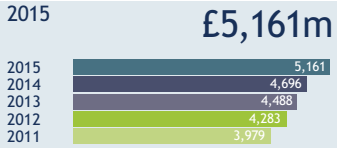
The Trustee continues to monitor the funding position of the Scheme using the assumptions that were put in place for the 2012 valuation to ensure the funding arrangements remain appropriate. The Scheme Actuary has estimated the Scheme had a surplus of £4m at 31 March 2015 using the 2012 valuation assumptions. The movement in the funding position through the year is set out below. The final position for the 31 March 2015 valuation will depend on the updated assumptions agreed by the Trustee and Company and will therefore differ from this.

Estimated evolution of the Technical Provisions surplus:

	£m
Estimated surplus/(deficit) as at 31 March 2014	**16**
Reservoir Trust assets received by the Scheme	105
Income and capital gains/(losses) from investments	725
Effect of changes in economic conditions and other factors	(842)
Estimated surplus/(deficit) as at 31 March 2015	**4**

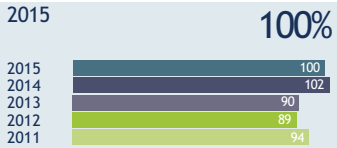
The year in summary: investment summary

Value of pension fund (£m)



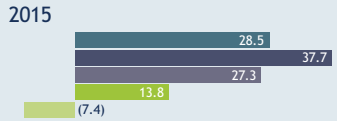
The 2014 asset figure includes the proportion of the Reservoir Trust attributed to the Scheme.

Scheme funding level (%)



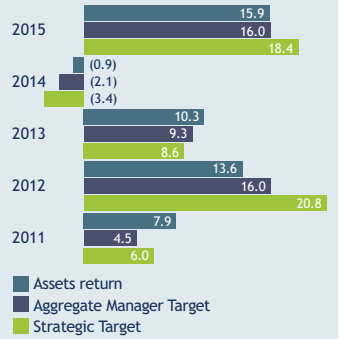
Based on the actuarial assumptions used for funding the Scheme. The 2014 asset figure includes the proportion of the Reservoir Trust attributed to the Scheme.

Distribution of investments by type (%)



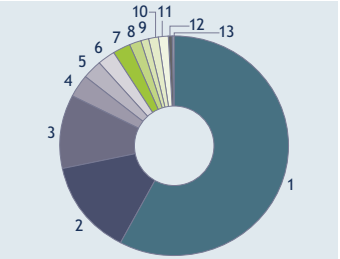
UK Government fixed interest gilts	28.5
UK Government index-linked gilts	37.7
Corporate bonds	27.3
Managed/Unitised funds	13.8
Equities	2.5
Fund of hedge funds	0.1
Other absolute return funds	10.0
Loans	1.3
Cash and Other	(7.4)
Cash and others	3.3
Repos	(7.7)
Derivatives	(3.0)

Annual investment returns (%)



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 (Liability Matching Fund)*	57.8
2.	AXA*	14.0
3.	M&G (IG Bonds)*	10.8
4.	Barings DAA	3.4
5.	GLG*	2.7
6.	Pioneer	2.5
7.	LGIM	2.5
8.	AllianceBernstein	1.8
9.	BlackRock (Cash vehicle)	1.0
10.	BlackRock (FIGA)	1.5
11.	M&G (Loans)	1.3
12.	Protected rights and AVCs	0.6
13.	BlackRock (Hedge Funds)	0.1

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

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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. It had only 341 active members out of a total membership of 74,799 at 31 March 2015. This means it is a substantial net payer of benefits: it pays more out in benefits than it receives in ongoing contributions. 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 £265m or approximately 5% of its asset base in 2015. 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.

Scheme Investment Strategy

The Scheme's investment objectives are to achieve investment returns that, together with the contributions paid by the Company and by members, ensure that the assets of the Scheme are sufficient to meet the benefits to each member, and the expenses of the Scheme, as they fall due over time.

The Scheme's Technical Provisions imply a return on investments equivalent to UK Government gilt yields + 1.0% per annum. The Trustee's Strategic Target is a long-term strategic return that, over the life of the Scheme, is expected to be equivalent to the return implied by the Technical Provisions. The Trustee's investment policy for the Scheme's DB section is designed to achieve the Strategic Target.

This 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.

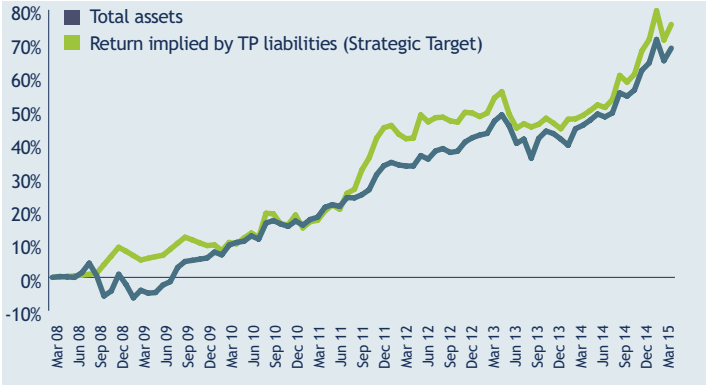
From the Strategic Target, the Trustee derives a Strategic Asset Allocation (SAA). This is designed to deliver asset returns of gilts + 1.0% per annum over the long term, and therefore to perform in line with the liabilities measured on a Technical Provisions basis.

At the investment level, the Trustee sets specific performance targets for each underlying investment manager. These specific targets naturally have shorter 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 (see following chart)

- Ongoing monitoring of the performance of the assets against the IMT (see Investment Managers Performance section).



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

The Strategic Target corresponded to a return of 18.4% in the year to 31 March 2015. Its magnitude reflects the impact of meaningfully lower gilt yields, which decreased in aggregate by 1.2ppts, on the value of the Technical Provisions. The IMT corresponded to a return of 16.0%. It was lower than the Strategic Target for the year because the IMT reflected a lower sensitivity to movement in gilt yields, and therefore increased less than the Strategic Target when gilt yields fell sharply.

The Trustee chose to increase the assets' sensitivity to movements in gilt yields during the year, in order to protect the funding level from potential future falls in gilt yields. This took place before a significant fall in gilt yields and helped the Scheme to reduce the impact of that fall on the funding level.

The Scheme's 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 limit imposed by the Company. This limit requires the assets of the

Invensys Pension Scheme Annual Review 2015

Investment report continued

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 + 1.00% 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 58% of the assets, which are held directly via the Scheme's custodian platform with BNY Mellon.
2. An Investment Portfolio (IP). This accesses the risk premium of a diversified portfolio of return-seeking assets. It also benefits from the additional performance available from active management, where considered appropriate. The total Investment Portfolio currently represents 40% of the assets.

   Mandates using primarily investment grade bonds make up 27% of the assets, and were managed by:
   - AXA
   - M&G
   - GLG.

   The remaining 13% comprise:
   - a Fund of Hedge Funds (FoHF)
   - 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 the 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 2015 was eventful in both the overall macro-environment and the financial markets.

Growth in the UK and the US remained relatively solid and their respective unemployment rates continued to fall. Growth in the Eurozone picked up but continued to be challenged. Fears of a Greek exit from the Eurozone, and of its broader implications, re-emerged following the election of a new government in Greece. Oil prices fell sharply, which contributed to a fall in both realised and expected future inflation in Europe and the US.

In this context, actions either taken by or anticipated from central banks continued to have a significant impact on financial markets. The markets' expectations of the path of interest rate rises by the US Federal Bank and the Bank of England moved to reflect a view of 'lower for longer'. The European Central Bank started to implement quantitative easing measures on a large scale. This caused Government bond yields and, importantly for the scheme UK gilts, to fall significantly. This also contributed to the strong performance of other asset classes with potentially higher return prospects, such as equities.

Against this background, the Scheme's assets performed well as they achieved a return of 15.9% over the year. This was in line with the Investment Manager Target of 16.0%, but 2.5ppts below the Strategic Target of 18.4% (see page 13 for graphical analysis). This difference from the Strategic Target was largely a result of the fall in gilt yields of circa 1.2ppts in aggregate for the Scheme, combined with the fact that the Scheme assets' value was in aggregate less sensitive to gilt yields movements than the Technical Provisions.

The LMF had a total return of 24.5% for the year as a result of the fall in gilt yields. The return was 0.6ppt below the LMF's target of 25.1%. 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 Investment Portfolio had a strong performance in aggregate, with a total return of 5.4% for the year against a target of 5.0%. The best-performing mandates were the allocation to equities and a dynamic asset allocation fund, which both benefited from the run-up in equity prices. The performance of the investment grade bonds, broad bonds, and loans mandates was broadly in line with or slightly below their target. This largely reflects the lower credit spreads that prevailed at the beginning of the reporting period. Fixed Income Global Alpha had a below-target performance for the year, illustrating the challenges of generating strong returns in a market environment where relative value within asset classes has diminished. The Fund of Hedge Funds mandate, which is a small position and is in the last stages of liquidation, was the only mandate with a negative performance.

Invensys Pension Scheme Annual Review 2015

Investment report continued

Investment managers' historical performance

		Holdings at 31 March 2015		Investment return % pa 12 months to 31 March 2015		Investment return % pa 3 years to 31 March 20151	
Investment Manager	Style	£m	% of total	Actual %	Target %	Actual %	Target %
Liability Matching Fund (LMF)							
BlackRock[2]		2,971	57.6	24.5	25.1	9.3	9.9
Investment Portfolio							
AXA	IG bonds	721	14.0	7.3	7.3	7.8	4.6
GLG	IG bonds	139	2.7	3.6	4.6	8.9	4.6
M&G	IG bonds	553	10.7	2.1	2.4	4.6	2.2
AllianceBernstein	Broad bonds	94	1.8	3.1	3.6	3.7	3.6
Pioneer	Broad bonds	130	2.5	3.1	3.6	5.8	3.6
Barings	DAA	176	3.4	8.8	4.6	6.7	4.5
LGIM[3]	Equity	128	2.5	13.6	4.7	14.3	4.7
BlackRock (FoHF)	Hedge funds	6	0.1	(6.9)	5.0	0.4	5.1
Blackrock (FIGA)	Hedge funds	77	1.5	1.9	9.5	7.7	9.6
M&G	Loans	65	1.3	4.6	4.6	5.1	4.6
Investment Portfolio[4]		**2,088**	**40.5**	**5.4**	**5.0**	**6.3**	**4.2**
Cash		53	1.0	0.4			
Managed assets[4]		**5,112**	**99.1**	**15.9**	**16.0**	**8.1**	**7.5**
Protected rights/DCs/AVCs		30	0.6				
Net financial assets		**5,142**	**99.6**				
Net current assets[5]		18	0.4				
Net assets of the Scheme		**5,161**	**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: 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. The actual performance of the IP includes the return of the BNPP DAA mandate of -5.1% from 31 March 2013 until it was terminated in Q3 2013.

5 Net current assets include cash in the Trustee Bank Account.

Key initiatives performed during the year

- **Review of Investment Strategy.** The Trustee reviewed the overall investment strategy, and the progress of the projects identified during the Investment Strategy days held in the previous year. Having considered the strength of the Scheme funding level and the perception of risks in the current investing environment, it was agreed to maintain a relatively low level of investment risk and continue to focus on risk control and on a tight management of the Scheme liquidity.
- **Wind-up of Reservoir Trust (RT).** The Scheme received its share of the RT in the form of gilts. The gilts were initially transferred to the LMF to facilitate the management of the interest rate risk. The gilts were then replaced by investment grade bonds, as part of a broader change in asset allocation, as further described below.
- **Reduction of exposure to interest rates and enhanced management of inflation risks.** The Trustee regularly reviews the Scheme's exposure to interest rates and inflation, which directly affect the funding level. The Trustee decided in Spring 2014 to reduce the exposure to interest rates following the improvement in the Scheme's funding level and to reflect the prevailing level of gilt yields. This decision provided a meaningful shield against the fall in gilt yields, which took place later in the year. The approach to managing inflation was also amended during the year in order to better align 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%.
- **Increased matching between the assets and the liabilities.** Given the maturity of the Scheme, aligning the cash flow profile of the assets with the Scheme's payment obligations becomes of increasing importance. With this in mind, the Trustee increased the allocation to some of its investment grade bond mandates and the average bond maturity within those mandates. This was funded by a combination of cash already available for investment, the gilts received from the RT, and the divestment of some higher-risk mandates within the Investment Portfolio. In addition, 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 replaced with nominal gilts. This increased the Scheme's ongoing cash flow generation and reduced the funding level sensitivity to the difference between gilt yields and swap rates.

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

Invensys Pension Scheme Annual Review 2015

Investment report continued

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

No individual equity investment constituted more than 5% of the Scheme's assets. An analysis of investments is shown in the notes to the Scheme's financial statements on pages 31 to 34 of the 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 cannot make further 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.

For the DC section, given the new flexibilities that arose under the 2014 budget and the current practice of members using this part of their benefit to provide tax-free cash, the Trustee reviewed its DC section lifestyle option which phases to a portfolio of 25% cash/75% index-linked gilts. As a result, an additional lifestyle option was introduced which phases to a 100% cash investment. At the same time, the Trustee made some changes to the choice of Additional Voluntary Contributions (AVCs) funds available to members. The changes were made where the Investment Committee was not satisfied with the performance of certain AVC fund managers.

Financial account

For the year ended 31 March 2015

	£m
Income	
Employers' contributions	109.0
Members' contributions and transfers in	0.3
Investment income	114.0
	223.3
Expenditure	
Pensions and benefits paid to members	240.1
Payments to and on account of leavers	6.5
Administration and investment expenses	17.7
	264.3
Fund value at the beginning of the year	4,590.5
Increase in value of investments	611.2
Difference between income and expenditure	(41.0)
Fund value at the end of the year	**5,160.7**

Investments

	£m
Fixed interest securities	2,799.5
Index-linked securities	2,013.3
Pooled investment vehicles	710.6
Derivative contracts	(155.8)
Repurchase agreement liabilities	(395.2)
Cash instruments	111.7
AVC investments	7.8
DC investments	3.9
Other financial assets and liabilities	34.5
Cash deposits	14.2
	5,144.5
Current assets	25.7
Current liabilities	(9.5)
Fund value	**5,160.7**

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The Board

Appointed by Invensys Ltd

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 Lowe
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. Before this, 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. Nathan was appointed to the Board in December 2013.

Trustees, the Board, committees, advisers and investment managers continued

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, he 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. 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 since February 2013, Peter brings substantial pension experience, having been a Trustee of many of the schemes of his former employers.

Update on pension freedoms

Most of the changes affect people with Defined Contribution (DC) funds, with only minor changes affecting members with Defined Benefit (DB) funds.

In the last newsletter, we described the changes the Government is making to pensions legislation. This is an update on the changes.

The changes are intended to give deferred members more choice about how to take money out of their pensions, and to make sure that they can get guidance or advice about those choices. Most of the changes affect people with Defined Contribution (DC) funds, with only minor changes affecting members with Defined Benefit (DB) funds.

Members with DC or Additional Voluntary Contributions (AVCs) funds: You can transfer this money to another pension provider. You might want to do this if, for example, you want to take advantage of a way of accessing your pension fund that IPS does not provide, such as 'drawdown' – investing that money while taking some of it as an income at the same time. Alternatively, you still have the option to use your DC funds to increase your DB pension at retirement.

If you have DC or AVCs funds, you can get free guidance from Pension Wise. There is information about how to do this at www.pensionwise.gov.uk. Pension Wise is only for DC members. If you need help with your DB options, you can contact an independent financial adviser, and he will charge for his advice.

Transferring DB pensions to another scheme: If you have not yet started drawing your pension, you can swap your DB pension for a lump sum that you can use as if it were a DC pension. This sum is known as a Cash Equivalent Transfer Value (CETV). The first stage is to ask us how much your CETV would be. If your CETV would be more than £30,000, we are now obliged to check that you have taken financial advice from a regulated person. We would ask your financial adviser to sign a declaration confirming it.

What other changes are planned?

From April 2016, legislation is expected that allows pensioners to 'sell' their annuities in return for a cash sum. This will only apply to pensioners receiving annuities, rather than members of DB schemes (like the IPS). We are keeping an eye on developments, but we don't expect this change to affect IPS members directly.

Pensions continue to be an area of focus for the Government, so we will update you with any developments through future newsletters.

Small pension lump sums

To convert your IPS pension into cash, you must be aged 55 or over and your pension fund must be worth less than £10,000 or £30,000, depending on which method you use.

We are continuing to respond to individual requests from members who want to convert their small IPS pension income into a lump sum. As we explained in the last newsletter, we can't write to everyone who qualifies to do this. So if you have, or are expecting to get, a small pension and are interested in converting it into a lump sum, please contact the Administration team. Their details are on the back page. But please read on first, to find out if you might qualify.

To convert your IPS pension into cash, you must be aged 55 or over and your pension fund must be worth less than £10,000 or £30,000, depending on which method you use. There is more about these rules at https://www.gov.uk/tax-on-pension/getting-taxfree-pension-income. These are the two methods for converting to cash:

1. Small Pension Lump Sum

With this method, your IPS pension fund must be worth less than £10,000 as a lump sum. We work this out by multiplying your annual pension payment by a figure called a 'scheme factor'. The factor takes into account your age, how your pension increases, and the returns the Scheme is making on its investments. The resulting value can fluctuate but, as a rule of thumb, most pensions under £500 per year can be converted to a lump sum under this rule.

2. £30,000 rule (also known as Trivial Commutation)

This rule allows slightly larger pensions to be converted to a lump sum, although the requirements are more complicated than under the Small Pension Lump Sum rule. To be considered:

- the total value of all the pensions you have must be less than £30,000. This includes your IPS pension but not your State pension
- you must not have converted any other pensions to cash under this rule or, if you have, you must have done so within the last 12 months
- you must sign a declaration confirming that all of these conditions are satisfied. If you make a false declaration, you could be fined up to £3,000.

We use the standard HMRC valuation of your pension to find out if you are eligible for this option. Please remember, this is the method for determining whether you are eligible and the actual value of your pension lump sum will differ from this simplified calculation. The simplified calculation depends on the date your pension was first paid.

Small pension lump sums continued

For example, if your pension started *before* 6 April 2006, we multiply your annual pension income at 6 April 2006 by 25. So if you had a pension of £1,150 a year, your HMRC value is £1,150 x 25 = £28,750. You would be permitted to take a lump sum under this rule, provided any other pension savings are valued below £1,250.

If your pension started *after* 6 April 2006, we look at the pension and lump sum paid when you retired. In this case, we multiply your pension by 20, then add your lump sum. So if you retired with a pension of £950 and a lump sum of £5,000, your HMRC value would be (£950 x 20) + £5,000 = £24,000. You would be permitted to take a lump sum under this rule, provided any other pension savings are valued below £6,000.

When we give you your quote, we also provide full details of the conditions. We are always happy to answer any questions you have over the phone. We are not permitted to give you advice, however, so we recommend you speak to an independent financial adviser before making any decisions.

If you receive a widow's or widower's pension from the IPS, the rules are slightly different. Please contact us to explore your options.

If you have more than one pension from the IPS, you must convert both to a lump sum at the same time. The total value of both pensions must be below the limits we describe above.

Important information

Deferred members – pension updates

If you are a deferred member, the IPS team will usually contact you approximately 12 weeks before your normal retirement date. If you would like to receive an annual benefit statement, please write to the team at the address detailed on the back page.

You can ask for one transfer value of your deferred benefit per year, up to 12 months before your normal retirement date. Transfer requests within 12 months of your normal retirement date are at the discretion of the Trustee. If you want a second transfer value in a 12-month period, you will need to pay £250.

New pensioners – timescales for setting up payroll

We aim to pay your pension as soon as possible after your retirement date. If you have chosen a tax free cash sum, the funds will usually go into your bank account a few days after your retirement date, provided we received all of your documents on time. All new pensions are paid through our monthly payroll on the first day of each month so, if your retirement date falls 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 falls in the second half of the month, it is usually too late for us to put the payment through payroll, so you will be paid on the first day of the month after. This means that some pensions are paid as much as seven or eight weeks after the retirement date.

Protection for large pensions

It is important that you let us know about any HMRC protection you may have in place so that we can pay your benefits correctly. If you have a larger pension – usually more than £50,000 per year – and you have not yet retired, you may have chosen to protect some or all of your pension savings against an excess tax charge. Please provide us with a copy of your HMRC protection certificate for our records.

Important information

The Scheme Administration office is at:
Punter Southall 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.

Keep your nomination form up to date

If you have been receiving your pension for less than five years, or you are under 65, or you are a deferred member, please make sure your nomination form is up to date. That way, we will know who should receive benefits when you die. You can download a blank nomination form from www.invensyspensions.co.uk/useful_information/forms.html or you can ask the IPS administration team to post you a form.

If you are a pensioner member and 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.

Child pensions

At the start of each academic year, we ask relevant people who are receiving children's pensions to let us know whether they are continuing in full-time education. If you receive a request for information, please respond promptly, so we can make sure that we can continue to pay the pension.

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 the Trustee's policy to pursue fraudsters. The Trustee has successfully prosecuted individuals through the courts when faced with evidence of fraud.