Global stock markets ended the calendar year on a disappointing note and this has continued into 2016. The financial markets endured a great deal of volatility during 2015 and gains in the first half of the year were lost over the last few months as a result of the concerns over China’s economy, falling oil prices and the fall in demand for commodities generally. SIPS achieved a total return of around 2.6% for the calendar year and the fund value at 31st December 2015 was approximately £1.75 billion. An investment update appears on pages 4 and 5.

This edition also contains an update on various topical pension issues including lifetime and annual allowances, pension scams and expression of wish forms.

I will be retiring as Managing Director and Independent Trustee of Hadrian Trustees Limited at the end of July. My duties and responsibilities will be taken over by the BAE Systems Group Pensions Team led by Nigel Tinsley, Pensions Director. The Trustee Board will comprise 8 Directors – 4 Directors appointed by the Employer and 4 Directors nominated by the Shipyard Negotiating Committee of the Confederation of Shipbuilding & Engineering Unions. It has been decided to cease the production of Viewpoint. Instead, active members will receive a copy of BAE Systems’ in-service newsletter (this is issued to all in service members of all BAE Systems pension schemes) and an annual scheme specific review. Pensioners will receive a dedicated pensioner newsletter and deferred members will also receive an annual update.

It has been a huge privilege to serve the SIPS pension scheme for almost 18 years. There have been many changes in that period and I have worked with many excellent Trustee Directors, advisers and a brilliant Secretary to the Trustee. My role has been enormously interesting, challenging but above all enjoyable. The key ingredients have been protecting the members’ benefits and serving them faithfully to the best of my ability. I send you my very best wishes for the future.

Roger Buttery
Managing Director
Hadrian Trustees Limited
Update on Trustee Board Membership

The Trustee Board of SIPS currently comprises 9 Directors as follows:-

- A Managing Director appointed by the Trustee Directors
- 4 Directors appointed by the Employer
- 4 Directors nominated by the Shipyard Negotiating Committee of the Confederation of Shipbuilding & Engineering Unions (CSEU)

The Trustee Directors are as follows:-

Chairman            Dave Cole – Members’ Representative, BAE Systems, Weapon Systems
Deputy Chairman     Ian Hancock – Employer Director, FAST Training Services
Managing Director   Roger Buttery, Hadrian Trustees Limited

Other Employer appointed Directors:-

Tina Bailey         BAE Systems – Electronic Systems
Chris Baker         BAE Systems Pension Funds Investment Management
David Tindall       BAE Systems Military Air & Information

Other Employee appointed Directors:-

James McMillan      BAE Systems Maritime Naval Ships
Joe O’Gorman        BAE Systems Maritime Services
Harold Samms        BAE Systems Maritime – Submarines

Under the Trustee’s Articles of Association, the positions of Chairman and Deputy Chairman alternate every two years between an Employee Director and an Employer Director. At the end of September 2015, Dave Cole was elected as Chairman and Ian Hancock as Deputy Chairman.

As referred to in the ‘Welcome’ section, Roger Buttery is to retire on 31 July 2016 and from that date the Trustee Board will comprise 8 Directors, 4 Employee Directors and 4 Employer Directors.
a) Investment Strategy & Objectives

As previously reported, the Trustee’s long-term target is to be 100% funded on a gilts +1.0% basis by 2026. At that point the objective is for the Scheme to have an allocation of 30% of its investment in growth assets and 70% in liability matching assets.

Liability matching assets is a term used to describe assets that have a low investment risk. They are low risk in that they are expected to produce income and cash flows, which are closely aligned to the benefit payments (i.e. liabilities) as they become due. Growth assets have a higher investment risk than liability matching assets; they are expected to generate higher returns and are more sensitive to market movements.

The current target asset allocation of the overall Fund is:-

In conjunction with its Investment Adviser, the Trustee has developed a “de-risking” programme to assist with meeting the long-term investment objective mentioned above. This involves the transfer of growth assets to liability matching assets when specific funding levels are achieved, and this is monitored on a weekly basis by the Trustee.

The significant investment restructuring of the Fund that has been ongoing for the past 2½ years is now substantially complete. During July 2015 a Liability Driven Investment (LDI) mandate was introduced with Legal & General, with an initial investment of over £200 million. The remaining actions connected with the reorganisation are the ongoing funding of the new property mandate with First Property (where there is a total commitment of £130 million) and the completion of the funding of the debt mandate with AgFe (where the total commitment is £45 million).
b) Value of the Scheme’s Investments

Set out below is a summary showing the value of the Scheme’s investments, by Section, as at 31 March 2015 and 31 December 2015:

<table>
<thead>
<tr>
<th>Section</th>
<th>31st March 2015</th>
<th>31st December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Systems (VSEL)</td>
<td>1,524.1</td>
<td>1,524.4</td>
</tr>
<tr>
<td>Portsmouth Sub-Section</td>
<td>132.5</td>
<td>131.1</td>
</tr>
<tr>
<td>Fleet Support</td>
<td>115.0</td>
<td>114.6</td>
</tr>
<tr>
<td>Total</td>
<td>1,771.6</td>
<td>1,770.1</td>
</tr>
</tbody>
</table>

c) Funding

Although asset values are high, the funding levels for all three sections have deteriorated due in the main to a decrease in gilt yields resulting in increased liabilities. The VSEL Section is currently below 80% and around 86% for both the Portsmouth and Fleet Support Sections.

d) Market Environment & Performance

The investment environment during 2015 and to date in 2016 has proved to be difficult, with generally low returns across most markets. There are a number of factors behind this downturn in performance – these include the continuing uncertainty in the Middle East, the effects of the slowdown in China, continuing concerns in much of the Euro Zone where recovery from the financial crisis has proved to be difficult and prolonged, and the negative effects of the significant falls in the price of oil, combined with reduced demand for several other commodities. All of these factors are bringing volatility to the markets and cause considerable uncertainty.

Despite these difficult conditions, the performance of the SIPS portfolio has continued to stand up well, with return figures to 31 December 2015 being:

<table>
<thead>
<tr>
<th>To 31st December 2015</th>
<th>SIPS Total Return</th>
<th>Benchmark Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>2.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>3 years (per annum)</td>
<td>8.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>5 years (per annum)</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

The Trustee Board continues to be mindful of the difficult investment conditions and actively monitors the position in conjunction with its Investment Adviser. Despite the turbulent times, it is considered that the SIPS portfolio is well positioned to meet the challenges that lie ahead, to ensure the investment targets are met over the long-term.
Latest News

Pension Scams

Pension scams are continuing to be on the increase in the UK, and the Trustee Board wishes to stress to members the facts, before any irreversible actions are taken.

Scams are enticing savers by claiming to help members access their pension before age 55 or that people can take over 25% of their pension as cash. For most people these offers will be bogus and members could potentially lose a substantial amount if not all of their savings. Only in rare cases (such as ill health), can members access their pensions before age 55. Although the government has recently changed the law regarding the ways in which members can take their benefits it is important to note that these changes do not give members the ability to take their pension benefits before 55 and even then an early reduction factor would apply.

Pension scheme members who agree to transfer to so called ‘liberation’ arrangements may lose all their savings and still be subject to serious tax consequences, potentially resulting in penalties and charges that may amount to over half of a member’s fund.

Increasing numbers of individuals and companies are targeting individuals and members are advised to keep their guard if cold called. If members suspect this has happened they are advised to contact Action Fraud at: www.actionfraud.police.uk/fraud-az-pension-liberation-scam or read the factsheet at: www.pensionsadvisoryservice.org.uk/content/publications-files/uploads/members_detailed_booklet_7_page.pdf

If you have any further queries, it is recommended that you speak to an Independent Financial Adviser (IFA), details of local IFAs can be found at www.unbiased.co.uk. Please note, neither the Scheme Administrators nor the Trustee are able to give financial advice.

For more information on pension scams and how to protect against them please visit: www.thepensionsregulator.gov.uk/regulate-and-enforce/pension-scams.aspx
**Lifetime Allowance**

The Government announced in March 2015 their plans to reduce the pension’s lifetime allowance from £1.25 million to £1 million. This will take effect from 6 April 2016 and means you’ll have to pay tax on any amount above the revised lifetime allowance. However, as with previous amendments to the allowance, legislation will provide transitional protection for pension rights already over the £1 million threshold. This has yet to be finalised, though members who feel they might be impacted by this are advised to seek independent financial advice (IFAs). Details of local IFAs can be found at www.unbiased.co.uk. Please note, neither the Scheme Administrator nor the Trustees are able to give financial advice.

**Annual Allowance**

Along with the changes to lifetime allowance, the Government has also introduced two changes to the annual allowance, the amount of tax relieved pension savings that can be made by an individual and employer each year. The Annual Allowance will remain at £40,000, although a new ‘Money Purchase Annual Allowance’ of £10,000 came into force from 6 April 2015 for those individuals who access the new money purchase pension flexibilities to ensure that individuals do not avoid tax on their current earnings by diverting their salary into their pension with tax relief, and then immediately withdrawing 25% tax-free.

Secondly, from 6 April 2016 a taper to the Annual Allowance will be introduced which will impact high earners. For every £2 of adjusted income over £150,000, an individual’s annual allowance will be decreased by £1, subject to a minimum annual allowance of £10,000 per annum. Adjusted annual income is worked out by adding to income the amount of pension contributions (from both an individual and employer). However, those with income below a £110,000 threshold, excluding pension contributions, will not be subject to the Tapered Annual Allowance. The table below illustrates how the Annual Allowance will reduce once income exceeds £150,000 p.a.:

<table>
<thead>
<tr>
<th>Adjusted Annual Income</th>
<th>Tapered Annual Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>£160,000</td>
<td>£35,000</td>
</tr>
<tr>
<td>£170,000</td>
<td>£30,000</td>
</tr>
<tr>
<td>£180,000</td>
<td>£25,000</td>
</tr>
<tr>
<td>£190,000</td>
<td>£20,000</td>
</tr>
<tr>
<td>£200,000</td>
<td>£15,000</td>
</tr>
<tr>
<td>£210,000 and above</td>
<td>£10,000</td>
</tr>
</tbody>
</table>

Members are advised to seek independent financial advice (IFA) if they believe they will be impacted by these legislative changes. Details of local IFAs can be found at www.unbiased.co.uk. Please note, neither the Scheme Administrators nor the Trustees are able to give financial advice.
The importance of the Expression of Wish form

It is essential to complete an ‘Expression of Wish form’ and to keep it up to date. In most cases if the Expression of Wish form has been completed recently, the Trustee will generally distribute the death benefit in accordance with the wishes you have expressed. This may also allow the benefits to be paid free from Inheritance Tax. However, even in straightforward cases, the Trustee still needs to consider the potential beneficiaries and carry out all necessary checks and this process can take some time.

In all cases, the Trustee will need to be satisfied that the death benefits are distributed in the most appropriate manner, based on the financial dependency and/or relationships of the member. This may require the Trustee to contact your potential beneficiaries to determine the nature of your relationship and extent of any financial dependency, at what will be a difficult time for them.

Therefore, the Trustee would be grateful if you could complete a form indicating how you would like your death benefit distributed in the unfortunate event of your death. This should be updated if you have a change of circumstance, e.g. on marriage or divorce, or birth of a child.

If you have not completed a form, or need to update yours, then please contact the Scheme Administrator using the contact details on page 8.

Keeping in touch – contact details

If you have any questions about the Scheme, or if you need more information about your benefits, please contact the SIPS team at:

Capita PRIVATE SECTOR PENSIONS (SIPS) 2 Cutlers Gate, Sheffield, S4 7TL

Tel: 0345 601 0607 (or +44 141 353 7000 if calling from overseas)
Email: member.enquiries@sips-pensions.co.uk
Website: www.sips-pensions.co.uk