



# TRW Pension Scheme

REPORT AND ACCOUNTS 2012

# **TRW Pension Scheme**

## **Report and Accounts**

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The Scheme is registered with the Pension Schemes  
Registry under Registration Number 101699992

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# Report of the Trustee

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# Trustee and Advisers

<b>Principal Employer</b>	LucasVarity
<b>Trustee</b>	TRW Pensions Trust Limited
<b>Directors of the Trustee Company</b>	Mr S Lunn - Chairman Mr P Almond Mr A Bassett Mr S Batterbee – from 11 October 2011 Mr P Birkett* Mr R Bull* JMRC Consulting Limited (represented by Mr J Clarke) – from 29 October 2011 Mr R Johnston* Mr J C Plant – until 21 September 2011 Mr L Wolahan – from 29 October 2011
<b>Secretary</b>	Mr R Middleton until 31 May 2012 Mr J Griffin from 1 June 2012
<b>Investment Managers</b>	Legal & General Investment Management Limited C B Richard Ellis Investors Limited Western Asset Management Company
<b>Investment Advisers</b>	Hymans Robertson LLP
<b>Investment Performance Measurement</b>	Mellon Analytics - for Scheme performance
<b>Custodian of Assets</b>	Bank of New York Mellon
<b>Actuaries</b>	Hymans Robertson LLP Scheme Actuary: Mr R Bowie
<b>Administrator</b>	TRW Benefit Administration (UK) – until 30 June 2011 Capita Hartshead – from 1 July 2011
<b>Auditor</b>	KPMG LLP
<b>Bankers</b>	Barclays Bank – until 30 June 2011 National Westminster Bank – from 1 July 2011
<b>Solicitors</b>	Allen & Overy LLP – until 29 November 2011 Travers Smith LLP – from 30 November 2011 Pinsents Masons LLP - Property
<b>Medical Adviser</b>	Capita Wellbeing and Health
<b>Property Valuer</b>	Jones Lang LaSalle
<b>Address for enquiries or complaints</b>	Capita Hartshead 2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE

*\*The Directors marked with an asterisk are Member Nominated Directors*

# Constitution of the Scheme

The Directors of the Trustee Company are pleased to present their annual report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2012.

## Trustee

The Trustee of the Scheme is TRW Pensions Trust Limited, which is governed by nine Directors, named on page 2. Five are Directors nominated by the Principal Employer, three are Member Nominated Directors (those marked by an asterisk) and one is an independent Director. The Principal Employer makes all appointments and replacements. The appointment of Member Nominated Directors is in line with Trustee's arrangements for their appointment. See page 12 for details of these arrangements.

## Principal Employer

The Principal Employer is LucasVarity, which is a wholly owned subsidiary of TRW Automotive Holdings Corp.

## Appointments to the Board

On 21 September 2011 Mr J C Plant resigned from his position on the Board. On 31 May 2012 Mr R Middleton retired from his position as Scheme Secretary. The Board would like to place on record its thanks for the contributions made by Mr Plant and Mr Middleton to the Board's activities. The Principal Employer appointed three new Directors, Mr S Batterbee, Mr L Wolahan and an independent Director, JMRC Consulting Limited represented by J Clarke. Mr J Griffin was appointed as Scheme Secretary.

## Legal Status

The Scheme was established by a Trust Deed dated 30 June 1928 and is now governed by a Definitive Trust Deed dated 28 March 2011.

All sections of the Scheme were closed to any future accrual from 30 September 2009. The Scheme is a contracted out salary related scheme. The Scheme is a registered pension scheme under Schedule 36 of the *Finance Act 2004* with Her Majesty's Revenue and Customs (HMRC) from 6 April 2006.

## Participating Employer

Prior to the closure of the Scheme to future accrual on 30 September 2009 the only participating employer whose employees were entitled to be members of the Scheme was TRW Limited.

## Trustee Meetings

The Board met six times during the year to consider matters relating to the administration of the Scheme. The Board has, by resolutions passed at ordinary meetings, set up a number of sub-committees to deal with specified matters.

The quorum for the transaction of the business of the Directors is currently three, two of whom are to be Directors nominated by the Principal Employer, and one Member Nominated Director. Trustee decisions are usually unanimous but they may be taken by a majority vote.

A sub-committee has been given delegated authority by the Board to deal with ill health early retirement applications and items of trustee discretion. The Board has also appointed a specialist standing sub-committee to deal with investment matters. During the year this committee met thirteen times. Other sub-committees meet as required to produce reports and recommendations for the Board.

## **Trust Deed and Rules**

A copy of the Trust Deed and Rules is available for examination in Human Resource Departments. Personal copies can be obtained on written application to the Scheme Secretary; the cost is £25.

## **External Advisers and Service Providers**

The Scheme's external advisers are listed on page 2. In line with UK pension scheme best practice, the Trustee has a policy of submitting all of its external advisers and service providers to a periodic review procedure.

Following the closure of the Scheme to future accrual on 30 September 2009, the Company and the Trustee agreed to review administration arrangements to determine whether an in-house team remained a more cost effective and appropriate arrangement than an external specialist. A Trustee sub-committee appointed to oversee a comprehensive review process was unanimous in recommending that Capita Hartshead be appointed as the new administrator for the Scheme. The Trustee appointed Capita Hartshead as the new administrator of the TRW Pension with effect from 1 July 2011.

During the year the Board reviewed the appointment of its legal adviser as part of its ongoing review of service providers. Following a comprehensive review process Travers Smith was appointed by the Board on 24 October 2011 in place of Allen & Overy.

# Financial Review

## Market value of the Fund

The financial statements have been prepared and audited in accordance with regulations made under Sections 41 (1) and (6) of the *Pensions Act 1995*.

The accounts show that during the year the value of the Scheme's assets that have been accumulated to meet its commitments, increased by £362 million. At the year-end the value of the Scheme's assets was £3,470 million compared to £3,108 million at 31 March 2011.

The increase in fund value is accounted for as follows:

Excess of expenditure over income	(£207 million)
Change in market value of investments	£539 million
Investment income (net of expenses)	£30 million
	<u>£362 million</u>

In addition to the Scheme's main assets an additional amount of £14.5 million was held in a Trust Deposit account with Deutsche Bank for the benefit of the Trustee of the TRW Pension Scheme as at 31 March 2012.

## Fund Account

Compared with the year ended 31 March 2011 there was an increase in income of £7.9 million including investment income. There was an increase in expenditure of £65.7 million including investment management expenses. The main reasons for these changes are as follows:

### Income

- Contributions of £37.5 million received from the Company for the year ending 31 March 2012. This included a special one off contribution of £30 million paid in December 2011, and contributions of £2.5 million a month (£30 million a year) for the first three months of 2012<sup>1</sup>.
- An increase in investment income of £11.7 million.
- There were no employee contributions. The Scheme is closed to future accrual.

### Expenditure

- An increase in pension benefits payable of £2.2 million
- An increase in payments to leavers of £68.8 million
- A decrease in investment expenses £0.6 million

## Members' Contributions

Members' contributions ceased following the closure of the Scheme to future accrual on 30 September 2009. Therefore no members' contributions were received during the year ending 31 March 2012.

<sup>1</sup> The Company paid a special one off deficit contribution of £30 million in December 2011, and has agreed to pay deficit contributions of £30 million a year (£2.5 million a month) from 1 January 2012.

# Actuarial Valuation

The latest actuarial valuation was conducted by Hymans Robertson LLP as at 31 March 2009. The purpose of the valuation is to assess the current financial position of the Scheme and to determine what contributions need to be paid by the Company to provide for the benefits set out under the rules of the Scheme.

The Scheme Actuary reported that on the Trustee's statutory funding basis the Scheme had a deficit in funding of £555 million calculated as follows:

	<i>£' million</i>
Assets (excluding defined contribution liabilities):	2,670
Liabilities:	3,225
Shortfall:	<u>(555)</u>

The valuation was signed by the Scheme Actuary on 23 June 2010 following agreement between the Company and the Trustee on the Scheme's Statement of Funding Principles. In light of the funding deficit identified by the Scheme Actuary, the Trustee and the Company were obliged to agree a recovery plan to set out how the Scheme would be restored to full funding. A recovery plan and Schedule of Contributions were signed by the Trustee on 29 November 2010 and the Company on 2 December 2010. Following a reengagement in light of the continuing deficit and economic conditions, and the improved financial position of the wider TRW group, a revised recovery plan and Schedule of Contributions were signed by the Trustee and the Company on 21 December 2011.

The 31 March 2009 actuarial valuation was the second triennial valuation conducted in accordance with the new requirements of the *Pensions Act 2004*. The Act brought into UK law a new funding standard for final salary pension schemes called 'Scheme Specific Funding'. At the time of producing this report the Trustee is in the process of completing an actuarial valuation as at 31 March 2012.

## Scheme Specific Funding

Under *Pensions Act 2004* schemes must have:

- **A statutory funding objective**

This means that all schemes must, by law, have a funding objective. This objective is usually to have sufficient and appropriate assets to - at least - meet the scheme's accrued liabilities. The Trustee's statutory funding objective is that the Scheme will have sufficient and appropriate assets to cover the expected cost of providing members' benefits.

- **A statement of funding principles**

This is a statement, in writing, drawn up by the Trustee of the Scheme, in which it sets out its policy on how it intends to meet the statutory funding objective. In this statement it explains the way the Scheme's liabilities will be calculated and what assumptions will be used. The Scheme Actuary provides the Trustee with advice on this statement.

The Trustee has published its statement of funding principles and it is available for downloading on the Scheme's website, [www.trwpensions.co.uk](http://www.trwpensions.co.uk).

- **A recovery plan**

If a scheme has insufficient assets to meet its statutory funding objective the trustee must agree with the employer a recovery plan. This sets out how they intend to meet their statutory funding objective.

- **A summary funding statement**

The Trustee must provide all members and beneficiaries with an annual summary funding statement. The Trustee has published a summary funding statement during the year in accordance with *Pensions Act 2004*. The text of the most recent statement is printed on pages 50 to 55.

A copy of the latest actuarial report is available on written application to the Scheme Secretary. The cost is £5.

# Membership

## Pensioners

Pensioners at 31 March 2011	35,367	
Plus: Prior year adjustment	<u>76</u>	
		35,443 *
Deferred pensions commencing	390	
Dependants pensions commencing during year	417	
Less: Deaths of pensioners	1,048	
Deaths of dependants	565	
Trivial pensions fully commuted	4	
Other ceased pensions (children, ill health etc.)	9	
Pensioners at 31 March 2012		34,624
<i>Comprising of:</i>		
<i>Pensioners (former employees)</i>	25,579	
<i>Spouses and Qualifying Dependants</i>	8,933	
<i>Children</i>	112	

## Deferred Pensioners

Deferred Pensioners at 31 March 2011	16,378	
Less: Prior year adjustment	<u>54</u>	
		16,324 *
Pensions commencing during the year	390	
Deaths of deferred pensioners	30	
Transfers to other pension arrangements	826	
No liability – Forfeiture clause	5	
Trivial commutation	29	
Deferred pensioners at 31 March 2012		15,044
<b>Total Membership at 31 March 2012</b>		<u><b>49,668</b></u>

*\*These figures have been adjusted from those shown in the 2011 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2012 due to late notifications.*

# Scheme Benefits

## Pension Increases

On 28 February 2012 the Trustee decided that where it had discretion as to the index used for increases to pensions in payment the index should be the consumer prices index (CPI) without exception. This decision was made in light of the Scheme's current funding position. The position will be reviewed on an annual basis. Increases to deferred pensions are automatically based on the CPI by operation of the Scheme's Trust Deed and Rules and the Government's decision in April 2011 to base statutory increases to occupational pensions on the CPI as opposed to the retail prices index (RPI).

The increases to pensions from 1 April 2012 were dependent on which section of the Scheme each person is a member.

### For pensions in deferment:

Section	Pension Element	Increase
All sections excluding members of the sections listed below	All pension	3.6% <sup>(1)</sup>
	Temporary and Early Retirement Allowance	5.2% <sup>(2)</sup>
Steering Systems and UK (leavers pre 1 January 1986)	All pension	0%
Steering Systems and UK (leavers post 31 Dec 1985 and pre 1 Jan 1991)	Pension accrued pre 1 Jan 1985	0%
	Pension accrued post 31 Dec 1984	3.6% <sup>(3)</sup>
Steering Systems and UK (leavers post 31 Dec 1990), 100ths (2004), Closed SRBS A (2004), and 100ths (2006)	Pension accrued pre 6 Apr 2009	3.6% <sup>(3)</sup>
	Pension accrued post 5 Apr 2009	2.5% <sup>(4)</sup>

(1) Annual CPI increase (January 2012) up to a maximum of 7%.

(2) Annual CPI increase (September 2011).

(3) Annual CPI increase (January 2012) up to a maximum of 5%.

(4) Annual CPI increase (January 2012) up to a maximum of 2.5%.

**For pensions in payment:**

<b>Section</b>	<b>Pension Element</b>	<b>Increase</b>
All sections excluding members of the sections listed below	Pension in excess of GMPs	3.6% <sup>(1)</sup>
	Temporary pensions	5.2% <sup>(2)</sup>
SRBS A, C, A (57.5), and C (57.5)	All pension	3.6% <sup>(1)</sup>
	Temporary pensions	5.2% <sup>(2)</sup>
Steering Systems	Pension in excess of GMPs accrued pre 1 Apr 1992	2.5% <sup>(3)</sup>
	Pension in excess of GMPs accrued post 31 Mar 1992	3.9% <sup>(4)</sup>
UK	Pension in excess of GMPs	3.9% <sup>(4)</sup>
100ths (2004), and SRBS A (2004)	Pension accrued pre 6 Apr 2005	3.6% <sup>(5)</sup>
	Pension accrued post 5 Apr 2005	2.5% <sup>(6)</sup>
	Temporary pensions	5.2% <sup>(2)</sup>
100ths (2006)	All pension	2.5% <sup>(6)</sup>
	Temporary pensions	5.2% <sup>(2)</sup>

**Guaranteed Minimum Pensions:**

GMP earned between 6 Apr 1978 and 5 Apr 1988	N/A <sup>(7)</sup>
GMP earned between 6 Apr 1988 and 5 Apr 1997	3% <sup>(8)</sup>

- (1) Annual increase in CPI (January 2012) up to a maximum of 7%.
- (2) Annual increase in CPI (September 2011).
- (3) Fixed 2.5% a year.
- (4) Annual increase in RPI (January 2012) up to a maximum of 5%.
- (5) Annual increase in CPI (January 2012) up to a maximum of 5%.
- (6) Annual increase in CPI (January 2012) up to a maximum of 2.5%.
- (7) All increases are provided by the State.
- (8) Annual CPI increase (September 2011) up to a maximum of 3%. Additional inflationary increases are provided by the State.

## **Additional Voluntary Contributions (AVCs)**

The actuaries have certified that the rate of interest to be applied to cash accumulation AVC balances held in the Scheme for the whole Scheme year ended 31 March 2012 is 6.7%.

For those who retire, die, or transfer their AVCs from the Scheme, between 1 April 2012 and 31 March 2013, no terminal bonus will be paid.

AVCs paid to an external provider receive the return declared by those providers.

The Scheme's AVC arrangements were closed to further contributions from 5 April 2006.

## **Money Purchase Underpin Account**

This is applicable to members of the Closed Eightieths Section of the Scheme. Each year, twice the member's contributions are credited to the account. Interest is applied to the balance of the account on an annual basis equal to the full rate of return of the Scheme.

The full rate of return of the Scheme for the year ended 31 December 2011 was 19.01%.

## **Transfer payments to the Scheme**

Transfer payments paid into the transfer account before 1 April 1997 received the 19.01% rate of return achieved by the Scheme for the year ended 31 December 2011.

Transfer payments received from 1 April 1998 up to 31 March 2006 provided deferred pensions. These are increased in line with standard deferred pensions on 1 April each year.

Since 1 April 2006 the Scheme has not accepted transfer payments from other pension schemes or other pension providers.

## **Transfer payments from the Scheme**

The calculation of transfer payments are made on the basis determined by the Scheme's actuaries and meets the requirements of the *Pension Schemes Act 1993* and the *Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996 No. 1847)*. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

The Board has agreed that the Scheme Actuary will monitor the Scheme's funding level and inform the Scheme administrator of any reduction in the level of transfer values paid from the Scheme that is required to protect the Scheme's funding level. Since 31 March 2011 there has been no reduction applied to transfer values.

There was an increase in deferred pensioners transferring their benefits out of the Scheme compared with the previous year. This is because of an early retirement transfer offer exercise conducted by the Company during the year.

# Compliance Statement

## Pensions Act 1995 and 2004

### Appointment of advisers

The Pensions Act 1995 ('the 1995 Act') requires the Trustee to appoint its own advisers. All the advisers have formally accepted the appointments and confirmed that they will notify the Trustee should any conflicts of interest arise in relation to the Scheme. The advisers are listed on page 2.

### Member Nominated Directors

The *Pensions Act 2004* requires trustees of pension schemes to implement their own arrangements for appointing Member Nominated Directors (MNDs).

The Trustee's arrangements involve inviting nominations for vacancies from active, deferred or pensioner members. Widow(ers), dependant members and pension sharing spouses are ineligible for nomination.

The nominations are then reviewed by the Board's appointments committee and a shortlist created. Short-listed candidates are then interviewed by a Trustee sub-committee and a decision on an appointment is then made by the Trustee sub-committee.

Successful candidates are appointed for a period of four years.

### Internal Disputes Resolution Procedure

The Board has in place an Internal Disputes Resolution Procedure. Full information on how to refer a query/complaint to the Internal Disputes Resolution Procedure is available by writing to the Secretary to the Trustee at:

TRW Pension Scheme  
Corporate Services  
Shirley  
Solihull  
B90 4JJ

### Statement of Investment Principles

On 4 October 2011, the Trustee Board revised its Statement of Investment Principles. See pages 42 to 49 for a copy of the revised statement.

### Statement of Funding Principles

The Board approved its Statement of Funding Principles on 21 June 2010. Printed copies are available for download from the Scheme website, [www.trwpensions.co.uk](http://www.trwpensions.co.uk), or upon request from the Scheme Secretary.

### Internal Controls

A compliance statement is produced annually by the Scheme Secretary and the Scheme's administrator for the Trustee, to provide information to the Board regarding the administration of the Scheme. The statement outlines the statutory requirements along with non-statutory best practice. It details any breaches that have occurred during the year. In response to the Pension Regulator's code on internal controls the Board has prepared a schedule of risks faced by the Scheme. The contents of the risk register are taken into account when the Board set its goals, as part of its annual Business Plan.

## **Myners Compliance**

On 6 February 2003 the Board approved its response to the ten Myners principles. This response is contained in a document called *Principles of Investment Decision Making*.

In 2007 the Government asked the National Association of Pensions Funds (NAPF) to assess the extent to which pensions fund trustees are applying these principles. Following the NAPF's recommendations the Government issued a consultation paper outlining six simplified high-level principles.

At the Board meeting on 4 October 2011 the Board approved a revised *Principles of Investment Decision Making*. The revision updates the document in line with the best practice outlined in the October 2008 Government response to the consultation paper.

In Notes 17 to 20 to the Accounts the transaction and management costs of the investment portfolios are disclosed. This is in line with the requirements of the original Myners principles.

## **Corporate Governance and Shareholder Activism**

The policy of the lead investment manager is as follows:

- Legal & General Investment Management's (LGIM) activity in all facets of corporate governance is integral to their investment process. They apply all the principles set out in *Responsibilities of Institutional Shareholders' and Agents – Statement of Principles* which was published by the Institutional Shareholders' Committee (now the Institutional Investors' Committee) and was updated in June 2007. Specifically, they focus on the effectiveness of a company's board of management and its remuneration policy, business strategy and business practices, taking into account social, ethical and environmental business issues.
- By voting on all UK company resolutions and maintaining regular dialogue with company management, the necessity for active intervention is minimized, but not eliminated. LGIM actively intervenes when they believe that this intervention would result in a substantial benefit to shareholders.
- The governance activity of their fund managers/analysts is supported by a manager dedicated to corporate governance and socially responsible investment issues. LGIM also plays a leading role in assisting the Association of British Insurers (ABI) to identify issues and in facilitating discussion with companies.
- A document detailing LGIM's policies on Activism, Voting and Socially Responsible Investment is available on their website [www.lgim.com](http://www.lgim.com).

# Investment Report

## Investment Managers

As at 31 March 2012, Legal & General Investment Management was the investment manager responsible for the majority of the Scheme's assets. The corporate bond manager was Western Asset Management Company and the property investment manager was CBRE Global Investors. The Financial Services Authority (FSA) regulates all of these investment managers. In addition, CBRE Global Investors is a member of the Royal Institution of Chartered Surveyors. All the managers are authorised under the *Financial Services and Markets Act 2000* to undertake investment business.

The investment management costs are borne by the Scheme and detailed in the accounts.

## Custody of Investments

On 31 March 2011 the majority of the Scheme's investments were managed by Legal & General Investment Management (LGIM) within pooled fund arrangements. The underlying assets of the pooled funds were beneficially owned by Legal & General Assurance (Pensions Management) Limited and held in safe custody by its custodians, HSBC Global Investor Services and Citibank.

On 23 November 2011, the assets held in pooled fund arrangements with Legal & General were transferred to the segregated custody of the Scheme's external independent custodian of non-property assets, Bank of New York Mellon. The assets remain managed by LGIM. By transferring the majority of the Scheme's assets to segregated accounts held with its own custodian, the Scheme has greater flexibility in the range of assets it can invest in, and greater transparency over its assets.

A custodian agreement between Bank of New York Mellon and TRW Pensions Trust Limited details the terms on which the custodian holds the Scheme's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Scheme's assets are held by the custodian under the control of the Trustee. Physical documents are held in a strong room and access is limited by the custodian's own strict security procedures. Regular reconciliations of the holdings are carried out and a copy of the custodian's report on internal controls is kept and reviewed by the Scheme Administrator.

The Scheme's investments held by the custodian are registered as follows:

- United Kingdom investments are in the name of a nominee of the custodian with the designation account 'TRW Pensions Trust Limited' or some other account designation specifying they are the assets of TRW Pensions Trust Limited.
- United States investments are in the name of a nominee with the designation on the books and records of the custodian which is specific to TRW Pensions Trust Limited added to the nominee's name.
- Other investments are in the name of either the custodian or a nominee with a designation to make clear the registered holder is not the beneficial owner.

The custodian will only release title documents after a series of security checks have taken place. These include:

- A dual electronic instruction to the custodian involving the use of passwords.
- The custodian has received payment.

Cash is placed on short-term deposit with banks in the name of the Trustee Company.

Pinsent Masons LLP provides custody services for the property documentation relating to the property investments of TRW Pensions Trust Limited. Pinsent Masons LLP has secure deed rooms and operates a computerised deed record system. No deed can be removed from the deed room except by specific request from the relevant fee earner or their secretary on behalf of the fee earner. Access to the secure deed room is only by personnel authorised by Pinsent Masons LLP.

## **Internal Controls**

The Trustee has received and reviewed the following reports dealing with the internal controls of its appointed investment managers and custodian:

<b>Company</b>	<b>Appointment</b>	<b>Reporting Period</b>
Bank of New York Mellon	Custodian	1 January 2011 to 31 December 2011
Legal & General	Investment Manager	1 January 2011 to 31 December 2011
CB Richard Ellis	Investment Manager	1 April 2010 to 31 March 2011
Western Asset Management	Investment Manager	1 July 2010 to 30 June 2011

These reports have been reviewed to ensure that the controls are appropriate to the requirements of the Scheme.

## **Asset allocation**

The Trustee acts on the advice of its Investment Sub-Committee, its investment adviser and the Scheme Actuary to put in place an investment structure whereby the Scheme's liabilities determine the type of assets held by the Scheme. This approach to investments is called 'liability driven investment' (LDI). The Trustee considers the investments to be suitable to the Scheme's stated objectives. The central features of this strategy are as follows:

- To manage the interest rate and inflation risk inherent in the Scheme's liabilities by the implementation of swap contracts.
- To retain an exposure to equity markets through a combination of physical assets and derivatives to target a level of long term investment return necessary for the Scheme to meet its funding objective. This exposure is managed through the use of derivative collars to limit the volatility associated with equity investments.
- A controlled use of derivatives to increase the yield on the Scheme's physical assets through exposure to credit markets.

At the year end the majority of the Scheme's assets were managed by LGIM. These assets form a 'collateral pool' designed to support the LDI strategy and to provide collared exposure to equity market returns. The collateral pool comprises the following physical assets:

- UK Gilts
- UK Index-linked Gilts
- Corporate bonds
- Money market instruments
- Cash

- The remainder of the Scheme’s assets are a combination of:
  - Pooled equities
  - Property
  - Corporate bonds

## The Scheme’s largest physical investments at the year end

<b>Largest Twenty Holdings (excluding derivatives)</b>		
	Market value £'million	% of total Investment assets less investment liabilities
LGIM GBP Liquidity Fund Class 1 Shares	781.39	22.54
Treasury 1.875 Index-Linked 22/11/22	443.70	12.80
Treasury 1.125 Index-Linked 22/11/37	222.53	6.42
Treasury 1.25 Index-Linked 22/11/32	181.88	5.25
Treasury 4.25 07/12/40	169.14	4.88
Treasury 0.375 Index-Linked 22/03/62	75.50	2.18
Treasury 0.75 Index-Linked 22/03/34	71.73	2.07
Treasury 0.625 Index-Linked 22/03/40	61.01	1.76
Treasury 4.25 07/12/46	57.97	1.67
Treasury 1.25 Index-Linked 22/11/27	38.03	1.10
Permanent Master Floating Rate Note 15/04/20	18.79	0.54
Deutsche Bank Floating Rate Note 26/04/12	18.19	0.52
BPCE Floating Rate Note 29/10/12	15.17	0.44
Arkle Floating Rate Note 17/02/52	12.36	0.36
ARRMF Floating Rate Note 16/09/56	9.98	0.29
Westpac Floating Rate Note 11/10/12	9.81	0.28
GRANM Floating Rate Note 20/12/54	9.06	0.26
Commonwealth Bank Floating Rate Note 30/09/14	8.35	0.24
Permanent Master Floating Rate Note 15/10/33	7.95	0.23
FOSSM Floating Rate Note 18/10/54	6.24	0.18
	2,218.78	64.01

## Employer related investments

During the year the Scheme had no investment in TRW Automotive, and no direct investments in any connected employer.

There were no member contributions due from the employer.

## Stock Lending

As at 23 November 2011, the majority of Scheme assets were held under the custody of custodians appointed by Legal & General Assurance (Pensions Management) Limited, which engaged in stock lending within the Asia Pacific (ex Japan) Developed Equity Index Fund as follows:

- Stock lending is subject to a maximum of 15% of the fund value, and normally 75%, but no more than 95% of any one stock.
- The approved borrowers are Citibank International plc, ABN, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Deutsche, Daiwa, Goldman Sachs, HSBC, ING, Merrill Lynch, Morgan Stanley, Nomura, RBS, UBS and JP Morgan.
- The loaned stock is secured by collateral of G7 Bonds to a value of 105% of the stock loaned, this collateral being secured from a range of separately approved counterparties.
- The operation of the stock lending programme and the management of collateral is delegated to the custodian, Citibank.
- All profits from stock lending are credited to the pooled fund.

At the year end the majority of Scheme assets were held under the segregated custody of Bank of New York Mellon, which did not engage in any stock lending.

## **Investment principles**

The Statement of Investment Principles deals with the following topics:

- Introduction
- Fund managers
- Investment adviser
- Investment objectives
- The kind and balance of investments
- Risk
- Expected return on investments
- Mandates to the investment managers
- Investment management fees
- Realisation of investments
- Statutory funding objective
- Socially responsible investment
- Exercise of voting rights
- Custodian

The current statement, implemented from 4 October 2011, is included on pages 42 to 49. A separate copy of the statement can be obtained by writing to the Scheme Secretary.

## **Review of Investments**

During the year the Trustee, with the help of its professional advisers, has carefully considered the Scheme's investments. They are satisfied that the investments conform to all the statutory criteria.

## **Investment Performance**

Independent performance measurement is provided to the Scheme by Mellon Analytics.

## Benchmark

The investment performance benchmark for the Scheme is the Scheme's liabilities. The Scheme's liabilities are measured on a Technical Provisions basis (Statutory Funding Basis) and an Economic basis<sup>1</sup>. In order to meet the Scheme's immediate and long term funding objectives, the Scheme's assets must outperform its liabilities. The performance of the Scheme's assets measured against its liabilities for the year ended 31 March 2012 is shown below:

<i>Asset performance</i>	<i>Liabilities measured on a Technical provisions basis</i>	<i>Liabilities measured on an Economic basis</i>
+19.1%	+21%	+21.6%

Source: Mellon Analytics (for asset performance) and Hymans Robertson (for liability performance).

As a consequence of the Scheme's asset and liability outperformance, the Scheme's estimated funding position at the end of the year is:

<i>Date</i>	<i>Funding position on a Technical Provisions basis</i>	<i>Funding position measured on an Economic basis</i>
31 March 2011	94.6%	80.3%
31 March 2012 <sup>2</sup>	93.1%	78.6%

The funding position as at 31 March 2012 will change following the completion of the Scheme's triennial actuarial valuation.

Source: Hymans Robertson. These figures are based upon various estimates and assumptions and have been provided is for the sole use and benefit of the Trustee of the TRW Pension Scheme and not for any other party. Hymans Robertson LLP makes no representation or warranty to any third party as to the accuracy or completeness of the information.

## Returns

The Scheme return measured over one, three, five and ten years are detailed below.

<b>Period to 31 December 2011</b>	<b>£ Fund % Annual Return</b>
Last year	19.01
Last 3 years	10.34
Last 5 years	5.38
Last 10 years	6.93

<sup>1</sup> 'Economic basis' refers to a level of funding at which all of the Scheme's liabilities may be matched using liability matching swaps, with underlying assets targeting a return equal to 3 month Sterling LIBOR. At such a level of funding, the Scheme would be in a position to deliver benefits on a self sufficient basis with a very high degree of certainty.

<sup>2</sup> The funding positions as at 31 March 2012 are based upon 'rolled forward' projections from the triennial actuarial valuation as at 31 March 2009. These will be updated following completion of the triennial actuarial valuation as at 31 March 2012 to reflect updated membership data and assumptions agreed by the Trustee.

## **Statement of Trustee responsibilities for the financial statements**

The audited financial statements are the responsibility of the Trustee. They are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- Show a true and fair view, of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- Contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgments on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

## **Conclusion**

The Directors acknowledge with thanks the help and support they have received from everyone associated with the administration of the Scheme.

If a member has any queries about the operation of the Scheme or about their benefits they should raise them with Capita Hartshead at the address shown on page 2.

By order of the Directors of TRW Pensions Trust Limited.

Mr Joel Griffin  
Scheme Secretary  
8 October 2012

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## Fund Account & Net Assets Statement

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## Fund Account

	Note	2012 £'000	2011 £'000
<b>Contributions and Benefits</b>			
Contributions	3	37,500	41,250
		37,500	41,250
Benefits payable	4	(166,434)	(164,257)
Payments to and on account of leavers	5	(74,001)	(5,206)
Administration expenses	6	(1,362)	(1,661)
Professional adviser fees and levies	7 & 8	(2,277)	(6,621)
		(244,074)	(177,745)
<b>Net withdrawals from dealings with members</b>		(206,574)	(136,495)
 <b>Returns on investments</b>			
Investment income	9	35,154	23,488
Change in market value of investments	16	538,901	154,162
Investment management expenses	20	(4,908)	(5,523)
<b>Net returns on investments</b>		569,147	172,127
<b>Net increase in the fund during the year</b>		362,573	35,632
<b>Net assets of the Scheme at 1 April 2011</b>		3,107,698	3,072,066
 <b>Net assets of the Scheme at 31 March 2012</b>		3,470,271	3,107,698

The accompanying notes on pages 24 to 36 form part of these financial statements.

# Net Assets Statement

	Note	2012 £'000	2011 £'000
<b>Investment assets</b>			
Pooled investment vehicles	10 & 16	1,419,346	2,714,543
Fixed interest securities	11 & 16	585,853	202,007
Index Linked securities	11 & 16	1,087,766	0
Property	12 & 16	169,005	173,334
Equities	13 & 16	707	714
External Additional Voluntary Contributions	14 & 16	1,175	1,319
Current investment assets	22	14,041	7,338
Cash deposits	16	30,705	18,075
Derivative assets	15 & 16	1,221,627	20,978
		<hr/>	<hr/>
		4,530,225	3,138,308
<b>Investment liabilities</b>			
Derivative liabilities	15 & 16	(1,056,957)	(21,738)
Current investment liabilities	22	(6,466)	(6,522)
		<hr/>	<hr/>
		(1,063,423)	(28,260)
Current assets	21	6,973	1,539
Current liabilities	21	(3,504)	(3,889)
		<hr/>	<hr/>
<b>Net assets of the Scheme at 31 March 2012</b>		<b>3,470,271</b>	<b>3,107,698</b>
		<hr/>	<hr/>

The accompanying notes on pages 24 to 36 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year. The actuarial position of the Scheme which does take account of such obligations is dealt with in the Summary of Funding Statement and actuarial certificates included on page 41 of the annual report. These financial statements should be read in conjunction with the Summary of Funding Statement and actuarial certificates.

**Approved by the Directors of the Trustee Company**

**Chairman – Mr Steven Lunn**  
**8 October 2012**

**Director – Mr Paul Birkett**

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## Notes to the Accounts

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## **Basis of Preparation**

The financial statements have been prepared and audited in accordance with the *Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor Regulations 1996)* and with the guidelines set out in the *Statement of Recommended Practice (revised May 2007). Financial Reports of Pension Schemes (the Revised SORP)*.

## **Note 1 Accounting Policies**

The principal accounting policies of the Scheme are as follows:

- Income from equity investments is brought into account at the ex-dividend date. Income from pooled investment vehicles is re-invested and reflected in the unit price. Property income is earned in accordance with the terms of the lease. Income from fixed interest securities, index linked securities and cash is recognised as the interest accrues.
- Company and members' contributions are accounted for on an accruals basis at rates agreed between the Trustee and the Employer based on the recommendation of the actuary and the Schedule of Contributions.
- Expenses are dealt with on an accruals basis.
- Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.
- Transfer payments in respect of members transferred to and from the Scheme during the year are included in the accounts on the basis of sums advised by the actuary at the time the accounts for the year they are finalised.
- Listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement. Unlisted investments are priced using quotes provided by external brokers.
- Pooled investment vehicles are stated at bid price for funds with bid/offer spread or single price where there are no bid/offer spreads, as provided by the investment manager.
- Foreign currency investments are translated into sterling at the rates of exchange ruling at the net assets statement due. Foreign currency investment income is recorded at the rate ruling at the date of the transaction.
- Derivatives are stated at market value.

Exchange traded derivatives are stated at market values determined using market quoted prices.

For exchange traded derivative contracts which are assets, market value is based on quoted bid prices.

For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

Over the counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported with 'Change in Market Value'.

- The property investments of the Scheme are included in the accounts at open market value at the net assets statement date. This value is determined by independent external valuers in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. The properties have been valued by the Scheme's property valuer (see note 2). No depreciation is provided on property assets in accordance with SSAP19: Accounting for Investment Properties.
- Purchases and sales of properties are recognised in the accounts upon unconditional exchange of contracts. Property rental income is recognised on an accruals basis.

### Note 3 Contributions

	2012 £'000	2011 £'000
Company contributions – deficit funding <sup>1</sup>	37,500	41,250
	<hr/> 37,500	<hr/> 41,250

### Note 4 Benefits payable

	2012 £'000	2011 £'000
Pensions	158,600	156,398
Commutated lump sums	7,413	7,532
Death benefits	421	418
External AVC receipts	0	(91)
	<hr/> 166,434	<hr/> 164,257

### Note 5 Payments to and on account of leavers

	2012 £'000	2011 £'000
Transfers to other schemes – Individual	73,992	4,963
Annuities purchased externally to the Scheme <sup>2</sup>	0	176
Transfers to State Scheme	9	62
Refunds to leavers	0	5
	<hr/> 74,001	<hr/> 5,206

### Note 6 Administration expenses<sup>3</sup>

	2012 £'000	2011 £'000
Administration	1,051	1,133
Secretarial and Trustee expenses	308	523
Website	3	5
	<hr/> 1,362	<hr/> 1,661

<sup>1</sup> Deficit funding contributions of £7.5m have been paid in accordance with the Schedule of Contributions dated 21 December 2011. In addition the employer paid further contributions during the year of £30 million.

<sup>2</sup> The 2011 payment of £176,000 related to the annuitisation of benefits of former 'Cross-border' members of the Scheme to enable the Scheme's Cross-border registration to be revoked.

<sup>3</sup> The Scheme was administered by TRW Benefit Administration (UK), which was an operating unit of TRW Limited, until 1 July 2011 when Capita Hartshead was appointed as the Scheme administrator.

<b>Note 7 Professional adviser fees</b>	2012 £'000	2011 £'000
Hymans Robertson - Actuarial fees	381	273
Allen & Overy – Legal fees	218	275
Travers Smith – Legal fees	26	0
Hymans Robertson - Investment Adviser fees	225	119
Knight Frank – Investment Adviser fees	17	0
KPMG	77	77
Zolfo Cooper – Investigating accountant	174	0
Capita Health and Wellbeing – Medical fees	14	15
Club Vita – Longevity analysis	10	14
Ernst & Young – Tax fees	0	7
KPMG – Risk Management	106	0
Other advisers	2	8
	<hr/> 1,250	<hr/> 788

<b>Note 8 Regulatory levies</b>	2012 £'000	2011 £'000
Pension Protection Fund (Scheme based)	428	495
The Pensions Regulator	113	116
Pension Protection Fund (Risk based) <sup>1</sup>	486	5,222
	<hr/> 1,027	<hr/> 5,833

<b>Note 9 Investment income</b>	2012 £'000	2011 £'000
Rents from property	11,013	11,373
Income from fixed interest securities	16,263	11,107
Income from Index Linked securities	5,498	0
Income from pooled investment vehicles	2,326	694
Annuity Income	128	139
Interest on cash account	113	97
Dividends from equities	(185)	248
Write-off of non recoverable withholding tax	(2)	(10)
Other investment expenses less income	0	24
Derivative gains less losses	0	(184)
	<hr/> 35,154	<hr/> 23,488

<sup>1</sup>The risk based Pension Protection Fund levy is a function of several factors including the Scheme's funding position on a prescribed basis and the credit rating of the corporate entities connected with the Scheme measured by Dun & Bradstreet. The decrease in the risk based levy from 2011 is due to changes in these factors.

## Note 10 Pooled investment vehicles

<b>UK registered</b>	2012	2011
	£'000	£'000
<i>Legal &amp; General*</i>		
Client Specific Unitised Fund <sup>1</sup>		
Bonds – Index Linked	0	975,975
Bonds - Corporate	0	671,236
Bonds – UK Government Fixed Interest	0	304,470
Bonds - Overseas	0	8,360
Equity Options	0	301,773
UK Equity Index Fund	0	199,564
Cash	0	150,752
Swaps (net mark to market)	0	67,960
Accrued Income	0	16,720
<b>Total</b>	<b>0</b>	<b>2,696,810</b>
Bonds – UK Corporate	433,053	0
UK Equity Index Fund	204,109	0
Cash Fund	781,385	7,361
<i>Other</i>		
Western Asset Management Pooled Fund	0	8,000
Fidelity	0	1,521
Montanaro Smaller Euro Co Fund	796	849
Merrill Lynch Unquoted Unit Fund	3	2
	<b>1,419,346</b>	<b>2,714,543</b>

## Note 11 Fixed interest and index linked securities

<b>Fixed Interest</b>	2012	2011
	£'000	£'000
<b>UK Quoted</b>		
Corporate – Western Asset Management Company	196,308	190,626
UK Government and Floating Rate Notes – Legal & General	388,630	0
<b>Overseas</b>		
Corporate – Western Asset Management Company	915	11,381
	<b>585,853</b>	<b>202,007</b>
<b>Index Linked</b>		
	£'000	£'000
<b>UK Quoted</b>		
UK Government – Legal & General	1,087,766	0
	<b>1,087,766</b>	<b>0</b>

<sup>1</sup> The assets within the Client Specific Unitised Fund were transferred to the segregated custody of the Bank of New York Mellon on 23 November 2011. More detail is provided in the investment report on page 15. These assets are now reported elsewhere in the notes.

## Note 12 Market value of property investments

Sector	2012	2011	Geographical	2012	2011
	£'000	£'000		£'000	£'000
Industrials	60,595	59,950	South East	76,245	76,365
Offices	13,307	17,147	South West	1,650	1,850
Retail	44,213	44,593	Scotland	19,900	21,725
Other Commercial	16,760	16,884	Yorkshire	13,570	13,850
Residential	195	196	East Midlands	11,950	12,150
European Unit Trusts	30,828	31,441	North West	7,455	7,580
UK Unit Trusts	3,107	3,123	West Midlands	4,300	5,250
			UK Unit Trusts	3,107	3,123
			European Unit Trusts	30,828	31,441
<b>Total</b>	<u>169,005</u>	<u>173,334</u>		<u>169,005</u>	<u>173,334</u>

See note 2 for details of the valuation basis.

## Note 13 Equities

	2012	2011
	£'000	£'000
Overseas	707	714
	<u>707</u>	<u>714</u>

All the equity investments held by the Scheme are quoted.

## Note 14 External additional voluntary contributions

The Trustee holds assets invested separately from the main fund in the form of individual insurance policies and building society accounts securing additional benefits on a money purchase basis for some members who elected to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

	2012	2011
	£'000	£'000
Clerical Medical	456	541
Scottish Life	354	390
Standard Life	221	292
Fidelity	132	80
Phoenix	12	16
	<u>1,175</u>	<u>1,319</u>

## Note 15 Derivative assets held under segregated custody

### Futures

The Trustee has invested in futures within its segregated fixed interest portfolio to gain additional bond like returns. The Scheme had the following futures contracts outstanding at the year end:

Type	Duration	Notional Exposure £'000	Asset value at 31 March 2012 £'000	Liability value at 31 March 2012 £'000
Bond Futures	2012	0	0	(5)

### Swaps

The Trustee's aim is to match of the Scheme's long term liabilities with its fixed income assets, in particular in relation to the liabilities' sensitivities to interest rate movements and inflation. The Trustee has entered into interest rate, inflation and credit default swaps to better align the Scheme's assets to the long term liabilities of the Scheme. The Scheme had the following swaps contracts outstanding at the year end:

Type	Duration	Notional Exposure £'000	Asset value at 31 March 2012 £'000	Liability value at 31 March 2012 £'000
Credit Default Swaps	2022	(1,289,500)	0	(20,826)
Interest Rate Swaps	2016-2062	2,895,551	274,451	(236,732)
Inflation Swaps	2015-2057	2,122,405	23,202	(84,858)
Total Return Swaps	2012-2040	1,109,392	103,557	(219,175)
			<u>401,210</u>	<u>(561,591)</u>

### Foreign exchange

The Trustee has taken out a number of foreign exchange forwards to hedge its overseas currency assets back into sterling. The Scheme had the following foreign exchange contracts outstanding at the year end:

Type	Duration	Notional Exposure £'000	Asset value at 31 March 2012 £'000	Liability value at 31 March 2012 £'000
Foreign Exchange				
EUR/GBP	2012	38,664	1	(82)
USD/GBP	2012	3,591	18	0
			<u>19</u>	<u>(82)</u>

## Equity Options

The Trustee's objective is to benefit from the potentially greater returns available from investing in equities but wishes to minimise potential losses of value through adverse equity price movements. It has therefore taken out a series of 'put', 'call' and 'at the money' options which provide the Scheme with exposure in global developed equity markets but restrict the negative returns the Scheme can make by capping the positive returns the Scheme can earn. The Scheme had the following option contracts outstanding at the year end:

Type of option	Notional amount £'000	Expiry	Asset value at 31 March 2012 £'000	Liability value at 31 March 2012 £'000
Call	156,976	2015-2019	4,079	0
Low put, high put and call option	180,000	2015	27,339	(24,979)
Low put, high put, call and at the money options	300,000	2014	214,126	(111,390)
Low put, high put, call and at the money options	686,000	2019	574,854	(358,910)
			<u>820,398</u>	<u>(495,279)</u>

## Counterparties to derivatives

The following table shows the total net valuation of the derivative positions within the Legal & General Client Specific Unitised fund as at 31 March 2012, split by counterparty and type of derivative. The values quoted are based on mid prices. All derivative positions are fully collateralised on a daily basis.

Counterparty	Equity Options £'million	Interest Rate Swaps £'million	Inflation Swaps £'million	Credit Default Swaps £'million	Total Return Swaps £'million	Total value £'million
Goldman Sachs	302.1	153.4	(255.8)	-	5.0	204.7
Barclays Capital	-	-	(13.0)	-	46.5	33.5
UBS	-	5.2	0.3	-	-	5.5
Deutsche	-	(10.4)	(5.4)	-	-	(15.8)
RBS	-	(34.8)	(30.9)	-	-	(65.7)
Morgan Stanley	3.2	(82.7)	1.1	(20.5)	50.2	(48.7)
<b>Total</b>	<u>305.3</u>	<u>30.7</u>	<u>(303.7)</u>	<u>(20.5)</u>	<u>101.7</u>	<u>113.5</u>

## Summary of derivative assets and liabilities

	Asset value at 31 March 2012 £'000	Liability value at 31 March 2012 £'000	Net position at 31 March 2012 £'000
Futures	0	(5)	(5)
Swaps	401,210	(561,591)	(160,381)
Foreign Exchange	19	(82)	(63)
Equity Options	820,398	(495,279)	325,119
	<u>1,221,627</u>	<u>(1,056,957)</u>	

Note 16 contains additional details about the Scheme's derivative investments.

## Note 16 Change in market value of investments

	Value at 31 March 2011 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 31 March 2012 £'000
Pooled investment vehicles	2,714,543	1,539,318	(3,189,446)	354,931	1,419,346
Derivatives					
- <i>Futures</i>	133	6,266	(2,028)	(4,376)	(5)
- <i>Equity Options</i>	0	312	(852)	325,659	325,119
- <i>Swaps</i>	(120)	783,022	(807,861)	(135,422)	(160,381)
- <i>Foreign Exchange</i>	(773)	5,109	(6,426)	2,027	(63)
Index linked securities	0	1,288,366	(208,822)	8,222	1,087,766
Fixed interest securities	202,007	952,604	(562,577)	(6,181)	585,853
Equities	714	0	0	(7)	707
Property	173,334	1,789	(209)	(5,909)	169,005
External additional voluntary contributions	1,319	0	(220)	76	1,175
	<u>3,091,157</u>	<u>4,576,786</u>	<u>(4,778,441)</u>	<u>539,020</u>	<u>3,428,522</u>
Cash deposits	18,075			(119)	30,705
Other current investment assets and liabilities (see note 22)	816				7,575
	<u><b>3,110,048</b></u>			<u><b>538,901</b></u>	<u><b>3,466,802</b></u>

## Note 17 Transaction costs

During the year there have been no transactions costs.

**Note 18 Property transaction costs**

	2012 £'000	2011 £'000
Property sales during the year	0	(1,800)
Property purchases during the year	0	0
	<hr/>	<hr/>
	0	(1,800)
Costs associated with property sales:		
Rental guarantee	0	0
CB Richard Ellis – transaction fees	0	18
Dilapidation/remediation costs	0	0
Pinsent Masons - transaction fees	0	7
HP Four LLP – transaction fees	0	0
	<hr/>	<hr/>
	0	25
Net property sales and purchases at cost	<hr/>	<hr/>
	0	(1,775)

**Note 19 Investment management expenses**

	2012 £'000	2011 £'000
<b>Non-property Management Expenses</b>		
Legal & General Investment Management	2,670	1,368
Western Asset Management Company	561	547
TRW Investment Management Company Ltd	(366)	221
Bank of New York Mellon	88	50
	<hr/>	<hr/>
	2,953	2,186
<b>Property Management Expenses</b>		
Pinsent Masons	124	240
CB Richard Ellis – UK Properties	276	275
CB Richard Ellis – European Unit Trusts	24	77
Jones Lang La Salle	32	33
Property Management Costs:		
Building & refurbishment	445	886
Head rent & rates	519	545
Vacant unit costs	519	235
Marketing & letting	107	105
Bad debt write offs	(446)	667
Other professional fees	355	249
	<hr/>	<hr/>
	1,955	3,312
Total investment management expenses	<hr/>	<hr/>
	4,908	5,498

<b>Note 20 Total investment management and transaction costs</b>	2012	2011
	£'000	£'000
Non-property Management expenses (See Note 19)	2,953	2,186
Property Management expenses (See Note 19)	1,955	3,312
Property transaction costs (See Note 18)	0	25
	<u>4,908</u>	<u>5,523</u>

<b>Note 21 Current assets and liabilities</b>	2012	2011
	£'000	£'000
<b>Current Assets</b>		
Cash at bank	6,813	1,451
Administration VAT receivable	110	88
Other debtors	50	0
	<u>6,973</u>	<u>1,539</u>
<b>Current Liabilities</b>		
Unpaid benefits	(2,084)	(2,093)
Advisers' fees	(1,420)	(1,430)
Accrual and deferred income	0	(366)
	<u>(3,504)</u>	<u>(3,889)</u>
Net current assets	<u>3,469</u>	<u>(2,350)</u>

<b>Note 22 Current investment assets and liabilities</b>	2012	2011
	£'000	£'000
<b>Current Investment Assets</b>		
Interest receivable – bonds	11,086	3,872
Interest receivable – cash	14	5
Rent receivable	2,344	3,160
Dividends receivable	589	293
Property debtors	8	8
	<u>14,041</u>	<u>7,338</u>
<b>Current Investment Liabilities</b>		
Deferred rental income	(2,481)	(2,334)
Provision for property bad debts	(1,600)	(2,144)
Rental deposits	(276)	(276)
Property creditors	(1,191)	(958)
Property investment VAT	(918)	(810)
	<u>(6,466)</u>	<u>(6,522)</u>
Net current investment assets	<u>7,575</u>	<u>816</u>

## **Note 23 Related party transactions**

Transactions with related parties of the Scheme have been disclosed in the Trustee report as follows:

- Contributions in respect of Board member's who are active members of the Scheme have been made in accordance with the Trust Deed and Rules
- The Scheme was administered by TRW Benefit Administration, which is part of TRW Limited, until 1 July 2011 when Capita Hartshead was appointed as the new administrators. Fees payable in respect of administration and processing are detailed in Note 6 of the accounts.

During the year £16,000 was paid to JMRC Consulting Ltd in respect of fees for the Independent Trustee Director.

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## Reports of the Auditor and the Actuary

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## **Independent Auditor's Report to the Trustee of the TRW Pension Scheme**

We have audited the financial statements of TRW Pension Scheme for the year ended 31 March 2012 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Trustee and auditor**

As explained more fully in the Statement of Trustee's responsibilities set out on page 19, the Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2012 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

**N Dabbagh-Hobrow  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants**

One Snowhill  
Snow Hill Queensway  
Birmingham B4 6GH

8 October 2012

## Statement of Trustee's responsibilities in respect of contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the scheme in accordance with the schedule.

## Summary of Contributions payable under the schedules in respect of the Scheme year ended 31 March 2012

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the schedules of contributions certified by the actuary on 29 November 2010 and 22 December 2011 in respect of the Scheme year ended 31 March 2012. The Scheme Auditor reports on contributions payable under the schedule in the Auditor's Statement about Contributions.

During the year ended 31 March 2012 the contributions payable to the Scheme under the Schedules of Contributions were as follows:

	£'000
Employer normal contributions	7,500
Contributions payable under the Schedules (as reported on by the Scheme Auditor)	<u>7,500</u>

## Information about contributions

Under the Schedule of Contributions in place at 31 March 2012, the employer had commenced deficit contributions of £30 million a year beginning for the year ending 31 December 2012. There were no normal contributions due from members following the closure of the Scheme to future accrual of benefits on 30 September 2009. A reconciliation of total contributions to the Scheme reported in the accounts is shown below.

## Reconciliation of Contributions

	£'000
Contributions payable under the Schedules of Contributions reported in the accounts in respect of the Scheme year (as above):	7,500
Contributions payable in addition to those due under the Schedules of Contributions and not reported on by the Scheme Auditor:	
- Employer deficit contributions	<u>30,000</u>
Total contributions reported in the accounts:	<u>37,500</u>

## Approved by the Board

**Chairman - Mr Steven Lunn**  
**8 October 2012**

## **Independent Auditor's Statement about Contributions to the Trustee of the TRW Pension Scheme**

We have examined the summary of contributions payable under the schedule of contributions to the TRW Pension Scheme in respect of the Scheme year ended 31 March 2012 which is set out on page 39.

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

### **Respective responsibilities of Trustee and auditor**

As explained more fully in the Statement of Trustee's Responsibilities set out on page 39, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions to the Scheme and to report our opinion to you.

### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

### **Statement about contributions payable under the schedule of contributions**

In our opinion contributions for the Scheme year ended 31 March 2012 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid from 1 April 2011 to 21 December 2011 at least in accordance with the schedule of contributions certified by the actuary on 29 November 2010, and subsequently at least in accordance with the schedule of contributions certified by the actuary on 22 December 2011.

**N Dabbagh-Hobrow  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants**

One Snowhill  
Snow Hill Queensway  
Birmingham B4 6GH

8 October 2012

ACTUARIAL CERTIFICATION OF THE CALCULATION OF TECHNICAL PROVISIONS AS REQUIRED BY REGULATION 7(4)(A) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005

Name of scheme: TRW Pension Scheme

CALCULATION OF TECHNICAL PROVISIONS

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 March 2009 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the scheme and set out in the statement of funding principles dated 23 June 2010.

Signature

Date	23 June 2010
Name	Ronald S Bowie
Qualification	Fellow of the Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street, Glasgow, G2 6DB

ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS AS REQUIRED BY REGULATION 10(6) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005

Name of scheme: TRW Pension Scheme

ADEQUACY OF RATES OF CONTRIBUTIONS

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 21 December 2011.

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

ADHERENCE TO STATEMENT OF FUNDING PRINCIPLES

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 23 June 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Date	22 December 2011
Name	R S Bowie
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street, Glasgow, G2 6DB

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# Statement of Investment Principles

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## **Introduction**

This statement sets out the principles, which the Trustee of the TRW Pension Scheme will follow in determining its investment policy for the purposes of the Scheme. It has been prepared in accordance with the requirements of Section 35 of the *Pensions Act 1995 as amended by section 244 of the Pensions Act 2004*. The statement is subject to periodic review by the trustee, at least every three years and as soon as practicable following any significant changes in investment policy.

This revised statement was approved at a meeting of the Trustee Board held on 8 October 2012. The Principal Employer has been consulted. The investment principles set out in this statement will be reviewed periodically and revised as necessary. Prior to the preparation of this statement the Trustee has obtained and considered written advice from Hymans Robertson LLP which is qualified to provide such advice in connection with the investment of the Scheme.

## **Fund managers**

The Trustee does not take day to day investment decisions; the Board considers investment management to be a specialist activity that is most appropriately undertaken by professional managers. It has delegated responsibility for the selection and management of the Scheme's assets to the following professional investment managers:

### **Liability Driven Investment Manager**

- Legal & General Investment Management - equity option collars and risk reducing swaps.

### **Credit Investment Managers**

- Legal & General Investment Management - passively managed UK and US corporate bonds, floating rate notes and cash instruments.
- Goldman Sachs Asset Management – global fixed interest
- M&G Investment Management – asset backed securities

### **Property Manager**

- CBRE Global Investors – segregated UK property and indirect European property

### **Additional Voluntary Contribution (AVC) Managers**

- Phoenix Life – Insured Additional Voluntary Contributions
- Clerical Medical – Insured Additional Voluntary Contributions
- Fidelity – Additional Voluntary Contributions
- Scottish Life – Insured Additional Voluntary Contributions
- Standard Life – Insured Additional Voluntary Contributions

All the above organisations are regulated by the Financial Services Authority (FSA). They are all authorised under the Financial Services and Markets Act 2000 (as amended) to undertake investment business. The appointments are reviewed periodically.

The core managers are responsible for the day to day investment of their mandates (including the treatment of income) and are responsible for investing additional funds allocated to them or for disinvesting assets as required.

The AVC managers are responsible for the investment of external AVC's. These were the appointed managers of legacy pension arrangements transferred into the TRW Pension Scheme.

## Investment Adviser

The Trustee has appointed an Investment Adviser, Hymans Robertson LLP, to assist it in determining and reviewing its ongoing investment policy. The Investment Adviser provides routine advice on the suitability of the Trustee's investments relative to its liabilities, and also assists the Trustee in reviewing the performance of its investment managers. This is a separate appointment to that of Hymans Robertson LLP as actuaries to the Scheme.

To improve its governance structure the Board set up an Investment Sub-Committee (ISC) on 21 June 2007. The committee, which is chaired by the Scheme Secretary, comprises representatives from:

- The Trustee Board
- The Investment Adviser
- The investment managers
- The Company
- The Company's investment advisers

The role of the ISC is to do in-depth research on investment strategies and to advise the Board on both its investment objectives and the strategies to achieve them.

## Investment objectives

The Trustee's investment objectives are:

- To retain sufficient long-term, risk controlled exposure to investment markets to help restore over time the Scheme to a funding level of self-sufficiency.
- To achieve a rate of return from the assets of the Scheme that is in excess of the movement in the Scheme's liabilities by a combination of exposure to:
  - Equity risk
  - Credit risk
  - Inflation and interest rate risk
  - Liquidity and other market risks
- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of the Scheme's benefits as set out in the *Trust Deed and Rules*.
- To reduce the level of investment risk over time in order to lock in improvements in the Scheme's funding position and to limit the risk of the assets failing to meet the liabilities over the long term.

## The kind and balance of investments

The Trustee, acting on the advice of its Investment Sub-Committee, its Investment Adviser and the Scheme Actuary has put in place an investment structure whereby the Scheme's liabilities determine the type of assets held by the Scheme. This approach to investments is called 'liability driven investment' (LDI).

The central features of this strategy are as follows:

- To control the interest rate and inflation risk inherent in the Scheme's liabilities by the implementation of swap contracts.
- To retain a material exposure to equity and credit markets through a combination of physical assets and derivatives.
- The use of derivatives to create tailored strategies to limit the Scheme's exposure to potential falls in equity markets whilst retaining sufficient exposure to growth assets in order to achieve self sufficiency funding over a reasonable timescale.
- The controlled use of derivatives to increase the yield on the Scheme's physical assets by taking credit risk.

- Approximately 50% of the Scheme's physical assets are designed to support the LDI strategy, including:
  - Gilts
  - Index-linked Gilts
  - Money market instruments
  - Cash
- The remainder of the Scheme's physical assets are a combination of:
  - Equities
  - Property
  - Corporate bonds
  - Asset backed securities

In addition, the Trustee holds some cash in a liquidity fund to meet ongoing benefit and expenditure payments from the Scheme. This cash will be topped up from time to time, as required. The Trustee considers the investments to be suitable to the Scheme's stated objectives.

## **Risk**

The Board recognizes that the funding position of the Scheme will be improved by a combination of investment returns and support from the Company. It, therefore, continues to take investment risk, in order to target long term out performance relative to its liabilities.

An outline of the Board's attitude to risk is as follows:

- It considers interest and inflation risks to be so significant it has introduced an LDI strategy to limit its exposure in these areas. The investment manager responsible for implementing the LDI strategy is Legal & General Investment Management.
- It has introduced equity collar strategies (limiting downside and upside) to protect the Scheme against adverse equity movements, whilst maintaining exposure to equity out performance that is sufficient to meet its stated objectives.
- The majority of LDI assets are selected by the LDI investment manager, based on its view of the credit risk and interest rate risk of the investment relative to the London inter bank offered rate (LIBOR). The investment manager is required to ensure suitable liquidity of assets for funding benefit payments and that there are sufficient assets, both in terms of liquidity and eligibility, to act as collateral for the Scheme's derivatives obligations.
- The LDI assets have been so structured to manage counterparty risk to provide a level of protection against failure of any derivative counterparty. There are three main components to this counterparty risk protection:
  - Counterparties are limited to financial institutions on Legal & General Investment Management's approved panel.
  - All derivatives are marked to market, with collateral posted on a daily basis.
  - In order to manage the risk of any counterparty concentration, the underlying assets are structured to provide a measure of protection in the event of counterparty failure.
  - The ISC regularly reviews the risks associated with posting collateral to counterparties with a view to limiting exposures to counterparties whose credit quality may be deteriorating.
- In order to further control risk the Trustee has imposed the following restrictions:
  - Stock Lending is only permitted in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.
  - Constraints are placed on the use of derivatives, which may not be used for speculative purposes.
  - Certain types of investment are not permitted. These include commodities, works of art and precious metals.

## Expected return on investments

In the long term the LDI investment strategy is expected to deliver a return which either matches or exceeds the real rate of return assumed by the actuary in assessing the funding of the Scheme. The Trustee will monitor the returns of each fund manager and asset class against an appropriate benchmark. The individual benchmarks will be constructed using data provided by external index providers and will be independently verified by a recognised pension fund performance measurement company on behalf of the Trustee. The projected investment returns are relative to the appropriate index benchmark for each asset class. The projected returns and index benchmarks are as follows:

<b>Manager/Asset class</b>	<b>Index</b>	<b>Target return over the index (p.a.)</b>
<b>Legal &amp; General Investment Management</b>		
LDI assets	LIBOR (Three month)	0%
UK Corporate bonds	Markit iBoxx GBP Non Gilts BBB & Barclays Global GBP Corporate + 5 years ex BBB	0%
US Corporate bonds	Barclays Global Aggregate USD Corporate + 5 years ex BBB	0%
UK Equities	FTSE 100	0%
<b>CBRE Investors</b>		
Property	Retail Prices Index	5%
<b>Goldman Sachs Asset Management</b>		
Global fixed interest	No index – total return benchmark	6% to 8%
<b>M&amp;G Investment Management</b>		
Asset backed securities	LIBOR (Three month)	2%

The target returns are goals and the investment managers do not guarantee they will be achieved.

## **Mandates to the Investment managers**

The Board has explicit written mandates with its investment managers. The managers are to invest the assets in accordance with the asset allocation benchmark and the Board's guidelines on risk control.

## **Investment management fees**

The basis of fees agreed with Legal & General Investment Management in respect of the majority of the Scheme assets is a flat fee adjusted in line with the UK Retail Prices Index plus a capped transaction fee.

The fee structure of the property investment manager is in two parts; a base management fee and a fee on the completion of each purchase or sale. This fee structure was chosen in order to compensate the manager appropriately in relation to the work undertaken on behalf of the Trustee.

The basis of fees agreed with the other investment managers is a percentage of the value of the portfolio controlled by the manager. This fee structure was chosen in order to compensate the manager appropriately in relation to the work undertaken on behalf of the Trustee.

The charging structures of the managers responsible for external AVC's are built into the historical group policy terms for each arrangement, and are reflected in the value of individual members' AVC account.

## **Realisation of investments**

Over 80% of the assets are directly or indirectly invested in securities traded on major recognised investment exchanges. These investments can therefore be realised quickly, if necessary, although there would be a risk of capital loss. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements, both for benefit payments and collateral calls, in the majority of foreseeable circumstances without realising the assets that cover derivatives. The Trustee's advisers monitor cash flow requirements explicitly using liquidity projections.

## **Statutory Funding Objective**

In arriving at its investment principles account has been taken by the Trustee of the liabilities of the Scheme in respect of pensioners, deferred pensioners and active members together with the Scheme's funding position. This has been done in relationship to the Scheme's Statutory Funding Objective, which is that the Scheme must have 'sufficient and appropriate' assets to cover the expected cost of providing members' past service benefits.

Details of the Scheme's Statutory Funding Objective and its policy for securing that the objective will be met along with the Scheme's funding method and actuarial assumptions are contained in the Scheme's *Statement of Funding Principles*. This document is available from the Secretary to the Board. It can also be downloaded at the Scheme's website [www.trwpensions.co.uk](http://www.trwpensions.co.uk)

## **Responsible ownership**

The Trustee considers corporate, environmental and social responsibility issues as far as they impact the performance of the assets of the Scheme. The policies of the Trustee's investment managers are in line with the Trustee's policy.

Legal & General Investment Management is the only investment manager appointed by the Trustee that invests in company shares on behalf of the Trustee. The policy of Legal & General Investment Management in respect of responsible ownership is set out below:

- Legal & General Investment Management's activity in all facets of corporate governance is integral to its investment process. It applies all the principles set out in the Institutional Shareholders' Committee's *Responsibilities of Institutional Shareholders' and Agents – Statement of Principles* which was updated in June 2007. Specifically, Legal & General Investment Management focuses on the effectiveness of a company's board of management and its remuneration policy, business strategy and business practices, taking into account social, ethical and environmental business issues.
- By voting on all FTSE 100 UK company resolutions and maintaining regular dialogue with company management, the necessity for active intervention is minimized, but not eliminated. Legal & General

Investment Management actively intervenes when they believe that this intervention would result in a substantial benefit to shareholders.

- The governance activity of its fund managers/analysts is supported by a manager dedicated to corporate governance and socially responsible investment issues. Legal & General Investment Management also plays a leading role in assisting the Association of British Insurers (ABI) to identify issues and in facilitating discussion with companies.

Documents detailing the policies of all the investment managers appointed by the Trustee in respect of corporate, environmental and social responsibility are available on the managers' websites.

### **Exercise of voting rights**

The Trustee has delegated the exercise of voting rights to the Scheme's investment managers on the basis that voting rights should be exercised with the aim of preserving and enhancing long-term shareholder value. The investment managers provide reports on votes cast to the Trustee on a quarterly basis.

### **Custodian**

The segregated assets of the Scheme are held by the Trustee's appointed custodian, Bank of New York Mellon, and are under the control of the Trustee. The appointment is reviewed periodically.

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## Summary of Funding Statement

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# TRW Pension Scheme

## Summary Funding Statement

TRW Pension Trust Limited is the Trustee of the Scheme and is responsible for its administration.

This is our seventh annual summary funding statement and it is based on a formal actuarial valuation carried out as at 31 March 2009. The formal valuation has been conducted in accordance with the scheme funding requirements of *Pensions Act 2004*.

### Funding level

#### The ongoing funding valuation of the TRW Pension Scheme

	31 March 2011	31 March 2010	31 March 2009
Assets	£3,123 million	£3,069 million	£2,670 million
Amount needed to provide benefits	£3,304 million	£3,260 million	£3,225 million
Surplus/(Shortfall)	(£181 million)	(£191 million)	(£555 million)
Funding level	95%	94%	83%

The Scheme was closed to all future benefit accrual from 30 September 2009. No further employee contributions are subsequently payable to the Scheme.

In light of the deficit in funding identified by the 31 March 2009 valuation the Company commenced provisional deficit contributions of £15 million a year from January 2010. The Company and the Trustee agreed a Recovery Plan on 2 December 2010. The Recovery Plan incorporates contributions from the Company at a rate of £20 million a year, effective from 1 January 2010 ending on 31 March 2019. Contributions payable for the period ended 31 December 2012 have been paid in advance by the Company (including £15 million which has been placed in a special trust account for the sole benefit of the Scheme).

#### Change in the funding position since the 31 March 2009 valuation

Since the previous formal actuarial valuation took place, the funding level is estimated to have changed from 83% to 95%, with a deficit of £181 million.

The main reasons for the change have been an increase in the value of the Scheme's investments during the period and a special contribution to the Scheme from the TRW Employee Benefits Trust of £40 million. However, the amount estimated by the Scheme Actuary as being needed in order to fund benefits from the Scheme has increased, primarily as a result of reduced yields available from Government bonds.

#### Payments to the Company

There has not been any payment to the Company out of Scheme funds in the previous twelve months, and no such payments are anticipated. No such payment is possible unless a scheme's funding position is sufficiently strong to secure all benefits with insurance policies.

## **Your questions answered**

### **How does the Scheme operate?**

The TRW Pension Scheme is a closed final salary pension scheme. With this type of scheme the Company pays contributions in accordance with a Recovery Plan. These contributions are then invested in funds that are expected to provide income, and to increase in value. The combination of contributions, investment income and growth is then used to pay members' pensions. The money to pay for members' pensions is held in a common fund. It is not held in separate individual funds for each member.

### **How is the amount of funding that the Scheme needs worked out?**

Every three years the Scheme's actuary carries out a financial review of the Scheme – this is called an actuarial valuation. The actuary estimates the amount of each member's future pension payments and how long each pension is likely to be in payment. These future payments are then added up and compared with the value of the fund and its expected future investment returns. The result indicates how much money is needed to pay members' benefits.

Using this information, along with the advice provided by the Scheme's actuary, the Trustee comes to an agreement with the Company on its future rate of contributions.

### **Why is the Company's support important?**

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, success for the Scheme relies on the Company's continuing support as more money may be needed in the Scheme if:

- Due to the funding level fluctuating there is a funding shortfall.
- The target funding level did not turn out to be enough.

### **What would happen if the Company could not continue to support the Scheme?**

The current financial position assumes that the Scheme will continue, with the Company's support. In the event that the Scheme was to terminate (this is called winding up), the Scheme Actuary has estimated that, as at 31 March 2009, the Scheme would have needed £4,045 million to ensure that all members' benefits could be paid in full. This suggested a shortfall of around £1,389 million compared with the amount of money actually in the Scheme at that date.

The reason this amount differs from the ongoing funding valuation, is because if the Scheme winds up it is assumed that the money will be used to buy a policy from an insurance company that will then be used to pay the pensions promised. Such insurance policies are very expensive.

If the Company could not continue to support the Scheme, an alternative to buying insurance policies might be for the Scheme to run on as a closed fund and the Trustee would seek to continue to meet benefit payments as it does now. This would avoid the need to purchase expensive insurance policies. However, as at 31 March 2009 the Scheme would have been unlikely to have been able to fund members' full benefit entitlements.

## **Would I still receive my pension if the Company did not or could not support the Scheme and it was not run on as a closed fund?**

Whilst the Scheme remains ongoing, benefits will continue to be paid in full. If, however, the Company could not support the Scheme, and as a result the Scheme were to be wound up, you might not get the full amount of pension you have built up, even if the Scheme is fully funded on an ongoing actuarial basis.

If the Scheme were to start to wind up, the Company is required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. It may be, however, that the Company would not be able to pay this full amount and become insolvent. If this happened the *Pension Protection Fund* might be able to take over the Scheme and pay compensation to members.

## **What is the Pension Protection Fund?**

The Pension Protection Fund (PPF) became operational on 6 April 2005. The purpose of the PPF is to ensure that those who are members of schemes similar to the TRW Pension Scheme receive pensions even if their company goes out of business. The PPF is not intended to replicate a member's pension, but ensures that if a Scheme gets into difficulties members will receive the majority of their pension. This is, currently, around 90% of the pension earned for most members who have not reached retirement age and 100% for those over retirement age. The actual amount a member receives will depend on when they retire and how much benefit they have earned. In addition, benefits will increase on a basis set down by the PPF which may be less than those provided by the Scheme.

Further information and guidance is available on the Pension Protection Fund's website at [www.ppf.gov.uk](http://www.ppf.gov.uk). Alternatively you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

## **Why does the funding plan not call for full solvency at all times?**

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and will include a margin for profits in what they charge. The Scheme's funding plan assumes that the Company will continue in business and support the Scheme. It also assumes that the Scheme would continue to be run as a non-profit entity.

## **Why have pensions become more expensive?**

The main reasons are as follows:

- People are, on average, living longer than before. This means that pensions are paid for longer and cost considerably more to provide.
- In recent years the expectation of the future returns from the Scheme's investments has been reduced. This increases the amount of funds needed now to provide for future pensions.
- The Government has made many changes to the laws governing pension schemes. This has significantly increased costs.

## How are the Scheme's assets invested?

The Scheme's investment managers invest the Scheme's assets with the aim of managing key financial risks and to ensure the Scheme has sufficient funds to meet its pension liabilities as they fall due. The Scheme's investment strategy is to target returns necessary to return the Scheme to a position of full funding, and to provide long term self sufficiency of funding, with minimal risk. The Trustee's policy as at 31 March 2009 was structured around the following risks:

***Equity risk*** Exposing the Scheme to potential returns from global stock markets to help close the Scheme's funding deficit, but with protection against dramatic stock market falls and volatility. This is achieved by physical equity holdings and derivative contracts.

***Credit risk*** Exposing the Scheme to potential returns from securities issued by global corporate entities to provide an extra return over the rate of interest available from securities issued by the UK Government (i.e. Gilts). This is achieved by physical holdings in corporate bonds and by derivative contracts.

***Inflation risk*** Ensuring a large proportion of the Scheme's investments will increase and decrease in value in line with inflation, in order to match the pension liabilities due from the Scheme. This is achieved by holding physical Index Linked Government bonds, and by derivative contracts.

***Interest rate risk*** Ensuring a large proportion of the Scheme's investments will increase and decrease in value in line with long term interest rates, in order to match the pension liabilities due from the Scheme. This is achieved by holding physical Government and corporate bonds, and by derivative contracts.

***Property risk*** Exposing the Scheme to potential returns from property markets to help close the Scheme's funding deficit. This is achieved by physical holdings in commercial property.

### **Important**

If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor (IFA), before taking any action. For a list of IFAs local to you go to [www.unbiased.co.uk](http://www.unbiased.co.uk).

The Scheme's website also contains useful links to the Government's own consumer information on financial advice.

## **Additional documents available on request**

### **Annual Benefit Statements**

All Scheme members – pensioners and deferred pensioners (whose addresses we know) receive statements of their pension entitlements.

### **Summary of Benefits leaflets**

You should have been given a copy when you joined the Scheme of the *Summary of Benefits leaflet* appropriate to the section of the Scheme of which you are a member. The details of all the sections are also on the Scheme's website.

### **Report and Accounts of the TRW Pension Scheme**

This shows the Scheme's income and expenditure in the year. The Report and Accounts for the year ending 31 March 2010 is available on the Scheme's website.

### **Statement of Investment Principles**

This explains how the Trustee invests the money paid into the Scheme. The Statement is included in the Report and Accounts.

### **Statement of Funding Principles**

This explains the Trustee's policy to ensure the Scheme is sufficiently well funded to be able to meet all its current liabilities. It is also available on the Scheme's website.

### **Actuarial Valuation**

Every three years the Scheme Actuary does a full valuation of the Scheme. Copies of this are available at a cost of £5.

### **Schedule of Contributions**

This shows how much money is being paid into the Scheme. It is updated following each actuarial valuation.

**The address for all queries is:**

**TRW Pension Scheme  
c/o Capita Hartshead  
2020 The Crescent  
Birmingham Business Park  
Birmingham B37 7YE**

**Email: [trwpensions@capita.co.uk](mailto:trwpensions@capita.co.uk)**

**TRW Pension Scheme**

TRW Corporate Services, Stratford Road, Solihull, B90 4JJ [www.trwpensions.co.uk](http://www.trwpensions.co.uk)

