

Picking the right funding solution: a corporate case study

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Market Perception

- Invensys was a pension fund with a business attached
- Investment decision was difficult particularly for potential US investors given ratio of gross liabilities to market capitalisation
- Difficult to get the market to understand specific characteristics of the scheme
 - Relatively mature membership
 - Low volatility due to investment strategy.

Preparation is key

- Agreed a broad strategy with the Board
- Market tested alternative solutions
- Data quality reviewed as part of readiness programme
- Engaged at an early stage with key stakeholders including the Trustees

Funding the solution

- Pensions was one of the top strategic priorities – the issue was affordability.
- Funding solutions inextricably linked to any agreement with the Trustees.
- Headroom required to cover market movements during execution phase.

Executing the deal

- Pensions funding is a one way ratchet
- Core contribution set by reference to historical movements in funding deficit
- Reservoir Trust provides cover for market movements
 - Can be used for funding deficit recovery plan
 - Can be recovered by the company in the event that scheme is overfunded
 - Treated as a scheme asset under IAS 19
- Funding plan reset with an early triennial valuation
- Need to look at a potential transaction from both the Corporate and Trustee perspectives – ultimately there needs to be the will to “do the deal”

Further information

Detailed information on the Pensions Agreement and Reservoir Trust Deed can be found on pages 34 and 35 of the Class 1 Circular; available on our website via the following link:

http://www.invensys.com/isys/docs/announcements/invensys-rail/invensys_class_1_circular_301112.pdf

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