

DC Matters

from the Trustee of the Alstom Defined Contribution Plan
June 2008

Welcome to the second edition of DC Matters – a newsletter produced by the Trustee of the Alstom Defined Contribution Plan (the Plan).

In this edition, we take a look back over the year to see how the Plan's funds, i.e. the funds you invest in, have performed and the factors that have influenced this.

If you are interested in making changes or finding out more about the funds available, you can contact the administrators of the Plan, dc-Link or alternatively log onto their website (see back page for contact details).

Words that appear in **bold** in this newsletter are explained further in the 'Definitions' section on page 4.

**After reading through this newsletter, why not enter our competition?
See back page for more details.**

Investment choices

As a member of the Plan, one of the most important choices you have to make is where to invest your money. This will depend on your attitude to risk.

You need to have some understanding of the level of risk involved in investing in a Defined Contribution Plan. The Plan offers a number of investment options to allow you to manage the investment risk at a level you feel comfortable with. An obvious concern is that your pension does not give you a sufficient income to provide you with the standard of living you want to achieve in retirement. One of the reasons for this may be that the return on your investments has been poorer than you had been relying on or hoping for. You should take an active interest in the performance of your investments and be prepared to consider making changes if the funds you have chosen to invest in are not producing the returns you expect, or your circumstances or your attitude to risk changes.

The Trustee currently provides members with a choice of five investment funds. The Global Equity Fund, the Annuity Protection Fund and the Cash Fund, all of which are currently managed by Legal & General and the Property Fund which is currently managed by Threadneedle. The Growth Fund invests in a mixture of the Global Equity, Annuity Protection and Property Funds.

The Global Equity and Annuity Protection Funds are **passively managed** and the Property and Cash Funds are **actively managed**.

In addition to the five investment funds is the Lifestyle option which invests in a combination of the Plan's funds.

How have the Plan's funds performed?

The table below shows the annual investment performance for each of the Plan's funds over the last two years and compares this to the fund's benchmark.

Fund	Year to 31 March 2007 %	Year to 31 March 2008 %
Global Equity Fund	7.3	-5.2
Benchmark	7.2	-5.0
Difference	0.1	-0.2
Property Fund	14.1	-14.2
Benchmark	14.8	-12.0
Difference	-0.7	-2.2
Annuity Protection Fund	-1.0	-3.2
Benchmark	-0.9	-3.2
Difference	-0.1	0.0
Growth Fund	6.8	-7.5
Benchmark	7.0	-6.7
Difference	-0.2	-0.8
Cash Fund	5.1	5.7
Benchmark	5.1	5.8
Difference	0.0	-0.1

Note: Returns on funds are net of fees and expenses. Returns for the year to 31 March 2007 are estimated based on the returns of the underlying funds. The Plan's funds were launched on 18 April 2006.

You can see that the majority of the funds have a negative investment return, but they have performed broadly in line with their corresponding **benchmark**. The benchmark is a standard against which performance can be measured, for example, the Global Equity Fund invests in line with an index comprising of 50% of the FTSE All-Share Index (i.e. companies quoted on the UK stock exchange) and 50% of similar indices for companies quoted on overseas stock exchanges. Reporting against a benchmark enables you to assess the relative performance of a fund whilst taking into consideration market changes. As noted above, the investment performance of the Global Equity Fund of -5.2% over the year ending 31 March 2008, whilst disappointing, is in line with the **benchmark** over the same period.

It is important to remember that investing for your pension is a long-term investment. Over a long period of time, there are likely to be periods of both good and disappointing performance.

The Global Equity and Cash Funds have marginally underperformed their **benchmark**. The Growth Fund's underperformance of 0.8% was due to its exposure to the Global Equity and Property Funds (see our Property Special article on page 5 for more information about the Property Fund's performance).

Explanatory notes on each of the Plan's funds

Global Equity Fund

The Global Equity Fund invests in equities from around the world. Equities performed well during 2006 and the majority of 2007 but values fell sharply towards the end of 2007 and early in 2008. The returns obtained from equities in various regions differed with Japanese equities achieving the worst returns and equities in the Pacific region (excluding Japan) achieving the highest returns.

The attraction of this type of fund is that the risk element is reduced due to the wide spread of companies the fund invests in. However, the short-term performance can be very erratic. Because of the potential for large fluctuations in value over the short term, but historic good performance over the long term, equities are seen as a long-term investment.

The volatility of the fund's performance means that there is a significant risk that the value of the shares could fall in value immediately prior to your retirement, reducing the pension you will receive. This is why it is important to manage your choice of investment funds, particularly as you get closer to retirement.

Property Fund

This fund is invested in commercial property, for example offices, shops and industrial buildings. There are two elements to investment returns from property; these are the rental incomes and the changes in the properties' values. Returns from property were very strong during 2006 and early 2007. However, the second half of 2007 and the first quarter of 2008 saw the value of properties fall sharply.

Although, property has provided good long-term returns, there are times when property values decline. The performance is very dependent on the skills of the investment manager.

Annuity Protection Fund

This fund aims to follow the changes in the cost of buying a pension (an annuity). It does this by investing in government and corporate bonds. One factor that influences annuity prices is interest rates. Bonds are very sensitive to changes in interest rates and values broadly track the fluctuations in annuity prices caused by interest rate changes.

In 2007 the value of this fund fell. The main factors affecting its value were the interest rate changes over the period, which in themselves have an indirect impact on the price of buying a pension, and the fund's exposure to corporate bonds, which fell in value relative to government bonds at the end of 2007 and early 2008.

Investing in bonds can be seen as a low risk investment.

Growth Fund

This fund is made up of the Global Equity, Property and Annuity Protection Funds. It aims to achieve a more stable level of growth relative to the cost of buying a pension by investing equally in these three funds. The fund gained from its exposure to equities and property in 2006 and the first half of 2007, but suffered from this exposure in the later part of 2007 and early 2008.

Cash Fund

This fund invests in short-term cash deposits. Although the value of these can fluctuate this is typically small. This fund is similar to a building society or bank account, under which money earns interest.

This fund achieved a good return over the year. The level of return varied during the year with interest rates increasing during 2006 and the early part of 2007 but falling towards the end of 2007 and the start of 2008.

Investment in the Cash Fund is not generally suitable for long-term investments, as the rate of interest achieved is usually low, however it is seen as low risk.

Lifestyle

By investing in this option, it takes away some of the decision making with regard to what type of investment to use and when to change investment approach.

This option uses your current age and target retirement age to determine which funds to invest in and in what proportions.

The investments of younger members who have more than 25 years to retirement are invested in the Growth Fund. The investments of members who have less than 25 years to retirement are increasingly invested in equities via the Global Equity Fund in pursuit of higher returns. At five years from retirement, the member's investments are gradually switched into the Annuity Protection Fund and Cash Fund with the aim of locking in the returns achieved so far, tracking the cost of a pension and providing for a tax-free cash sum.

If you have invested in this option, you will have been asked to choose a target retirement age. If you change the date at which you decide to retire and do not update your target retirement age, you may be investing in inappropriate funds as you approach retirement. It is therefore important that you advise the administrators of the Plan of any change to your target retirement age.

Important note

It is important to remember that past performance is not a guide to future performance and that before you make any changes to your investment choices, you should consider seeking independent financial advice. The Trustee cannot provide investment advice and the Lifestyle option, although it is the default option, should not be considered as a recommendation for you.

Annual management charge

The table on page 2 shows the returns on funds after the deduction of charges. Each of the funds has an annual management charge, which is levied by the investment manager and is based on the investment managers' services. These charges are borne by the members.

The annual management charge for the Global Equity, Growth and Cash Funds were reduced towards the end of 2007. The current charges for all of the funds are detailed in the table below:

Fund	Annual management charge as a percentage of the member's fund per annum
Global Equity Fund	0.20%
Property Fund	0.90%
Annuity Protection Fund	0.225%
Growth Fund	0.442%
Cash Fund	0.15%

The annual management charge for the Lifestyle option is the charge for each of the underlying funds which you are invested in at any point in time.



Definitions

Benchmark

A benchmark is a standard against which performance can be measured. For each of the Plan's funds, an appropriate benchmark is used to assess how well the manager is doing for each fund.

One type of benchmark is an index. An index tracks the change in value of a collection of assets (e.g. companies) with the weight applied to each, reflecting the value of the asset. An index is typically the measure used to benchmark the performance of equity and bond funds (i.e. the Global Equity Fund and the Annuity Protection Fund).

Another type of benchmark is a peer group. A peer group benchmark is the average return achieved by a group of similar funds. This type of benchmark is typically used for property funds.

The value of assets can fall as well as rise. As a result, the benchmark return can be negative as well as positive.

Passive management

A passive manager aims to achieve the same return as an index, e.g. FTSE All Share and does not attempt to actively outperform a particular index or benchmark. Funds managed in this way are also known as tracker funds as they aim to track the returns achieved by the chosen index. The risk of underperformance of the benchmark is reduced with this type of fund as performance is closely linked to the underlying index. However, if the index falls, the passive fund will also fall.

Active management

This requires the investment manager to use his/her skill and expertise to identify the best investments for the fund with the aim of outperforming or performing in line with its benchmark.

Property Special

Why is the return on the Property Fund lower than the benchmark?

The main reason for the difference between the benchmark return of -12.0% for the year to 31 March 2008 and the Property Fund return of -14.2% over the same period relates to the costs which have been incurred in buying and selling property. The benchmark return excludes these costs.

The costs involved with buying and selling properties are partly financed by increasing the price of the units when the majority of cashflows are into the fund, ensuring new investors pay a share of these costs, and reducing the price when the majority of cashflows are out of the fund, ensuring departing investors pay a share of these costs. At the start of the year, the majority of flows were into the fund resulting in the higher price being applicable for units held at this time; at the end of the year the majority of flows were out of the fund resulting in the lower price being applied to units held within the fund. The benchmark only uses the higher values and does not account for the 'swing' encountered in the later part of the year; as a result the price of the fund has fallen to a greater extent than the underlying value of the properties in the fund.

The Property Fund is currently invested with Threadneedle. Despite the fund's performance relative to the benchmark, the Trustee's advisor continues to rate Threadneedle favourably for the management of property. An analysis of the fund's underlying assets has shown that they did not fall in value to the same extent as the majority of property funds over the last year, positioning the fund well for returns relative to the benchmark going forward.

Settlement delay update for the Property Fund

In February 2008, we wrote to members to advise you of the delays when selling units in the Property Fund. All members who had invested in the Property Fund at this time and who had previously requested a refund or a transfer value, have now received payment.

Unfortunately, investors in the Property Fund will continue to experience delays. However, we have gained agreement that any member requesting a refund of contributions will have immediate settlement.

Topical News

What the 'credit crunch' means for you

The credit crunch is a global problem which has made banks and building societies less willing to lend money.

This means you may find it harder to get financial products like mortgages, loans and credit cards. It has contributed to fewer home sales and lower house prices. It has also led to falls in the value of equities towards the end of 2007 and early 2008 amidst concerns of lower economic growth and the onset of a potential recession. The Financial Services Agency gives a useful guide to help you get to grips with your money. Visit their website at www.moneymadeclear.fsa.gov.uk

How has this affected my retirement account?

Members investing in equities and property have experienced falls in the value of their existing savings recently relative to the cost of a pension (an annuity). However, new contributions are being invested at the lower prices currently available, getting you more units for your money.

As members approach retirement, they may want to reduce the risk of their investment falling relative to the cost of a pension. The Annuity Protection Fund aims to track the movement in the cost of buying a pension (an annuity).



Extra contributions

If you are paying less than 8% member contributions then the first thing you should consider is whether to pay higher member contributions, as these are matched by your employer up to 8%.

However, you may only change the rate of your member contributions each April. If you are already paying 8% member contributions, you may wish to consider paying Additional Voluntary Contributions (AVCs). AVCs may be useful if you think you will need a bigger pension to enjoy the lifestyle you want when you retire, or because you joined the Plan late on in your career so don't have long to build up your pension. For further information on how to pay AVCs call the administrators, dc-Link on 01733 353 430.

Further Information

How can I access more information about my Individual Account?

The Trustee is keen to encourage members to take an active interest in their own Individual Account. dc-Link's website provides a useful way to do this.

All you need to do is log on to dc-Link at:

<https://www.dc-link.co.uk/alstom>

If you have not registered already for an on-line account, you will need to activate your account, by following three easy steps:

- 1) Go to www.dc-link.co.uk/alstom, and click the 'GO' button next to where the text says 'individual'.
- 2) Click on the text 'click here' that appears at the end of the **second line** to register for 'Your Pension Online'.
- 3) Type in your account number, surname and password of your choice.
- 4) The screen should then prompt you to call dc-Link's helpline on 01733 353 430 to activate your account.

Once activated, you can log in as normal by entering your surname, account number and the password you chose when you registered.

What can I do on the dc-Link website?

The website will allow you to manage your account online, which means you can check your current balance, monitor your contributions, change the way you invest your funds and/or future contributions and keep a close eye on your investments.

The page titled 'Your investment' shows how your account is invested. You can see how your funds have performed with the latest performance reports and check the unit prices for all the funds available to your Plan.

How to contact dc-Link

If you have any queries about your Individual Account, you can write to dc-Link at: **dc-Link, Churchgate, 1 New Road, Peterborough PE1 1TT**

Alternatively, you can call the helpline on **01733 353 430** which is available Monday to Friday between 9am and 5pm or email pensionsadmin@dc-link.co.uk

Competition

Now you've read through DC Matters, why not test your memory in our prize competition?

A £50 shopping voucher could be yours! Just answer the four questions below and send us your entry. You can even read through the newsletter again to find the answers!

The first two correct entries drawn at random will be the lucky winners. Please send your answers, with your name and address to contact.ukpensions@chq.alstom.com before **31 July 2008**. (Please note this is a special email address set up only for this prize draw.) Details of the prize winners will be notified in the next edition of DC Matters. Only members of the Plan can participate and members of the pensions department are excluded from taking part.

1. What is the name of the investment option that uses your age to determine which funds to invest in for you?
2. What is the current Annual Management Charge for the Annuity Protection Fund?
3. What number do you call to activate your online account with dc-Link?
4. What was the benchmark performance for the Property Fund for the year to 31 March 2008?

More information about the Plan can be found in your Member Booklet. Full details are contained in the Trust Deed and Rules. In the event of any discrepancy between the information contained in this newsletter and the Trust Deed and Rules, then the Trust Deed and Rules will apply.