

IN FOCUS

LEONARDO ELECTRONICS PENSION SCHEME

Issue 24

March 2018



IN THIS ISSUE:

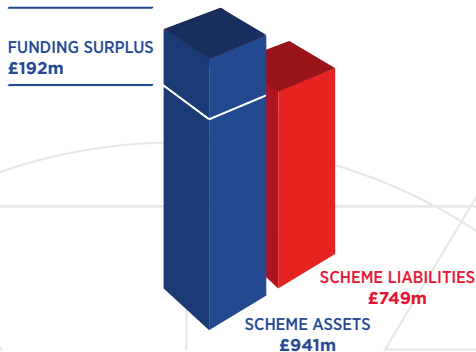
Strong funding continues	2
New Scheme administrator	4
Financial highlights	6
Membership	7
Our investments	8
Pension news	10
Keep in touch	12

STRONG FUNDING CONTINUES

The 2017 actuarial valuation of the Scheme has now been completed. The Scheme actuary calculated how much money the Scheme needs to be able to meet the pension liabilities accrued so far and compared this with the assets currently held by the Scheme and the contributions being paid. The actuary also looks at how much money is needed to provide pensions going forward (see page 3).

The Trustee and the Company have agreed the basis for the 5 April 2017 valuation and the results are as follows:

PAST SERVICE LIABILITIES



As at 5 April 2017, there was a surplus in the Scheme of £192 million (in relation to pensions which have already been earned). This is an increase in the surplus since the 2014 valuation position. The key factors which have contributed to the increase in the funding position are:

- excellent investment returns over the period
- Scheme experience, including changes in membership, better-than-assumed.
- the implementation of the Career Salary benefit changes, with effect from 5 April 2016
- changes to the funding assumptions to reflect updated market data, in particular relating to the rates of improvement in longevity, as life expectancy has not been increasing at the rates previously assumed.

FUTURE SERVICE COSTS

While there has been an improvement in the funding position related to past service benefits (i.e. liabilities relating to pensions which have already been earned), there has been a significant increase in the cost of providing pensions going forwards (known as the cost of future service accrual).

The Company is currently paying an average of 14.4% of pensionable salaries per annum towards the cost of future accrual. The assessed cost of future accrual (after allowing for member contributions and expenses) has increased to 34.3% of pensionable salaries, which is a rise of 19.9%. The increased cost is primarily due to the significant fall in interest rate expectations over the period since the last valuation.

However, given the strong overall funding position and the strength of the covenant support from the Company, the Trustee and the Company have agreed that there will be no changes to employee or Company contributions and no changes to member benefits as part of this valuation. The consequence of this approach is that a portion of the funding surplus (as identified on page 2) will be used to support the increased future service cost.

All parties are pleased with this outcome and the further period of pension stability this provides to members of the Scheme.



NEW SCHEME ADMINISTRATOR

FROM 1 FEBRUARY 2018

As reported in the summer 2017 issue of InFocus, the Trustee has appointed a new Scheme administrator with effect from 1 February 2018. The new administrator is PS Administration Limited – also known as PSAL.

WHAT DOES THE PENSION ADMINISTRATOR DO?

The role of the administrator includes paying benefits to members when they are due, dealing with requests to transfer benefits out of the Scheme; receiving and processing your contributions; and providing members with information about their benefits. The Trustee is responsible for the overall running of the Scheme in accordance with the Scheme's Rules and relevant legislation.

DO I NEED TO DO ANYTHING?

No, you don't need to take any action, but please keep the various communications you will be receiving from the Trustee and PSAL safe, as these set out PSAL's contact details and you can refer back to them when necessary. Please also ensure you keep PSAL up to date if you change your address.

HOW WILL THE CHANGE OF ADMINISTRATOR AFFECT ME?

This change will not affect your benefits under the Scheme. It means PSAL will hold all the member records and you should contact PSAL if you have any queries regarding your Leonardo Electronics pension.

While we have been working closely with Aon Hewitt and PSAL to make this transition as smooth as possible, there may be some implications for our usual service provision and we appreciate your patience during this period.



WILL PSAL HAVE ANY ONLINE TOOLS FOR MEMBERS?

Yes, you will be able to access pension information online as well as view and update your personal information (including up-to-date contact details) and request quotations via PSAL's member-access website. Members with AVC/Retirement Account benefits with Old Mutual Wealth will be able to view their transaction history and current fund values, as well as request investment switches. Initial online access for active and pensioner members is expected to be available in the first quarter of 2018. We are also working to provide online access for deferred members later in the year.

In addition, online modelling tools and member calculations for active members of the Scheme are being developed and are due later in 2018. We will write to you with details when they are ready to launch.



FINANCIAL HIGHLIGHTS

In the year to 5 April 2017, the Scheme's assets increased to £961 million. The table below shows a summary of the financial transactions of the Scheme during the year. This includes how much was paid into the Scheme along with how much was paid out to members in the form of benefits, to our advisers for their services, and in administration expenses.

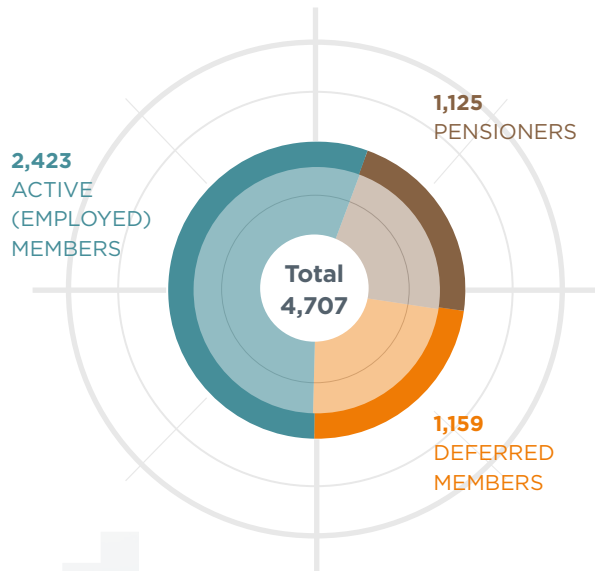
This information has been taken from the Trustee's Annual Report and Accounts 2017, which have been independently audited by RSM UK Audit LLP. If you would like to see a copy of the full Report and Accounts, it is available from the publications section of the pensions website: www.leonardoelectronicspensions.co.uk

Value of Scheme assets at 5 April 2016	£747m
+ income	£38m
- benefits and expenses	(£18m)
+ change in market value of investments	£194m
Value of Scheme assets at 5 April 2017*	£961m

*Please note that this value includes £20 million of individual savings (AVCs and top-up contributions for members of the 100+ section), which are ignored for the purpose of the actuarial valuation asset figures.

MEMBERSHIP

As at 5 April 2017, the membership of the Scheme was as follows:



OUR INVESTMENTS

INVESTMENT STRATEGY

The Trustee is responsible for investing the Scheme's assets in order to pay pensions to members now and in the future. Taking advice from specialist advisers, the Trustee sets out its investment strategy in a document called the Statement of Investment Principles, which was last updated in November 2017.

The Trustee reviewed the investment strategy following the 2014 actuarial valuation and to reflect the Career Salary benefit changes from April 2016. A further review is under way, following the completion of the 2017 actuarial valuation. The Scheme's liability hedging strategy continues to help protect a proportion of the funding surplus, which is being used to support the future service contribution rate.

The majority of the Scheme's assets are invested in the Total Investment Governance Solution (TIGS), which covers a wide range of investment types. The Trustee has delegated the day-to-day management of the assets to the investment manager.

Further information about the Scheme's investments is available in the 2017 Report and Accounts.

Allocation of assets in TIGS as at 5 April 2017

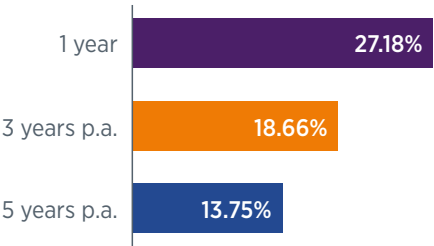
Asset class	Value	%
UK equities	£37m	6
Overseas equities	£243m	39
Alternatives	£113m	18
Broad market bonds	£171m	28
Property	£26m	4
Cash	£29m	5
Currency hedge	(£3m)	(0)
Total	£616m	100

INVESTMENT PERFORMANCE

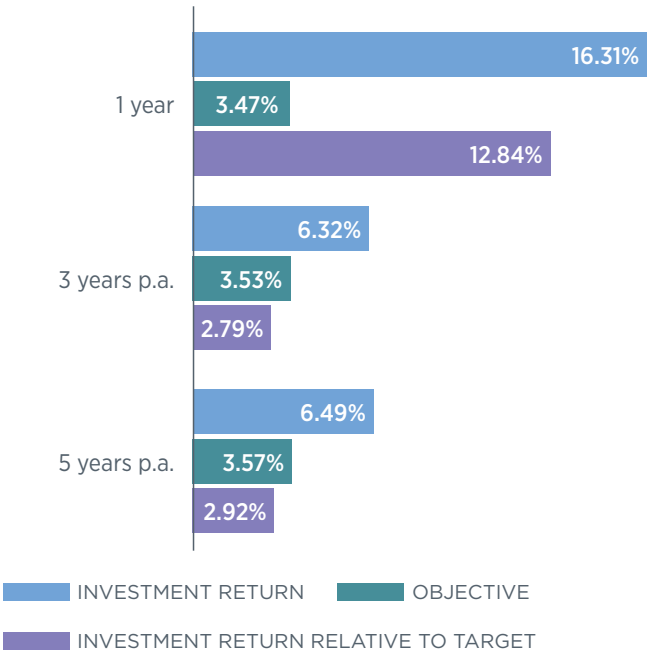
The year to 5 April 2017 saw strong positive performance for the Scheme’s total portfolio (which includes the return-seeking portfolio and the liability-hedging portfolio).

The liability-hedging portfolio is designed to protect the Scheme from adverse movements in long-term interest rates and inflation, which directly affect the value of the Scheme’s liabilities. The value of the assets in this portfolio moves broadly in line with the Scheme’s liabilities when long-term interest rate and inflation expectations change.

As at 5 April 2017, the Scheme’s total investment strategy has returned:



The performance of the Scheme’s return-seeking portfolio alone, which includes TIGS, was also positive over the year, with strong returns relative to target benchmarks:



KEEPING UP TO DATE

CHANGES TO STATE PENSION AGE

The government has announced that it is to bring forward plans to raise the State pension age to 68. Originally set to be introduced between 2044 and 2046, the increase to 68 will now take place seven years earlier, between 2037 and 2039.

People born between 6 April 1970 and 5 April 1978, currently aged between 39 and 47, will be affected by the change.

GET TO KNOW YOUR PENSION - NEW WEBSITE

A new government campaign has been launched called 'Get to know your pension', which aims to encourage people to find out how much State pension they could get and when. A new website provides easy access to online forecasts and calculators, offering tailored information for people at different stages in life. It helps them to:

- check if there could be gaps in their National Insurance record
- trace lost pensions
- learn about the benefits of a workplace pension.

GET TO KNOW
YOUR PENSION

Visit the 'Get to know your pension' website at
www.yourpension.gov.uk

NEW DATA PROTECTION LEGISLATION: GDPR

The new EU General Data Protection Regulation (GDPR) will come into force in the UK from May 2018, replacing the Data Protection Act 1998. The new Regulation aims to provide a data protection regime that is fit for the 21st century, and similar principles will continue to apply after Brexit.

The key differences, in a pensions context, are that pension scheme trustees (who are classed as 'data controllers') will need to be more accountable and more transparent with what they do with personal data. The Trustee must be able to identify and explain the legal basis on which it processes personal data. The GDPR creates new rights, and strengthens existing rights, for individuals.

The sanctions regime for breaches of the Regulation will be much stricter.

The Trustee is working with the Scheme administrator, with Leonardo and with its advisers to ensure that all necessary steps are taken to prepare for the new Regulation. Members will be updated further in due course.



KEEP IN TOUCH

Please remember to let us know if any of your details change, such as your address. If you have any queries about your pension, please contact the administrator.

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Disclaimer

The content of this newsletter is given for the purpose of providing you with information about the Scheme only and has no legal effect. The Rules of the Scheme govern how the Trustee must act and if there is any inconsistency between the Rules and the information given in this newsletter, the Rules will prevail.

