

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 22 OCTOBER 2020**

A meeting of the PCC took place via Webex conference call on 22 October 2020.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the Leonardo Electronics Pension Scheme (LEPS). There are currently twelve representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Jim Cull	Edinburgh (Chair)
James Fordyce	Edinburgh
Martin Johnson	Pensioner Representative (Deputy Chair)
Scott McMillan	Basildon
Stephen Park	Edinburgh
Stuart Rushworth	Capability Green
Tony Sheehan	Basildon
Jack Taylor	Capability Green
Scott Wallace	Edinburgh
Paul Wilton	Southampton
Colin Wylie	Edinburgh
Lucy Astbury	HR – Leonardo MW Ltd
Alan Good	HR – Leonardo MW Ltd
Mike Nixon	Head of Pensions
Rachael Skuse	Pensions Manager
Louise Dale	DC Pensions and Benefits Manager
Helen Thompson	Pensions Administration Manager

The meeting was held to receive feedback from the LEPS Trustee meeting on 6 October 2020.

COVID-19 business continuity

Pensions Management, the Trustees, XPS Administration and all Scheme advisers remain successfully working from home. All meetings have proceeded as planned with projects being progressed as expected.

XPS continue to focus on priority tasks including paying benefits, retirements, ill healths and death cases. Members can still use the member helpline to speak to XPS. However, members are encouraged to use email in order to help manage workload. Items should be emailed rather than posted where at all possible.

Email – LEPS@XPSGroup.com
Telephone – 0117 440 2491

Annual Report and Accounts

The 2020 Report & Accounts have been completed and signed (available at www.lepensions.co.uk).

The Auditors (RSM) gave unqualified opinions on the financial statements and statement on contributions.

Employer Covenant

Every six months, the Trustee's covenant adviser, Ernst & Young, provides a review of the financial strength of Leonardo MW Ltd and Leonardo SpA. The financial position was assessed as remaining strong, taking into account the Scheme's funding position and having assessed the recent challenges arising as a result of the COVID-19 pandemic.

Quarterly Funding Update to 30 June 2020

The quarterly funding update showed that the estimated surplus had increased from £94m at 31 March 2020 to £104m at 30 June 2020. The returns on the investment fund assets were better than assumed following the significant market falls in March 2020 due to the COVID-19 pandemic.

The cost of new benefit accrual had increased during the period from 31 March 2020 and 30 June 2020, due to a significant decrease in real interest rate expectations over the period. The cost is significantly higher than the contributions being paid to the Scheme, and the surplus is supporting this shortfall.

This is an estimated funding position and the calculations are being updated as part of the 2020 valuation calculations.

Actuarial Valuation as at 5 April 2020

The three-yearly actuarial valuation of the Scheme is being carried out with an effective date of 5 April 2020. This process involves looking at the past service funding position of the Scheme (how the value of the Scheme's assets compare to the value of the Scheme's liabilities accrued up to 5 April 2020) and looking at the cost of earning future pension within the Scheme. The preliminary results from the valuation calculations have been presented to the Trustee by the Actuary and they have discussed the valuation assumptions and areas where changes may be appropriate.

The next steps are for the valuation results to be discussed between the Company and the Trustee and the final figures will not be known until the Trustee and Company have agreed the assumptions to be used.

Investment Performance

- The market value of the total assets of the Scheme at 30 June 2020 had increased to £1.22bn.
- The quarter was positive, following the market bounce back in Q2 post the COVID-19 outbreak. Investment performance of the return-seeking assets over the quarter had been 8.4% which was 7.6% ahead of objective. The return since inception was ahead of objective, with other periods behind the benchmark.
- The total performance measure (both the return-seeking and the matching assets) shows a 11.4% return which is 3.0% ahead of the benchmark (which looks at the change in the Scheme's liabilities). Since inception, returns are slightly ahead of objective, with other periods behind the benchmark.

Market update since quarter end

Returns through Q2 2020 were positive, with an upturn in markets. River and Mercantile increased equity holdings, however they remain cautious and continue to hold a risk controlled portfolio, for example favouring quality stocks rather than value.

The sustainability of the increases in the equity market remain uncertain, particularly with the over-reliance on certain stocks and the unknown sustainability of government stimulus to aid the global economy recovery.

Active Structured Equity & Cashflow Matching

The Trustee has approved the addition of two new asset strategies to the investment portfolio, which were implemented in June 2020. The first is active structured equity, which seeks to provide equity like returns but with downside protection using equity options. This is a good method of getting back on-risk, whilst not exposing the portfolio to further falls in equity markets.

Cashflow matching involves a portfolio of corporate bonds which mature at different terms thereby providing an income to the Scheme which matches the expected outflow of pension payments at a series of future dates. This is intended to complement the buy-in asset for future medium-term cashflows for new pension liabilities not included within the recent buy-in.

Administration

MyPension.com/LEPS

62% of active members have now logged onto MyPension.com/LEPS, the interactive website provided by XPS Administration. **We would encourage all members, including deferred and pensioner members, to register for an online account.** If you log onto MyPension.com/LEPS you can view and update your personal details, update your Expression of Wish form, view your DC savings and make investment switches, and run retirement quotations (active members only).

If you have misplaced your login details please contact XPS Administration by emailing LEPS@xpsgroup.com.

Benefit Statements

XPS issued the 2020 Benefit Statements to active members at the end of August 2020.

Electronic communications

From 2021 onwards the Trustee will not issue paper benefit statements or newsletters. Benefit Statements will be loaded onto your MyPension.com/LEPS record for you to view. The InFocus newsletter will be loaded onto the Scheme website www.lepensions.co.uk.

If you would like to continue to receive paper copies of communications you can do this by contacting XPS by email at LEPS@XPSGroup.com.

Joint DC investment committee meeting

Joint DC investment committee meetings of the Leonardo UK pension schemes were held on 9 September 2020 and 23 September 2020. The Leonardo Electronics Pension Scheme benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

Investment performance

The majority of the River and Mercantile 'blend funds' (which make up the default fund in the DC investment strategy) had out-performed their long term targets since the inception of the funds.

During Quarter 2 2020 markets had recovered well and were more stable compared to the unprecedented volatility seen in March 2020.

The investment position continues to be closely monitored.

Environmental, Social and Governance (ESG) fund

Following the results of the member survey last year, the Trustee has implemented a new ESG fund which is available via the DC Pick and Mix funds. This fund has a climate 'tilt' and selects best practice firms (rather than excluding certain industries). Further information can be found in the AVC Guide and Retirement Account Guide which are available at www.lepensions.co.uk.

Investment Strategy /Review

The Trustee undertook a review of the current DC strategy, comparing it against market peers. It was noted that fiduciary management in a DC context is unusual, but performance is some of best in market over the last 12 months and the Trustee believes the outcome based diversified strategy is still appropriate.

Value for Members

Every year the Trustee of FuturePlanner is required to assess its Value for Members. This year the Trustee instructed LCP to undertake an external review. Overall the Scheme was rated 'good' with five areas being 'very good' the remaining being 'good'. LCP noted the Scheme was particularly strong in governance and communication.

Membership

54% of active pension scheme members across Leonardo MW Ltd are now in FuturePlanner, with 64% of the active FuturePlanner members working within the Electronics division.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 19 January 2021.

Contact Details

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