

**PENSIONS CONSULTATIVE COMMITTEE (PCC)  
REPORT TO MEMBERS FOLLOWING THE MEETING ON 18 JULY 2017**

A meeting of the PCC took place in London on 18 July 2017.

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

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Jane Murphy	Basildon	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wylie	Edinburgh	
Clive Higgins	HR – Leonardo MW Ltd	
Andrew Letton	HR – Leonardo MW Ltd	
Lucy Astbury	HR – Leonardo MW Ltd	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 27 April 2017.

Quarterly Funding Update to 31 March 2017

The quarterly funding update showed that the Scheme had an estimated surplus of £161 million at 31 March 2017. The surplus had increased over the quarter, primarily due to the increase in the value of the liability hedging assets being lower than the increase in the value of the past service liabilities (caused by marginal changes in interest rate and inflation rate expectations).

The cost of new benefit accrual has remained at the same rate as at 31 December 2016. The cost remains significantly higher than the contributions being paid to the Scheme. Whilst some surplus is allocated to support future service costs, the total cost of accrual is 21.6% p.a. ahead of the rate agreed at the 2014 valuation (which means that the cost of providing pensions is significantly higher than the cost set at the last valuation, and the surplus is being used at a faster rate than was anticipated).

This is an estimated funding position and the calculations will be updated as part of the 2017 valuation calculations when the full member data update will be carried out.

Actuarial Valuation as at 5 April 2017

The three-yearly actuarial valuation of the Scheme will be carried out with an effective date of 5 April 2017. 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 2017) and looking at the cost of earning future pension within the Scheme. The Trustee has continued its discussions with the Scheme's advisers regarding what assumptions may be appropriate to use for the 2017 valuation calculations. The preliminary results from the valuation calculations are expected to be available to the Trustee and Company during the final quarter of 2017.

### Investment Performance

- The market value of the total assets of the Scheme at 31 March 2017 was £930 million.
- Investment performance of the return-seeking assets over the quarter had been 2.4% which was 1.6% ahead of the objective. In the longer term the assets were ahead of the return-seeking objective over 12 months, 3 years and 5 years.
- The total investment strategy (both the return-seeking and the matching assets) returned 3.3% ahead of the benchmark (which looks at the change in the Scheme's liabilities). The total fund return is now ahead of benchmark over 12 months and 5 years, and remains slightly behind over 3 years (due primarily to falls in interest rates, and underperformance of the investment fund in some previous quarters).

### Allocation of Assets

At 31 March 2017 the Trustee held 66% of the Scheme's assets "on-risk" and 34% "off-risk". On-risk assets are those seeking to generate an investment return (e.g. equities, commodities, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (e.g.: Government gilts, cash).

### Property and Collateral training

The Trustee have received training on property and meeting the collateral requirements under the Scheme's swap contracts.

### Reduction in P-Solve's fees

The Trustee has entered into an agreement to reflect a reduction in P-Solve's investment fees. This follows a provision in the Trustee's contract with P-Solve which provides for the Trustee to have the benefit of the most competitive fee arrangement available to other P-Solve clients.

### Administration

#### *Scheme administrator*

There will be some changes to the scheme administration services which will be communicated to members in the very near future.

#### *Time taken for pension payments to commence in retirement*

Under current legislation pension schemes are only allowed to pay one tax free lump sum on retirement, or a 55% tax charge will apply to all of the lump sum. Therefore Aon Hewitt are unable to pay any pension benefits until they receive the value of a member's AVC and/or Retirement Account from Old Mutual Wealth.

Before Aon Hewitt can request the value of the AVCs and/or Retirement Account they have to wait until they get the member's final contributions from NGA. Any AVCs and/or 100+ Retirement Account contributions then need to be invested with Old Mutual Wealth, and then the total fund needs to be disinvested and transferred to Aon Hewitt. Only after this process are Aon Hewitt able to pay the lump sum and arrange for the pension to be paid in the next available payroll.

This can cause a period of up to 8 weeks after retirement before a member will receive any funds. Members retiring early in a month will have a longer period before payment.

#### Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 23 June 2017. 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 P-Solve 'blend funds' (which make up the default fund in the DC investment strategy) had out-performed their long and short term targets over the quarter and since the inception of the funds.

#### Mid Life Pension Planning seminars

Pensions Management have been running mid-life pension planning seminars for members of both the Leonardo Electronics Pension Scheme and FuturePlanner at all the major Leonardo sites. Feedback has been very positive.

#### Jane Murphy

Jane Murphy (PCC representative for Basildon) has left the business and PCC. A selection process for a replacement Basildon representative will be arranged.

#### Date of the Next Meeting

The next meeting of the PCC is scheduled for 31 October 2017.

#### **Contact Details**

<b>Name</b>	<b>Location</b>	<b>Email Address</b>	<b>Phone Number</b>
Jim Cull	Edinburgh	<a href="mailto:James.Cull@leonardocompany.com">James.Cull@leonardocompany.com</a>	0131 343 8768
James Fordyce	Edinburgh	<a href="mailto:James.Fordyce@leonardocompany.com">James.Fordyce@leonardocompany.com</a>	0131 343 4658
Martin Johnson	Basildon	<a href="mailto:Martin.h.Johnson@leonardocompany.com">Martin.h.Johnson@leonardocompany.com</a>	01268 887074
Tony Kingsbury	Capability Green	<a href="mailto:Tony.Kingsbury@leonardocompany.com">Tony.Kingsbury@leonardocompany.com</a>	01582 886052
Scott McMillan	Basildon	<a href="mailto:Scott.McMillan@leonardocompany.com">Scott.McMillan@leonardocompany.com</a>	01268 887094
Stephen Park	Edinburgh	<a href="mailto:Stephen.Park@leonardocompany.com">Stephen.Park@leonardocompany.com</a>	0131 3435105
Stuart Rushworth	Capability Green	<a href="mailto:Stuart.Rushworth@leonardocompany.com">Stuart.Rushworth@leonardocompany.com</a>	01582 886258
Phil Slade	Capability Green	<a href="mailto:Phil.Slade@leonardocompany.com">Phil.Slade@leonardocompany.com</a>	01582 886580
Scott Wallace	Edinburgh	<a href="mailto:Scott.Wallace@leonardocompany.com">Scott.Wallace@leonardocompany.com</a>	0131 343 5334
Paul Wilton	Southampton	<a href="mailto:Paul.Wilton@leonardocompany.com">Paul.Wilton@leonardocompany.com</a>	02380 316775
Colin Wyllie	Edinburgh	<a href="mailto:Colin.Wyllie@leonardocompany.com">Colin.Wyllie@leonardocompany.com</a>	0131 343 8136
Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	