

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 27 APRIL 2017**

A meeting of the PCC took place in London on 27 April 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 thirteen 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	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Jane Murphy	Basildon	
Stephen Park	Edinburgh	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wylie	Edinburgh	
Andrew Letton	HR – Leonardo MW Ltd	
Lucy Astbury	HR – Leonardo MW Ltd	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	
Sue Smith	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 28 March 2017.

Quarterly Funding Update to 31 December 2016

The quarterly funding update showed that the Scheme had an estimated surplus of £150 million at 31 December 2016. The surplus had increased over the quarter, primarily due to higher than assumed investment returns on the Scheme's assets, and the decrease in the liability hedge being lower than the decrease in the past service liabilities (caused by changes in interest rate and inflation rate expectations).

The cost of new benefit accrual has decreased slightly, due to a rise in long-term real interest rate expectations. 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.

Confirmation of annual rates 2017

The Trustee set the following annual rates:

- Credited Interest rate (used for SBS return and Basis 3 calculations) of 9.75%.
- Main Section Underpin (Protected Rights and Individual Pension Account) Revaluation Factor of 19.4%.
- Shadow Earnings Cap of £154,800.

Buy Up participation rates for 2017/18

363 members of the Scheme have elected to contribute for a higher pension accrual rate by Buying Up from 6 April 2017. Buy Up is an additional savings option which members can opt into each April.

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. At 31 December 2016, the financial position was assessed as remaining strong, taking into account the Scheme's funding position. The next financial covenant review will reflect the combined Leonardo MW Ltd business ('One Company').

Investment Performance

- The market value of the total assets of the Scheme at 31 December 2016 was £901 million.
- Investment performance of the return-seeking assets over the quarter had been 3.5% which was 2.7% 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 2.7% 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 December 2016 the Trustee held 69% of the Scheme's assets "on-risk" and 33% "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).

The Trustee has agreed, in line with investment advice, that the "liability hedge" seeking to match the Scheme's exposure to movements in interest rates should be increased from 95% to 100% of

the interest rate liability, further reducing risk for the Scheme. This will be implemented in practice once the results of the 5 April 2017 actuarial valuation are available.

Deferred benefit statements

Annual benefit statements for deferred members have been issued.

AVC payments outside the monthly payroll

All Additional Voluntary Contributions (AVC) payments must be made through the monthly payroll system. This ensures that tax relief on the pension contributions is given at source. It is not possible to make AVC payments via cheque or bank transfer.

Pensioner payslips

Pensioner payslips will no longer be provided in hard copy every month. One hard copy payslip will be issued in March, which will double up as the year's P60. A payslip would also be issued on a change of net monthly pension amount greater than £10. All affected pensioners have been notified in writing of this change in process, which will reduce administrative burden and costs for the Scheme.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 16 February 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.

Query on information provided on the annual benefit statements

A query had been raised by a member with the PCC regarding the information provided on the 2016 annual benefit statement. The query related to why the benefit statement did not show the 'death-in-deferment' benefit which would have been payable at the date of the statement. The member also asked whether it would be possible to illustrate an 'early retirement benefit' on the benefit statement, showing the position if a member retired from the Scheme at the date of the statement.

It was confirmed that the death-in-deferment benefits are not quoted on annual benefit statements as these are 'active' member statements. The death in service benefits relevant to 'active' members were illustrated on the statement.

It was confirmed that the Scheme does not quote 'early retirement' pensions on annual benefit statements. Early retirement is subject to various Trustee/Company consents, and the various factors applied to pension benefits taken before NRD are regularly reviewed and subject to change. As the statements are not issued until 6 months after their effective date, the early retirement element would no longer be of practical relevance to the member. Members can obtain an early retirement illustration via the online modeller at www.leonardoelectronicspensions.co.uk for retirement dates in the future, or request a quotation from the Scheme Administrator, Aon Hewitt.

Mid Life Pension Planning seminars

Pensions Management are currently running mid-life pension planning seminars for members of both the Leonardo Electronics Pension Scheme and FuturePlanner. Members will receive an invite to seminars at the larger sites in early May.

Any members based at sites which are not covered by the seminars, but who wish to attend, should email pensions@leonardocompany.com to express an interest. Pensions Management will then endeavour to meet their needs.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 18 July 2017.

Contact Details

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