PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 17 JANUARY 2017

A meeting of the PCC took place in London on 17 January 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	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Scott McMillan	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	
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 6 December 2016.

New scheme name

The Selex Pension Scheme has changed its name to the Leonardo Electronics Pension Scheme with effect from 1 January 2017 to reflect the new Leonardo branding. The Trustee has also changed its name from Selex Pension Scheme (Trustee) Limited to Leonardo Electronics Pension Scheme (Trustee) Ltd.

Members will receive a newsletter in January 2017 regarding the rebranding. The newsletter will also provide details of new Scheme website address and email address for Aon Hewitt as below:

- New website address – www.leonardoelectronicspensions.co.uk
- New email address for Aon Hewitt – leonardoelectronicspensions@aonhewitt.com

All Scheme communications materials are in the process of being rebranded.

Leonardo in the UK - business consolidation

The Trustee has continued its discussions with the Company in relation to the pensions aspects of the 'Leonardo in the UK' business consolidation. The assets of AgustaWestland Ltd, and the other Leonardo UK group companies, transferred to Leonardo MW Ltd, with effect from 1 January 2017. As part of this business reorganisation, Leonardo MW Ltd has taken on responsibility for all the Leonardo group UK pension arrangements.

The Trustee has considered the implications of the reorganisation in relation to the strength of the employer's financial covenant. Overall, the Scheme covenant advisers (Ernst & Young) confirmed there would be no change in rating scale of the Leonardo MW Ltd covenant after the transaction. This will be kept under review, and the financial covenant of the companies supporting the Scheme will be assessed as part of the 5 April 2017 actuarial valuation.

Quarterly Funding Update to 30 September 2016

The quarterly funding update showed that the Scheme had an estimated surplus of £114 million at 30 September 2016. The surplus had increased over the quarter, primarily due to higher than assumed returns on the Scheme assets, and the increase in the liability hedge being higher than the increase in the past service liabilities (caused by changes in interest rate and inflation rate expectations).

The cost of new benefit accrual has increased significantly, due to further falls in long-term real interest rate expectations. The cost is 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 now 25% 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 commenced preliminary discussions with the Scheme's advisers regarding what assumptions may be appropriate to use for the 2017 valuation calculations.

Buy Up costs for 2017/18

The Trustee has set the Buy Up costs for 2017/18 as follows:

	Buy Up costs for 2016/17	**Buy Up costs for 2017/18**
Main and 2000 Section – 1/60th	3.0%	3.7%
100+ Section – 1/95th	1.1%	1.5%
100+ Section – 1/90th	2.4%	3.2%

Since the Buy Up costs were set for last year (2016/17), there has been a fall in expected future long-term interest rates. This means that the investment returns earned on future Buy Up contributions to the Scheme are now expected to be lower in the future than previously thought. These contributions are used to meet the additional benefit payments arising from participation in Buy Up. As the expected returns are now lower than before, this means that the contributions paid towards the cost of new benefits are required to increase, so that overall the expected benefit payments will be met. As a result, the Buy Up contribution rate is higher than last year's rate.

Due to the increase in costs, the Trustee has decided that participation in Buy Up for the 2017/18 year should be by positive opt-in by members. Therefore, if you currently Buy Up and do not return your election form to Buy Up for 2017/18 you will revert to your core contribution rate of 7.5% of Pensionable Salary from April 2017.

Buy Up Letters and forms will be posted to members during the week beginning 23 January 2017. Forms will need to be returned to Aon Hewitt by 10 March 2017.

Investment Performance

- The market value of the total assets of the Scheme at 30 September 2016 was £925 million.
- Investment performance of the return-seeking assets over the quarter had been 4.2% which was 3.3% 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 1.9% 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, an increase in the return differences between swaps and gilts, and underperformance of the investment fund in some previous quarters).

Allocation of Assets

At 30 September 2016 the Trustee held 67% 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).

Pensioner payslips

The Trustee is reviewing whether pensioner payslips should continue to be provided in paper copy each month. A paper copy P60 would be issued each March, however the Trustee may only issue interim payslips if the pension amount changes by more than a minimum amount, or may move to online only payslips.

All affected pensioners will be notified in writing in advance of any changes to the current process of issuing monthly paper pay slips.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 24 November 2016. The Leonardo Electronics Pension Scheme benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

Name change

Finmeccanica FuturePlanner became Leonardo FuturePlanner with effect from 1 November 2016.

Investment performance

All of the P-Solve ‘blend funds’ (which make up the default fund in the DC investment strategy) had out-performed their long term targets over the quarter and the majority since the inception of the funds.

Buy out to Fidelity

The latest buy out of deferred FuturePlanner members has been completed. The buy-out applies to those who left the scheme over 12 months ago and have a ‘small pot’ under £30,000 (unless they opt for their own alternative). 400 members transferred with assets of around £3.8m.

Member nominated trustees

The next four year term of office starts in early 2017. The FuturePlanner Trustees have reviewed the selection process and propose no material changes. There will, however, be a single Leonardo selection panel but with a new selection criteria to ‘reflect the different divisions and sites of Leonardo in the UK’.

Both the incumbents (Brian Airlie and Adam Collins) have indicated their willingness to serve a further term.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 28 April 2017.

Contact Details

Name	Location	Email Address	Phone Number
Jim Cull	Edinburgh	James.Cull@leonardocompany.com	0131 343 8768
James Fordyce	Edinburgh	James.Fordyce@leonardocompany.com	0131 343 4658
Martin Johnson	Basildon	Martin.h.Johnson@leonardocompany.com	01268 887074
Tony Kingsbury	Capability Green	Tony.Kingsbury@leonardocompany.com	01582 886052
Scott McMillan	Basildon	Scott.McMillan@leonardocompany.com	01268 887094
Jane Murphy	Basildon	Jane.Murphy@leonardocompany.com	01268 885047
Stephen Park	Edinburgh	Stephen.Park@leonardocompany.com	0131 3435105
Stuart Rushworth	Capability Green	Stuart.Rushworth@leonardocompany.com	01582 886258
Phil Slade	Capability Green	Phil.Slade@leonardocompany.com	01582 886580
Scott Wallace	Edinburgh	Scott.Wallace@leonardocompany.com	0131 343 5334
Paul Wilton	Southampton	Paul.Wilton@leonardocompany.com	02380 316775
Colin Wyllie	Edinburgh	Colin.Wyllie@leonardocompany.com	0131 343 8136
Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	