

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 1 NOVEMBER 2016**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 1 November 2016.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the Selex 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	
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	
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 11 October 2016.

Leonardo in the UK - business consolidation

The Trustee has been discussing the pensions aspects of the Leonardo in the UK business consolidation. The first stage of the consolidation was to transfer the Finmeccanica UK Limited business into Leonardo MW Ltd, which took place on 1 November 2016. As part of this process, the pension liabilities of Finmeccanica UK Limited were also transferred over to Leonardo MW Ltd. The transfer of the pension liabilities required the consent of the Trustee, following advice from the Scheme's legal, actuarial and financial covenant advisers. The Trustee will continue to discuss the wider UK business reorganisation, scheduled for December 2016, with the Company.

The PCC members received a training session on the pensions considerations during a business reorganisation.

New Scheme name

There is to be a rebranding of the Scheme name and Trustee Company name, to reflect the new Leonardo branding. The Selex Pension Scheme will become the Leonardo Electronics Pension

Scheme from 1 January 2017. Selex Pension Scheme (Trustee) Ltd will become Leonardo Electronics Pension Scheme (Trustee) Ltd from 1 January 2017. Further information will be provided to members on the rebranding in due course.

Financial Covenant Monitoring

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 30 June 2016, the financial position was deemed strong, with the covenant having remained stable since the last report.

Annual Report & Accounts

The 2016 Scheme Report & Accounts have been completed and signed. The Auditors (RSM) gave unqualified opinions on the financial statements and statement on contributions. This is the first audit which RSM have undertaken for the Scheme. A summary of the Report & Accounts was included in the October InFocus newsletter.

New Trustee and Chairman

There have been some recent changes to the Trustee Board. Geoff Munday has stood down as a Trustee following 11 years as Chairman of the Trustee Board. Lynda McVay, HR Director UK, has been appointed as a new Trustee. Bernard Walsh, who has been a Trustee since 2008, has been appointed as the new Chairman.

Actuarial Report as at 5 April 2016

An Actuarial Report is produced in the years between the formal actuarial valuations. The 5 April 2016 report showed a funding surplus of £71.5m and a funding level of 111%.

Quarterly Funding Update to 30 June 2016

The quarterly funding update showed that the Scheme had an estimated surplus of £95 million at 30 June 2016. The surplus had increased over the quarter, primarily due to higher than assumed returns on Scheme assets (excluding the hedge). There was, however, an increase in the value of the liabilities due to falls in interest rate and inflation rate expectations. The value of the hedge increased due to changes in interest rate and inflation rate expectations, however this increased by slightly less than the liabilities.

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 22% 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.

Career Salary Implementation and Block 1 Statements

The Aon Hewitt Career Salary Project Manager attended the Trustee Administration Committee Meeting to update on progress. Phase 1 of the project had completed in April 2016.

Phase 2 was completed in October 2016, with the issuing of the Block 1 benefit statements to all active members and the relaunch of the Pensionline Modeller. The modeller has been enhanced to integrate the Retirement Account, AVCs and SBS within the pension illustration calculations.

The Career Salary Implementation project has now been completed. We would like to thank members for their patience during this transitional phase to the Career Salary benefit structure.

Investment Performance

- The market value of the total assets of the Scheme at 30 June 2016 was £839 million.
- Investment performance of the return-seeking assets over the quarter had been 4.5% which was 3.6% ahead of the objective. In the longer term the assets were in line with the objective over twelve months and 1.2% per annum ahead over three years.
- The total investment strategy (both the return-seeking and the matching assets) returned 0.8% ahead of the benchmark (which looks at the change in the Scheme's liabilities). Over 12 months, 3 years and 5 years the total portfolio is behind the liability benchmark (due primarily to falls in interest rates, and underperformance of the investment fund in some quarters).

Allocation of Assets

At 30 June 2016 the Trustee held 70% of the Scheme's assets "on-risk" and 30% "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).

Additional Counterparty banks

To enable P-Solve to have a range of choice when determining which banks to transact with, for example when putting in place swaps contracts for the liability hedge, the Trustee is adding additional banks to its authorised counterparty list (HSBC, Investec and Royal Bank of Canada).

Administrative Expenses

The Trustee has carried out an analysis of the Scheme's administrative/management expenses, split by adviser. Overall, the spend as a percentage of Scheme assets has reduced significantly.

Selection of Member Nominated Trustee Directors

The Trustee has reviewed the arrangements for the selection of member-nominated directors, and resolved to retain the current process. A selection process has been carried out with the PCC, and Jim Cull and Stuart Rushworth have been re-appointed as member-nominated Trustees for a 6 year term of office.

Pension Freedom training

The PCC have received a training session on the new pension freedoms which were introduced from 6 April 2015. The session covered the options available to members through the Selex Pension Scheme and also other options which are available through external providers.

The options that are available through the Selex Pension Scheme are detailed in the AVC Guide, the SBS Guide and the 100+ Retirement Account Guide.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 22 September 2016. The Selex benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

Name change

Finmeccanica FuturePlanner will be renamed Leonardo FuturePlanner with effect from 1 November 2016.

Investment performance

Most 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 also since the inception of the funds.

Risk/volatility

The committee have reviewed the risk and volatility of the DC funds. Using the Stable Growth as an example, the variability of the return had been much lower than a pure equity allocation. This means the growth path had been relatively smooth and reliable compared to a traditional DC investment strategy.

Charges

The maximum charge for auto-enrolment investment funds is 0.75% pa from April 2015. The FuturePlanner and Selex funds remain comfortably within this cap and the measures taken to control charges have been effective. A 'value for money' report on these charges has been undertaken and commentary is provided in the 2016 Scheme Report and Accounts.

Buy out to Fidelity

The latest buy out of deferred FuturePlanner members is under way and will conclude by year end. 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). There are 545 members in the target group.

UFPLS (Uncrystallised Funds Pension Lump Sum)

UFPLS is the taxable cash option already available for Selex Pension Scheme members. UFPLS is now also available for FuturePlanner members.

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.

FuturePlanner Report and Accounts

The FuturePlanner Report and Accounts had been signed and published on the scheme website, www.futureplanner.co.uk.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 17 January 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	