

**PENSIONS CONSULTATIVE COMMITTEE (PCC)  
REPORT TO MEMBERS FOLLOWING THE MEETING ON 23 OCTOBER 2018**

A meeting of the PCC took place in London on 23 October 2018.

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:-

Tony Kingsbury	Capability Green (Chair)
Imran Bashir	Capability Green
Jim Cull	Edinburgh
James Fordyce	Edinburgh
Scott McMillan	Basildon
Stephen Park	Edinburgh
Scott Wallace	Edinburgh
Paul Wilton	Southampton
Colin Wylie	Edinburgh
Andrew Letton	HR – Leonardo MW Ltd
Mike Nixon	Head of Pensions
Helen Pass	Pensions Administration Manager

The meeting was held to receive feedback from the LEPS Trustee meeting on 9 October 2018.

#### PCC Deputy Chair

Martin Johnson has been elected as the Deputy Chair of the PCC.

#### Annual Report & Accounts

The 2018 Report & Accounts have been completed and signed (available at [www.leonardoelectronicspensions.co.uk](http://www.leonardoelectronicspensions.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. At 30 June 2018, the financial position was assessed as remaining strong, taking into account the Scheme's funding position.

#### Quarterly Funding Update to 30 June 2018

The quarterly funding update showed that the Scheme had an estimated surplus of £171 million at 30 June 2018. The surplus had decreased by £1m over the quarter.

The cost of new benefit accrual had reduced slightly during the period from 31 March 2018 and 30 June 2018. The cost remains significantly higher than the contributions being paid to the Scheme, and the surplus is supporting this shortfall.

#### Long term funding objective

The Trustee has discussed the long term funding objective for the Scheme with the Actuary. For the purposes of the triennial valuation, the Scheme is required to use the ongoing funding basis (known as 'technical provisions').

Alongside this measure it is common for schemes to develop secondary measures, which target a funding position on the basis of a lower level of investment risk. A lower risk funding objective also reduces the reliance the Scheme will have on the sponsoring employer in future. The Trustee has identified a 'self-sufficiency' basis of funding for this purpose. Overall, the existing investment strategy will enable the Scheme to reach the long term self-sufficiency objective and no changes are therefore required. This will be reviewed as part of each triennial valuation process.

### Investment Performance

- The market value of the total assets of the Scheme at 30 June 2018 was £941 million.
- Investment performance of the return-seeking assets over the quarter had been 1.6% which was 0.7% ahead of the objective. The return over 12 months is behind the return-seeking objective, however the longer term numbers over 3 years and 5 years remain ahead of the objective.
- The total investment strategy (both the return-seeking and the matching assets) returned 0.4% ahead of the benchmark (which looks at the change in the Scheme's liabilities). The total fund return is behind the benchmark over 12 months, 3 years and 5 years.
- The Trustee's investment advisers have maintained the lower risk strategy within the portfolio, reflecting their view that markets are moving into a period of increasing volatility. This lower risk strategy has also been implemented within the blend funds available to members who pay AVCs.

### Allocation of Assets

At 30 June 2018 the Trustee held 59.5% of the Scheme's assets "on-risk" and 40.5% "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).

### Investment advisor review

The Trustee has engaged LCP to carry out a review of the fiduciary management services provided by the Scheme's investment manager, River and Mercantile.

### Administration

#### *Active benefit statements*

Benefit statements for active members have been issued, together with pension saving statements for those members who have exceeded the annual allowance during the 2017/18 Scheme year.

#### *Retirement settlement audit*

XPS have carried out an audit of retirement settlements during the transition period from Aon Hewitt.

#### *Pension scams*

A new XPS service to help combat pension scams is being trialled by the Scheme. This will involve a phone call with all members who complete their paperwork to transfer out of the Scheme, aimed at identifying scam activity which is not apparent from the completed written paperwork.

### *New website*

A new Scheme website is being developed which will replace the existing website.

### Scheme specific pensions training

The PCC have undertaken training regarding the structure of the Scheme and the benefits provided.

### Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 18 September 2018. 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 term targets since the inception of the funds. However, the quarter had been challenging and two of the funds had underperformed their targets over the quarter.

### *At retirement survey*

FuturePlanner members have completed a simple survey regarding how they plan to use their benefits at retirement. The joint DC investment committee have reviewed the results which will inform development of the support services provided at the point of retirement.

### *Retirement Focus Fund*

The joint DC investment committee have recently reviewed the Retirement Focus Fund. For members who invest in the Lifestyle strategy, savings are moved to the Retirement Focus Fund in the last three years before their Target Retirement Age (TRA).

The joint DC investment committee have made some small changes to the Retirement Focus Fund which is now made up of 50% cautious growth, 25% annuity focus and 25% cash – reflecting the developing pattern of how members typically draw their DC benefits.

This fund will be further developed to allow members to tailor the investment structure to suit their needs as they reach their TRA. More details will be provided in due course.

### *Change in platform provider*

Old Mutual Wealth, which provides the investment platform for the DC assets, is withdrawing from the institutional platform market.

The joint DC investment committee has undertaken a detailed review of alternative providers and Mobius Life has been selected. Due diligence has been completed. The transition was scheduled to take place in 2018 but has been rescheduled to Q1 2019. It is expected to have minimal impact for members.

### *Deferred member 'buy-out'*

Deferred members with pots below £30,000 will be 'bought out' to a similar fund with Fidelity. Letters have been issued to affected deferred members and the transfer is scheduled to take place at the end of November 2018.

### *Trustee board*

The Company has proposed an increase in the number of Trustee Directors on the FuturePlanner Trustee board from 5 to 8 (4 Company and 4 member nominated directors). The two new Company nominated directors will be Clare Roberts and Wendy Allen. Interviews for the two new Member nominated directors are underway.

### Date of the Next Meeting

The next meeting of the PCC is scheduled for 15 January 2019.

### **Contact Details**

<b>Name</b>	<b>Location</b>	<b>Email Address</b>	<b>Phone Number</b>
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