

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 25 APRIL 2019**

A meeting of the PCC took place in London on 25 April 2019.

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
Martin Johnson	Pensioner Representative (Deputy Chair)
Stephen Park	Edinburgh
Stuart Rushworth	Capability Green
Tony Sheehan	Basildon
Scott Wallace	Edinburgh
Colin Wylie	Edinburgh
Lucy Astbury	HR – Leonardo MW Ltd
Mike Nixon	Head of Pensions
Rachael Skuse	Pensions Manager
Helen Thompson	Pensions Administration Manager

The meeting was held to receive feedback from the LEPS Trustee meeting on 26 March 2019.

Quarterly Funding Update to 31 December 2018

The quarterly funding update showed that the Scheme had an estimated surplus of £138 million at 31 December 2018. The surplus had decreased by £42m over the quarter, due to the challenging investment conditions. Market conditions have since improved, and asset values have subsequently largely recovered and therefore the funding position at the end of March 2019 is expected to show an improvement.

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

Buy Up

The deadline for submitting Buy Up applications has now passed. There were 54 new Buy Up participants for 2019/20.

Annual rates 2019

The following annual rates have been set by the Trustee:

- 2000 Section Credited Interest rate (used for SBS return and Basis 3 calculations) = 6.5%
- Main Section Underpin (Revaluation factor for IPA and Protected Rights Accounts) = -2.6%

- Shadow Earnings Cap = £166,200

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 2018, the financial position was assessed as remaining strong, taking into account the Scheme's funding position.

Liability Management

The Scheme continues to explore liability management options. As reported previously, having put in place a comprehensive hedging strategy to reduce interest rate and inflation risk, consideration is now being given to whether there are appropriate options for reducing longevity risk within the Scheme. The Trustee has engaged Aon's risk broking team to provide advice on potential insurance based solutions in this area.

Investment Performance

- The market value of the total assets of the Scheme at 31 December 2018 was £937 million.
- Q4 2018 was a challenging quarter and investment performance of the return-seeking assets over the quarter had been -5.4% which was 6.4% behind the objective. The returns over periods exceeding 3 years remain ahead of the objective. The defensive position adopted by River and Mercantile provided some protection for the Scheme as global equity markets fell by 12.5% over the quarter, with most other return seeking assets also down.
- The total performance measure (both the return-seeking and the matching assets) shows a -0.6% return which is 4.1% behind the benchmark (which looks at the change in the Scheme's liabilities). The total fund return was behind the benchmark over 12 months. Over longer periods double digit returns per annum have been achieved although this has not always been sufficient to meet the objective – for example 11.2% per annum over five years relative to an objective of 13.1% per annum.
- Following the end of the quarter, River and Mercantile increased the level of risk within the portfolio and asset values have largely recovered.

Allocation of Assets

At 31 December 2018 the Trustee held 58% of the Scheme's assets "on-risk" and 42% "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 beliefs and ESG

The Trustee has developed a programme of work to develop the actions identified during the external review of the Scheme's investment management. A document summarising the respective responsibilities of River and Mercantile and the Trustee has been produced.

An 'investment beliefs' session was held with the Trustee, River and Mercantile, the Pensions Management Team and the Scheme Actuary. A detailed survey on investment beliefs was undertaken by the Trustee in advance of the session, and the results were analysed. The majority of the outcomes confirmed the current investment approach and therefore no changes in high level strategy are proposed. The Trustee held an 'Investment Beliefs' session in April 2019 to discuss and record the Trustee Directors views on a wide range of investment areas, including ESG. In the first instance, the Trustee will be monitoring the investment portfolio's ESG position through quarterly reporting.

Administration

MyPension.com: XPS Online modelling tool

A new XPS Online modelling tool was launched in December 2018. Members can log into their own individual record and run retirement calculations, update their personal details, update their Expression of Wish form, and manage their AVCs/100+ Retirement Account. The modeller can be accessed via www.MyPension.com/LEPS.

In late April 2019, login reminders were issued to all members who had not previously logged in. If you have previously logged in but have forgotten your login details please contact XPS by emailing LEPS@XPSgroup.co.uk.

New Scheme website

The Trustee launched a new Scheme website in January 2019, with a simplified web address www.lepensions.co.uk.

Pension planning workshops

The Pensions Management Team have presented pension planning workshops at Luton and Lincoln. Further workshops will be held at various Leonardo sites throughout the summer. For more details and to book a place please see <https://www.lepensions.co.uk/news/article/pension-workshops-helping-you-understand-your-benefits/>.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 27 February 2019. 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 River and Mercantile '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 but were behind their long term targets over the quarter in light of the challenging investment conditions.

Change in platform provider

The transition from Old Mutual Wealth to Mobius Life took place on 30 January 2019. There was a blackout period from 22 January to 7 February 2019, and letters were issued to all members with FuturePlanner benefits, AVCs or a 100+ Retirement Account.

Trustee board

A new FuturePlanner Company Nominated Trustee has been appointed, Wendy Allen. There are now eight Trustee directors on the FuturePlanner board.

Partial UFPLS

An UFPLS is an Uncrystallised Funds Pension Lump Sum, or sometimes known as taxed cash. 25% of an UFPLS is tax free, and 75% is taxed as earned income.

Members of FuturePlanner can now take up to two UFPLS payments over a two year period during retirement, in order to allow tax efficient planning for members.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 2 July 2019.

Contact Details

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