

**PENSIONS CONSULTATIVE COMMITTEE (PCC)  
REPORT TO MEMBERS FOLLOWING THE MEETING ON 14 JANUARY 2020**

A meeting of the PCC took place in London on 14 January 2020.

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)
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
Paul Wilton	Southampton
Colin Wylie	Edinburgh
Andrew Letton	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 10 December 2019.

#### Chairman

Tony Kingsbury has announced his retirement from the PCC with effect from 28 April 2020. Jim Cull will take over as Chair of the PCC from the 28 April 2020 meeting. Martin Johnson will continue as Deputy Chair.

#### Member Nominated Trustee directors

Martin Johnson and Scott Wallace reached the end of their terms of office as Member Nominated Trustee directors (MNDs) on 31 October 2019. The PCC is responsible for selecting MNDs and a selection process has been carried out.

Martin Johnson has been re-elected as an MND for a three year period until 31 October 2022. Scott Wallace has been re-elected as an MND for a six year period until 31 October 2025.

Both Martin and Scott are experienced Trustees and their continued support for this important role is welcomed.

## Quarterly Funding Update to 30 September 2019

The quarterly funding update showed that the estimated surplus had decreased from £157 million at 30 June 2019 to £134 million at 30 September 2019. The returns on the investment fund assets were lower than assumed.

The cost of new benefit accrual had increased during the period from 30 June 2019 and 30 September 2019, and was at its highest level at the end of the quarter. The cost is significantly higher than the contributions being paid to the Scheme, and the surplus is supporting this shortfall.

### Pensions Regulator (tPR) Developments

As part of the DWP White paper on 'protecting defined benefit pension schemes' it has been announced that the Government plans to strengthen tPR's powers through a revised and enforceable Funding Code of Practice. The Trustee is considering the new requirements as part of the 5 April 2020 actuarial valuation process.

### RPI change consultation

The Government has announced a consultation regarding a change in the calculation methodology for the Retail Prices Index (RPI) to align it with the Consumer Prices Index, including housing (CPIH) between 2025 and 2030. If the change proceeds, RPI is expected to be lower than previous levels. The Trustee continues to assess, with the Scheme's advisers, what implications this may have for Scheme benefits, funding and investment strategy.

### Liability Management

As previously reported, the Trustee has been exploring options to reduce risk and, following engagement with the Company, concluded that a 'buy-in' transaction would be appropriate for the Scheme, and has engaged Aon's risk broking team to manage the transaction.

A 'buy in' is an agreement with an insurance company under which a portion of the Scheme's assets are transferred to the insurer (equivalent to the value of the pensioner liabilities to be insured). There is then a cash flow from the insurer back to the Scheme for the monthly pension payments and the Scheme continues to pay the pensioners as normal. The 'buy in' does not give priority to any class of member over another.

The Trustee has down-selected to three insurers and is awaiting their final proposals before determining which provider is best placed to support this project.

### Buy Up

The Buy Up rates for 2020/21 have been set. The rates have increased since last year, in line with the increase in cost of pension provision:

Main and 2000 Buy Up to 1/60<sup>th</sup> = 4.1% of Pensionable Salary (compared to 3.4% for 2019/20)

100+ Buy Up to 1/95<sup>th</sup> = 1.6% of Pensionable Salary (compared to 1.4% for 2019/20)

100+ Buy Up to 1/90<sup>th</sup> = 3.5% of Pensionable Salary (compared to 2.9% for 2019/20)

Letters will be issued to eligible members on 20 January 2020. If you do not return the Buy Up election form you will continue on your current accrual rate, and if you are Buying Up you will see an increase in your contribution rate.

## Investment Performance

- The market value of the total assets of the Scheme at 30 September 2019 had increased to £1.16 billion.
- Investment performance of the return-seeking assets over the quarter had been 0.5% which was -0.4% behind the objective. The returns over periods exceeding 3 years remain ahead of the objective.
- The total performance measure (both the return-seeking and the matching assets) shows a 9.9% return which is 0.6% behind the benchmark (which looks at the change in the Scheme's liabilities). Over longer periods double digit returns per annum have been achieved although this has not always been sufficient to meet the objective – for example 13.3% per annum over five years relative to an objective of 14.4% per annum.

## Allocation of Assets

At 30 September 2019 the Trustee held 56% of the Scheme's assets "on-risk" and 44% "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 programme of work

The Trustee is conducting a programme of work to develop the actions identified during the external review of the Scheme's investment management.

During the quarter, River and Mercantile provided training sessions and detailed analysis on the following items under the programme to the Trustee:

- Environmental, Social and Governance (ESG) monitoring and developments, and how a new passive equity mandate will enable greater integration of ESG into the strategy;
- journey planning and portfolio de-risking. Further work will be done in conjunction with the Actuary to develop a funding journey plan (towards longer term goals) alongside the 2020 valuation process; and
- the use of illiquid assets (assets which are locked up for 6 months plus) and how these can be used within the investment portfolio.

## Training Session

The PCC have received a training session on Master Trusts. Consideration is being given to whether a Master Trust could provide members with an option where they wish to continue to invest some of their defined contribution savings into retirement.

## Administration

### *Benefit Statements*

Final Salary deferred annual benefit statements were issued to Final Salary deferred members (those who left before 6 April 2016) of the Scheme in January 2020.

### *MyPension.com/LEPS*

52% of active members have now logged onto MyPension.com/LEPS, the interactive website provided by XPS Administration. If you log onto MyPension.com you can view your personal details,

update your Expression of Wish form, view your DC savings and make investment switches, and run retirement quotations (active members only).

If you have misplaced your login details please contact XPS Administration by emailing LEPS@xpsgroup.com.

### Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 14 November 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 both since the inception of the funds and over the quarter.

### *Environmental, Social and Governance (ESG) fund*

Following the results of the member survey last year, the Trustee will be implementing a new ESG fund which will be available via the DC Pick and Mix funds. This fund will have a climate 'tilt' and selects best practice firms (rather than excluding certain industries). Further information will be available once the fund is launched.

### *Membership*

51% of active pension scheme members across Leonardo MW Ltd are now in FuturePlanner, with 68% of the active FuturePlanner members working within the Electronics division.

### Date of the Next Meeting

The next meeting of the PCC is scheduled for 28 April 2020.

## Contact Details

<b>Name</b>	<b>Location</b>	<b>Email Address</b>	<b>Phone Number</b>
Imran Bashir	Capability Green	<a href="mailto:Imran.Bashir@leonardocompany.com">Imran.Bashir@leonardocompany.com</a>	01582 795520
Jim Cull	Edinburgh	<a href="mailto:James.Cull@leonardocompany.com">James.Cull@leonardocompany.com</a>	01313 438768
James Fordyce	Edinburgh	<a href="mailto:James.Fordyce@leonardocompany.com">James.Fordyce@leonardocompany.com</a>	01313 434658
Martin Johnson	Pensioner Representative	<a href="mailto:martin.h.johnson@gmail.com">martin.h.johnson@gmail.com</a>	01268 794601
Tony Kingsbury	Capability Green	<a href="mailto:Tony.Kingsbury@leonardocompany.com">Tony.Kingsbury@leonardocompany.com</a>	01582 886052
Scott McMillan	Basildon	<a href="mailto:Scott.McMillan@leonardocompany.com">Scott.McMillan@leonardocompany.com</a>	01268 887094
Stephen Park	Edinburgh	<a href="mailto:Stephen.Park@leonardocompany.com">Stephen.Park@leonardocompany.com</a>	01313 435105
Stuart Rushworth	Capability Green	<a href="mailto:Stuart.Rushworth@leonardocompany.com">Stuart.Rushworth@leonardocompany.com</a>	01582 886258
Tony Sheehan	Basildon	<a href="mailto:Antony.Sheehan@leonardocompany.com">Antony.Sheehan@leonardocompany.com</a>	01268 883159
Scott Wallace	Edinburgh	<a href="mailto:Scott.Wallace@leonardocompany.com">Scott.Wallace@leonardocompany.com</a>	01313 434534
Paul Wilton	Southampton	<a href="mailto:Paul.Wilton@leonardocompany.com">Paul.Wilton@leonardocompany.com</a>	02380 316775
Colin Wyllie	Edinburgh	<a href="mailto:Colin.Wyllie@leonardocompany.com">Colin.Wyllie@leonardocompany.com</a>	01313 438136