

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 22 OCTOBER 2019**

A meeting of the PCC took place in London on 22 October 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:-

Martin Johnson	Pensioner Representative (Deputy Chair)
Imran Bashir	Capability Green
Jim Cull	Edinburgh
James Fordyce	Edinburgh
Scott McMillan	Basildon
Stephen Park	Edinburgh
Stuart Rushworth	Capability Green
Tony Sheehan	Basildon
Scott Wallace	Edinburgh
Andrew Letton	HR – Leonardo MW Ltd
Lucy Astbury	HR – Leonardo MW Ltd
Rachael Skuse	Pensions Manager
Helen Thompson	Pensions Administration Manager
Louise Dale	DC and Benefits Manager

The meeting was held to receive feedback from the LEPS Trustee meeting on 8 October 2019.

Annual Report and Accounts

The 2019 Report & Accounts have been completed and signed (available at www.lepensions.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 2019, the financial position was assessed as remaining strong.

Quarterly Funding Update to 30 June 2019

The quarterly funding update showed that the estimated surplus had increased from £153 million at 31 March 2019 to £157 million at 30 June 2019. The returns on the investment fund assets were higher than assumed.

The cost of new benefit accrual had increased during the period from 31 March 2019 and 30 June 2019. The cost remains significantly higher than the contributions being paid to the Scheme, and

the surplus is supporting this shortfall. The cost of new benefit accrual at the end of the quarter is at its highest level, and has increased further over Summer 2019.

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 is considering with the Scheme's advisers what implications this may have for Scheme benefits, funding and investment strategy.

Liability Management

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

The PCC received a training session on 'buy-in' transactions.

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 is currently awaiting quotations from the insurers to determine whether it is an appropriate time to proceed.

Investment Performance

- The market value of the total assets of the Scheme at 30 June 2019 was £1.05 billion.
- Q2 2019 had seen good market growth and River and Mercantile analysis continued to show a 'stable' outlook.
- Investment performance of the return-seeking assets over the quarter had been 2% which was 1.1% ahead of the objective. The returns over periods exceeding 3 years also remain ahead of the objective.
- The total performance measure (both the return-seeking and the matching assets) shows a 3.4% return which is 0.1% ahead of 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 12.5% per annum over five years relative to an objective of 13.9% per annum.

Statement of Investment Principles

The Trustee has reviewed and updated the Scheme's Statement of Investment Principles. The Statement of Investment Principles is available at www.lepensions.co.uk.

Allocation of Assets

At 30 June 2019 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 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:

- the use of 'derivatives' within the investment portfolio. Derivatives are contractual agreements with the bank giving you exposure to something (interest rate/inflation movements) without spending cash up front;
- the design of the Scheme's liability hedging portfolio; and
- the use of structured equity, which provides a level of protection against falls in the equity markets, in exchange for giving up some of the up-side in rising markets.

Member Nominated Trustee directors

Martin Johnson and Scott Wallace will reach the end of their terms of office as Member Nominated Trustee directors (MNDs) on 31 October 2019.

Martin Johnson has been re-elected as an (MNT) for a three year period until 31 October 2022.

Scott Wallace will remain as a Trustee until at least 31 December 2019 while the PCC elect a further MND.

Training Session

The PCC have received a training session on the role and responsibilities of Trustees.

Administration

Small lumps sums exercise

91 pensioners with very small pensions have been offered the ability to receive a lump sum in place of the small annual pension. 63 members have accepted the offer.

Pension Scams

The Trustee has engaged XPS's Pension Scams Identification Team to review all transfers out of the Scheme to help identify potential pension scams. Where proposed transfers out of the Scheme have signs of potential scam activity, the Trustee will contact the members highlighting the concerns and seeking further instructions.

The Trustee has added a new page to the Scheme website regarding pension scams. You can read this at (www.lepensions.co.uk/are-you-at-risk-of-a-pensions-scam/).

If you are considering transferring your pension benefits out of the Scheme please read this page and ensure you seek independent financial advice from an FCA regulated financial adviser.

Benefit Statements

Annual benefit statements were issued to active members of the Scheme in September 2019.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 11 September 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.

Auto re-enrolment of employees

The triennial assessment of employees not in a pension scheme was completed during June 2019. 31 qualifying members were automatically re-enrolled in August with just 15 opting out. The participation rate of qualifying Leonardo employees now stands at 99.53%.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 14 January 2020.

Contact Details

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