

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 7 JULY 2020**

A meeting of the PCC took place via Webex conference call on 7 July 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:-

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

The meeting was held to receive feedback from the LEPS Trustee meetings on 9 April 2020, 7 May 2020 and 16 June 2020.

COVID-19 business continuity

Pensions Management, the Trustees, XPS Administration and all Scheme advisers remain successfully working from home. All meetings have proceeded as planned with projects being progressed as expected.

Additional meetings are being scheduled as required to deal with any issues arising and to ensure all parties remain updated.

XPS continue to focus on priority tasks including paying benefits, retirements, ill healths and death cases. Members can still use the member helpline to speak to XPS. However, members are encouraged to use email in order to help manage workload. Items should be emailed rather than posted where at all possible.

Email – LEPS@XPSGroup.com

Telephone – 0117 440 2491

Quarterly Funding Update to 31 March 2020

The quarterly funding update showed that the estimated surplus had decreased from £146m at 31 December 2019 to £94m at 31 March 2020. The returns on the investment fund assets were lower than assumed following the significant market falls in March 2020 due to the COVID-19 pandemic.

The cost of new benefit accrual had increased during the period from 31 December 2019 and 31 March 2020, due to a significant decrease in real interest rate expectations over the period. The cost is significantly higher than the contributions being paid to the Scheme, and the surplus is supporting this shortfall.

Post quarter end update

There has been a modest expected improvement in the funding position to June 2020. This improvement is mainly due to the positive performance of the growth assets over the period as the markets have rebounded. The employer's percentage share of the cost of accrual had, however, continued to increase due to falls in interest rates and rises in inflation expectations.

COVID-19 and valuation preparation

The triennial actuarial valuation of the Scheme is due as at 5 April 2020. The Trustee held two additional meetings during April and May to consider how the impact of the COVID-19 pandemic could be addressed in the context of the valuation process. The Trustee took additional investment, actuarial, legal and employer covenant advice, to understand the potential implications and what flexibilities may be available to manage this. The Trustee board has been in correspondence with the Company through this period, and met with the Company's actuarial adviser to discuss options.

The Trustee has considered various emerging guidance from the Pensions Regulator in relation to 2020 valuations, and has noted that there are flexibilities available within the funding regime which may assist in managing the current situation, including the ability to reflect post-valuation date events within the valuation process.

The initial valuation results are expected to be available to the Trustee in Autumn 2020. It is likely the valuation process will take closer to the 15 month timeframe (July 2021) to conclude than in previous valuations as the Trustee and Company will want to monitor how the market conditions develop.

Integrated Risk Management Plan

The Trustee has reviewed and updated the Scheme's Integrated Risk Management Plan to reflect changes in practice, actions taken in light of the COVID-19 pandemic and to incorporate changes to the investment strategy.

Liability Management – Pensioner Buy In

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.

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 now completed a £157.7m buy-in with Just Group. There were significant challenges through the completion process as a result of the extremely volatile market conditions in mid-March 2020, and the Trustee was pleased to reach a successful conclusion to this project.

All pensioners have been written to, advising them that a buy-in has taken place and that they should continue to contact XPS as normal for any queries in relation to their pension. The Trustee is very pleased to have taken this step to improve the financial security of the Scheme for all members.

Investment Performance

- The market value of the total assets of the Scheme at 31 March 2020 had decreased to £912m. This allowed for a £163m reduction to reflect the initial buy-in premium payment, together with investment return of -£7.3m.
- Investment performance of the return-seeking assets over the quarter had been -11.4% which was -12.3% behind objective as a result of COVID-19. The return since inception remains broadly in line with objective, with other periods now behind the benchmark.
- The total performance measure (both the return-seeking and the matching assets) shows a 0.1% return which is -6.5% behind the benchmark (which looks at the change in the Scheme's liabilities). Since inception, returns are slightly ahead of objective, with other periods now behind the benchmark.

Market update since quarter end

Investment performance has improved since the end of the quarter, with a rebound in markets. The position remains extremely volatile and there is caution around the sustainability of the increases in equity markets.

River & Mercantile have been in regular contact with Pensions Management and the Trustee throughout this period, engaging in detailed discussion on their investment strategy and adapting the portfolio as required to address market conditions. The portfolio is defensive at the current time, in recognition of the risks of a further downturn, whilst preparing for the investment opportunities which may arise as markets recover and in light of the unprecedented financial stimulus.

Allocation of Assets

At 31 March 2020 the Trustee held 57% of the Scheme's assets "on-risk" and 43% "off-risk". On-risk assets are those seeking to generate an investment return (e.g. equities, property, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (e.g.: Government gilts, cash).

Active Structured Equity & Cashflow Matching

The Trustee has approved the addition of two new asset strategies to the investment portfolio, which were implemented in June 2020. The first is active structured equity, which seeks to provide equity like returns but with downside protection using equity options. This is a good method of getting back on-risk, whilst not exposing the portfolio to further falls in equity markets.

Cashflow matching involves a portfolio of corporate bonds which mature at different terms thereby providing an income to the Scheme which matches the expected outflow of pension payments at a series of future dates. This is intended to compliment the buy-in asset for future medium-term cashflows for new pension liabilities not included within the recent buy-in.

Investment Management tender process

The Trustee has completed the fiduciary management tender review, and reappointed River & Mercantile. Significant fee reductions have been negotiated alongside the tender process with a positive outcome for the Scheme.

LCP will complete an external, independent DC Value for Members review as a follow up step to the fiduciary management review. It is intended that this will also confirm the trustee investment belief over the balance between a 'smooth journey / manager skill' and 'low costs'.

Administration

MyPension.com/LEPS

54% of active members have now logged onto MyPension.com/LEPS, the interactive website provided by XPS Administration. **We would encourage all members, including deferred and pensioner members, to register for an online account.** If you log onto MyPension.com/LEPS you can view and update 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.

Benefit Statements

XPS are preparing the 2020 Benefit Statements and hope to issue these over the Summer/early Autumn.

Electronic communications

From 2021 onwards the Trustee will not issue paper benefit statements or newsletters. Benefit Statements will be loaded onto your MyPension.com/LEPS record for you to view. The InFocus newsletter will be loaded onto the Scheme website www.lepensions.co.uk.

You will shortly receive a letter from XPS detailing how the new electronic communications will work and how to access them. If you would like to continue to receive paper copies of communications you can do this by contacting XPS by email at LEPS@XPSGroup.com.

Joint DC investment committee meeting

Joint DC investment committee meetings of the Leonardo UK pension schemes were held on 27 May 2020 and 10 June 2020. 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.

During the quarter markets had been extremely volatile due to COVID-19 with widespread falls in markets, particularly during March 2020. However the 'blend funds' had experienced losses of around 50% of those experienced by the Global Equity fund, demonstrating the success of the intended strategy to 'smooth' fund returns. There has been a subsequent upturn in the market, although there remains caution around whether this is a sustained improvement.

The investment position continues to be closely monitored.

Environmental, Social and Governance (ESG) fund

Following the results of the member survey last year, the Trustee has implemented a new ESG fund which is available via the DC Pick and Mix funds. This fund has a climate 'tilt' and selects best practice firms (rather than excluding certain industries). Further information can be found in the AVC Guide and Retirement Account Guide which are available at www.lepensions.co.uk.

Membership

53% of active pension scheme members across Leonardo MW Ltd are now in FuturePlanner, with 63% of the active FuturePlanner members working within the Electronics division.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 22 October 2020.

Contact Details

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