PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 19 JANUARY 2021

A meeting of the PCC took place via Webex conference call on 19 January 2021.

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 nine 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
Scott Wallace	Edinburgh
Paul Wilton	Southampton
Colin Wylie	Edinburgh
Andrew Letton	HR – Leonardo MW Ltd
Alan Good	HR – Leonardo MW Ltd
Mike Nixon	Head of Pensions
Rachael Skuse	Pensions Manager
Louise Dale	DC Pensions and Benefits Manager
Helen Thompson	Pensions Administration Manager
Sue Smith	Pensions Communications Officer

The meeting was held to receive feedback from the LEPS Trustee meeting on 8 December 2020.

Valuation update

The actuarial valuation of the Scheme as at 5 April 2020 has now been completed. The Scheme Actuary calculated how much money the Scheme needs to be able to meet the pension liabilities built up so far (based on actuarial assumptions about the future), and compared this with the assets currently held by the Scheme. The Actuary also looked at how much money is needed to provide pensions going forwards. The Trustee and Leonardo MW Ltd (the Company) have agreed the basis for the 2020 valuation as set out below.

Past service liabilities

As at 5 April 2020, there was a surplus in the Scheme of £125m (in relation to pensions which have already been earned), with a funding level of 113%. This is a fall in funding level since the 2017 valuation position, which showed a surplus of £192m and a funding level of 126%.

Whilst Scheme experience over the valuation period was largely positive, with strong investment returns through to early 2020, the key factors which contributed to the reduction in funding position were a portion of the surplus being used to support future service cost (see further below) and the impact of the COVID-19 global pandemic. The financial conditions at the April 2020 valuation date, as a result of the pandemic, increased the value placed on the Scheme's liabilities and had a negative impact on the performance of the Scheme's assets during March and April 2020.

Given the unprecedented conditions at the time of the valuation, the Trustee and Company held frequent discussions throughout 2020 to understand and mitigate the financial impact of the pandemic. Changes were agreed to assumptions used within the valuation, to reflect Scheme experience and the longer-term market expectations.

No changes were proposed to members' benefits or contributions as a result of the 2020 valuation process.

Future service cost

The cost of providing future pension benefits for members who are still earning pension within the Scheme (the future service cost) has increased further since the last valuation, from 34.3% p.a. of pensionable salaries to 37.6% (after allowing for member contributions and expenses). This is primarily due to continued falls in interest rate expectations. The Company is currently paying an average of 14.4% of pensionable salaries p.a. towards the cost of future service benefits. Given the strong overall funding position and strength of covenant support from the Company, the Trustee and Company have agreed that there will be no changes to member or Company contribution rates as part of this valuation. A portion of the past service surplus will be used to support the increased future service cost. The Company intends to review the sustainability of future service cost following the completion of this valuation.

All stakeholders are pleased with the outcome of the valuation, and are grateful for the hard work of all parties and the Scheme's advisers to conclude this process during a particularly challenging year.

Quarterly Funding Update to 30 September 2020

The quarterly funding update showed that the estimated surplus had increased from £160m at 30 June 2020 to £175m at 30 September 2020. The returns on the investment fund assets were better than assumed following the significant market falls in March 2020 due to the COVID-19 pandemic.

The cost of new benefit accrual had decreased slightly during the period from 30 June 2020 (40.3%) and 30 September 2020 (38.8%). The cost is significantly higher than the contributions being paid to the Scheme, and the surplus is supporting this shortfall.

Investment Performance

The market value of the total assets of the Scheme at 30 September 2020 had increased to £1.22bn.

The quarter was positive, following the market bounce back in Q2 post the COVID-19 outbreak. Investment performance of the return-seeking assets over the quarter had been 3% which was 2.2% ahead of objective. The return since inception was ahead of objective, with some other periods behind the benchmark.

The total performance measure (both the return-seeking and the matching assets) shows a -0.1% return which is 1.4% ahead of the benchmark (which looks at the change in the Scheme's liabilities). Since inception, returns are slightly ahead of objective, with some other periods behind the benchmark.

Administration

MyPension.com/LEPS

63% 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.

Buy Up

The Buy Up rates for 2021/22 have been set:

Main and 2000 Buy Up to 1/60th = 4.1% of Pensionable Salary (compared to 4.1% for 2020/21)
100+ Buy Up to 1/95th = 1.7% of Pensionable Salary (compared to 1.6% for 2020/21)
100+ Buy Up to 1/90th = 3.5% of Pensionable Salary (compared to 3.5% for 2020/21)

Letters were issued to eligible members on 20 January 2021 and loaded onto MyPension.com/LEPS. If you do not return the Buy Up election form you will continue on your current accrual rate, and 100+ Section members buying up to 1/95th accrual will see a small increase in their contribution rate.

Electronic communications

From 2021 onwards the Trustee will move to electronic communications, and paper benefit statements or newsletters will not be issued unless you have opted-in to continuing to receive paper communications. 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.

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.

<u>Joint DC investment committee meeting</u>

A Joint DC investment committee meeting of the Leonardo UK pension schemes was held on 2 December 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 Quarter 3 2020 markets had recovered well and were more stable compared to the unprecedented volatility seen in March 2020. The investment position continues to be closely monitored.

Membership

56% of active pension scheme members across Leonardo MW Ltd are now in FuturePlanner, with 64% of the active FuturePlanner members working within the Electronics division.

Employee Assistance Programme

A review has taken place and Aviva have been selected as the new Income Protection provider for all members of FuturePlanner from 1 January 2021. Income Protection is an insurance policy to help provide an income if a member is suffering from long-term ill health.

In addition to the Income Protection, Aviva also offer some attractive, preventative benefits with the intention of keeping the workforce well.

The new benefits are:

- DigiCare+ – an APP aimed at preventing long term conditions via health checks
    - Available to FuturePlanner members and their families
    - Five services including a health check (for FuturePlanner members only), a digital GP, a second medical opinion, a mental health consultation and a nutritional consultation.
- Thrive Mental Wellbeing – an NHS approved APP available to all employees. Thrive is designed to help employees detect, prevent and self-manage common mental health conditions.
- Employee Assistance Programme – 24 hour immediate support helpline by phone or via the Thrive APP. This is available to all employees.

The Company will issue communications regarding the new benefits to employees throughout January 2021.

<u>Date of the Next Meeting</u>

The next meeting of the PCC is scheduled for 27 April 2021.

Contact Details

Name	Location	Email Address	Phone Number
Imran Bashir	Capability Green	Imran.Bashir@leonardocompany.com	01582 795520
Jim Cull	Edinburgh	James.Cull@leonardocompany.com	01313 438768
James Fordyce	Edinburgh	James.Fordyce@leonardocompany.com	01313 434658
Martin Johnson	Pensioner Representative	martin.h.johnson@gmail.com	01268 794601
Scott McMillan	Basildon	Scott.McMillan@leonardocompany.com	01268 887094
Stephen Park	Edinburgh	Stephen.Park@leonardocompany.com	01313 435105
Scott Wallace	Edinburgh	Scott.Wallace@leonardocompany.com	01313 434534
Paul Wilton	Southampton	Paul.Wilton@leonardocompany.com	02380 316775
Colin Wyllie	Edinburgh	Colin.Wyllie@leonardocompany.com	01313 438136