LEONARDO

Spring 2021

IN FOCUS

ELECTRONICS
Pension Scheme

FUTURE COMMUNICATIONS

THE WAY WE COMMUNICATE WITH YOU IS CHANGING

As confirmed in the summer edition of InFocus, and the letter about electronic communications we sent to your home address in August 2020, we will be issuing future communications electronically instead of printing and posting them to you. This is so we can:

- contact you quickly and effectively
- reduce the risk of losing important information
- cut down on paper and postage costs
- reduce our environmental impact.

GOING PAPERLESS: WWW.MYPENSION.COM/LEPS

The August 2020 electronic communications letter from XPS detailed how to log onto **MyPension.com/LEPS** and what to do if you wish to continue to receive printed communications. If you have not yet registered, we would encourage you to do so.

From 2021, your annual benefit statement (if you receive one) will be uploaded to your personal account at **MyPension.com/LEPS** and if you have registered with an email address, we will email you when a new statement is available to view. If you returned the form to confirm that you still wish to receive printed communications, you will receive a copy in the post.

The delivery of this newsletter, InFocus, will also change going forwards. This is the last printed copy you will receive (unless you opted-in to receive printed communications) and instead, it will be published on the Scheme website: **www.lepensions.co.uk**. If you have registered with **MyPension.com/LEPS** you will receive an email when there is a new edition available to read.

You can change your mind about receiving printed communications by asking the Trustee (via XPS Administration) who will update your record, alternatively you can change your communication preferences in your personal account at **MyPension.com/LEPS**.

WHAT TO DO IF YOU HAVE LOST YOUR LOGIN DETAILS

If you need a reminder of your **MyPension.com/LEPS** login details, please contact XPS Administration, preferably by email, confirming the following details:

- Your full name
- Your postal address
- The first four digits of your NI number (e.g. AB12)
- The day of your birthday (e.g. 24th).

CHANGING YOUR EMAIL ADDRESS

Please remember to inform us (via **MyPension.com/LEPS**) if you change your email address, so we can continue to communicate effectively with you.

IN THIS ISSUE:

ARE YOU MAKING THE MOST OF OUR ONLINE TOOLS?

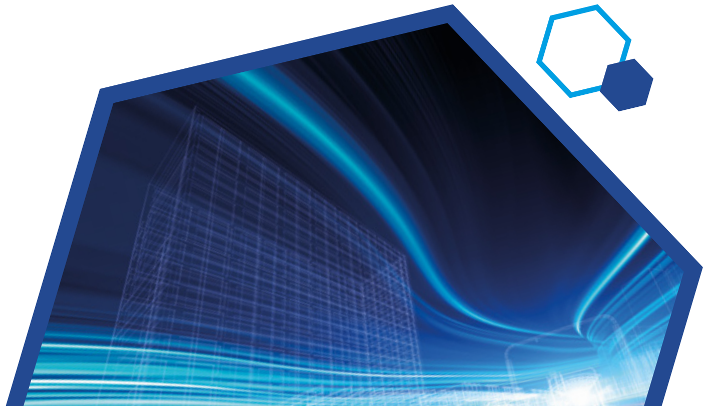
Our online tools at **MyPension.com/LEPS** are a great source of instant pension information. If you are an active member, you can use the online pension modeller to run pension illustrations using a variety of retirement dates.

In addition to the pension modeller, you can also:

- view your personal details and provide us with any updates to your contact information (e.g. address, email address, phone number)
- view your salary and service history
- view your recent active benefit statements
- view any AVC or 100+ Retirement Account fund holdings you have with Mobius Life, access fund factsheets and change how your DC funds are invested
- view your SBS fund (if any)
- update your Expression of Wish form to assist the Trustee with who you would like any benefits to be paid to in the event of your death.

If you are a pensioner, once you are registered, you are able to access copies of your monthly payslips and P60 statements.

If you are a deferred member (i.e. you have left the Company but have not drawn your pension yet) you can view details of your annual pension at your date of leaving.



AWARDS SUCCESS

We are delighted to confirm the Leonardo pensions governance team were ‘Highly Commended’ in the Organisational Award for Supporting Diversity at the Women in Pensions Awards 2020.

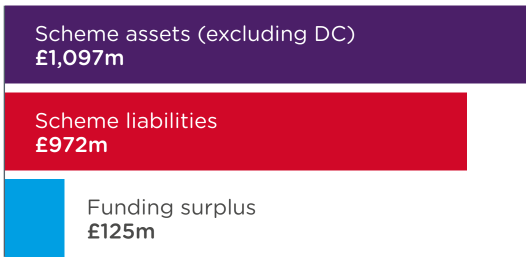
We are also very pleased to announce that the following awards were presented to our Scheme advisers at the Professional Pensions UK Pensions Awards 2020.

- River & Mercantile won fiduciary manager of the year
- Mobius Life won institutional investment platform provider of the year
- XPS won third-party administrator of the year
- EY won sponsor covenant provider of the year
- Aon won risk reduction provider of the year.

VALUATION NEWS AND FUNDING UPDATE

We are pleased to confirm 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 UK 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 £125 million (in relation to pensions which have already been earned), representing a funding ratio of 113%. This is a fall in the funding level since the 2017 valuation position, which showed a surplus of £192 million and a funding ratio of 126%.

While 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 the future service cost (see further details on page 8) 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 the Company held frequent discussions throughout 2020 to understand and mitigate the financial impact of the pandemic. Changes were agreed to the assumptions used for 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.

VALUATION NEWS AND FUNDING UPDATE CONTINUED

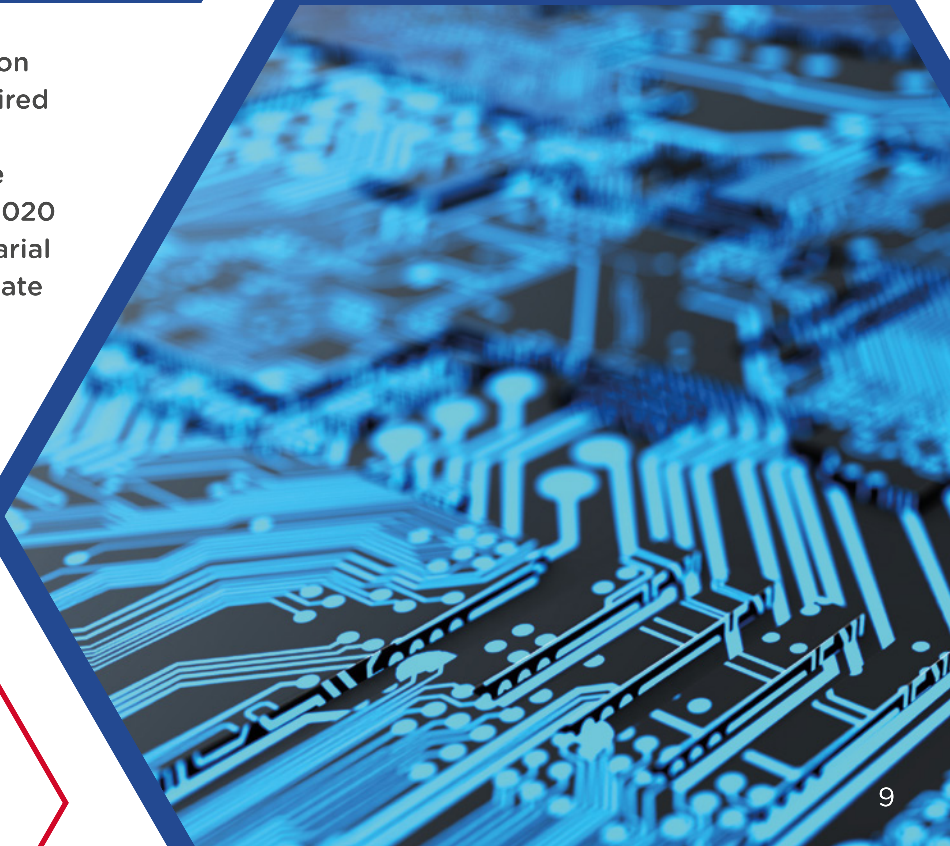
FUTURE SERVICE COST

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% p.a. (after allowing for member contributions and expenses). This is primarily due to continued falls in interest rate expectations. The Company is currently paying an annual average of 14.4% of pensionable salaries towards the cost of future service benefits. Given the strong overall funding position and strength of covenant support from the Company, the Trustee and the Company have agreed that there will be no changes to member or Company contribution rates as part of this valuation. A portion of the surplus (as identified on page 6) will be used to support the increased future service cost.

The Trustee and the Company 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.

SUMMARY FUNDING STATEMENT 2020

This is your update on the funding position of the Scheme, which the Trustee is required to provide to you each year. Set out on the following pages are the details of the Scheme's funding position as at 5 April 2020 (the date of the most recent formal actuarial valuation), together with the interim update as at 5 April 2019 (the position shown in the last summary funding statement).



SUMMARY FUNDING STATEMENT 2020 CONTINUED

VALUES ARE IN £ MILLION

2020 Funding level – 113%

2019 Funding level – 119%

DEFINITIONS

Funding level %: the value of the assets, expressed as a percentage of the value of the liabilities.

- **Assets:** the amount of money held by the Scheme in various forms (excluding DC assets). This includes cash, equities, bonds, swaps and other investments.
- **Liabilities:** the amount of money the Scheme is estimated to need in order to pay all of its future benefits, based on benefits earned up to the valuation date.
- **Surplus:** the amount by which the Scheme's assets exceed its liabilities.

CHANGE IN ONGOING FUNDING POSITION SINCE THE LAST SUMMARY FUNDING STATEMENT

As at 5 April 2019, there was an estimated surplus of £159 million. Since then, this has reduced to £125 million at 5 April 2020. This was mainly due to a portion of the surplus being used to support the cost of new benefit accrual over the year (agreed as part of the valuation process) and falls in investment returns experienced during the first quarter of 2020 as a result of the COVID-19 pandemic.

The value of the liabilities as at 5 April 2019 was calculated using assumptions agreed by the Company and the Trustee as part of the 2017 actuarial valuation. The value of the liabilities as at 5 April 2020 was calculated using assumptions agreed as part of the 2020 actuarial valuation. The next detailed calculation of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2023. The Trustee does, however, monitor the funding position of the Scheme on a regular basis and will take action if necessary.

SUMMARY FUNDING STATEMENT 2020 CONTINUED

BUYOUT/DISCONTINUANCE BASIS

This is the amount of money needed to buy an insurance policy to pay all the benefits due from the Scheme. This would only be relevant if it was decided to wind up the Scheme. As at 5 April 2020, the Actuary valued the Scheme at 81% funded on a discontinuance basis (deficit of £255 million). It is a legal requirement to produce these discontinuance figures, and it does not mean that there is any intention to wind up the Scheme.

HOW IS MY PENSION FUNDED?

Active members and the participating employer pay contributions to the Scheme based upon members' pensionable salaries. The Scheme holds the money in a common fund from which it pays members' pensions when they retire. If you pay voluntary contributions to the Selected Benefits Scheme (SBS), these contributions are also held in this common fund. Other Additional Voluntary Contributions and 100+ Retirement Accounts are held separately with Mobius Life.

HOW IS THE AMOUNT OF MONEY THE SCHEME NEEDS WORKED OUT?

The Trustee obtains regular valuations of the benefits earned by members. Using this information and recommendations from the Scheme Actuary, the Trustee and the Company must agree on the future contributions that are required to ensure there is sufficient money in the Scheme to pay the benefits. As part of this process, the Trustee reviews the financial strength of the Leonardo companies supporting the Scheme.

WHICH FUNDING BASIS IS USED?

The ongoing funding basis is used to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that the Company will continue in business and support the Scheme. The discontinuance basis is not used; however, it would be relevant if the Scheme were to wind up, for example if the Company became insolvent.

WHAT IF THE SCHEME STARTED TO WIND UP?

We are legally required to tell you what would happen if the Scheme were to wind up. It does not mean there is any intention to wind up the Scheme in the foreseeable future. If the Scheme were to wind up, the Company is required to pay enough into the Scheme to secure the members' benefits with an insurance company. If the Company is not able to pay the deficit (if any), the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members. Further information about the PPF can be found at **www.ppf.co.uk**

OTHER INFORMATION

No payments have been made from the Scheme to any participating employers in the last 12 months (other than those required for the pensions management services provided by Leonardo UK Ltd).

If you are thinking of leaving the Scheme, you should consult a professional independent financial adviser first.

FINANCIAL HIGHLIGHTS

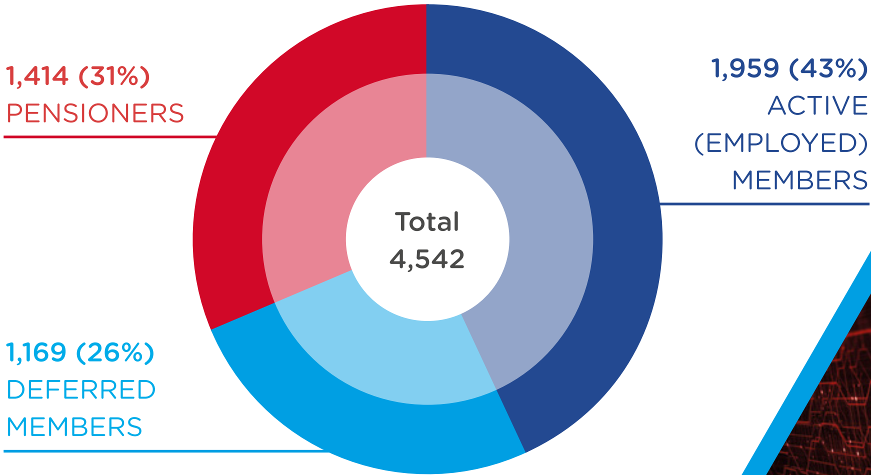
In the year to 5 April 2020, the Scheme's assets (including DC assets) increased to £1,125 million. This primarily related to the positive investment returns on the Scheme's assets. The table below shows a summary of the financial transactions of the Scheme during the year:

Value of Scheme assets at 5 April 2019	**£1,032m**
+ income	£40m
– benefits and expenses	(£21m)
+ change in market value of investments	£74m
Value of Scheme assets at 5 April 2020	**£1,125m**

This information has been taken from the Trustee's Annual Report and Accounts 2020, which have been independently audited by RSM UK Audit LLP. If you would like to see a copy of the full Report and Accounts, it is available from the library on the Scheme website: **www.lepensions.co.uk**

MEMBERSHIP

As at 5 April 2020, the membership of the Scheme was as follows:



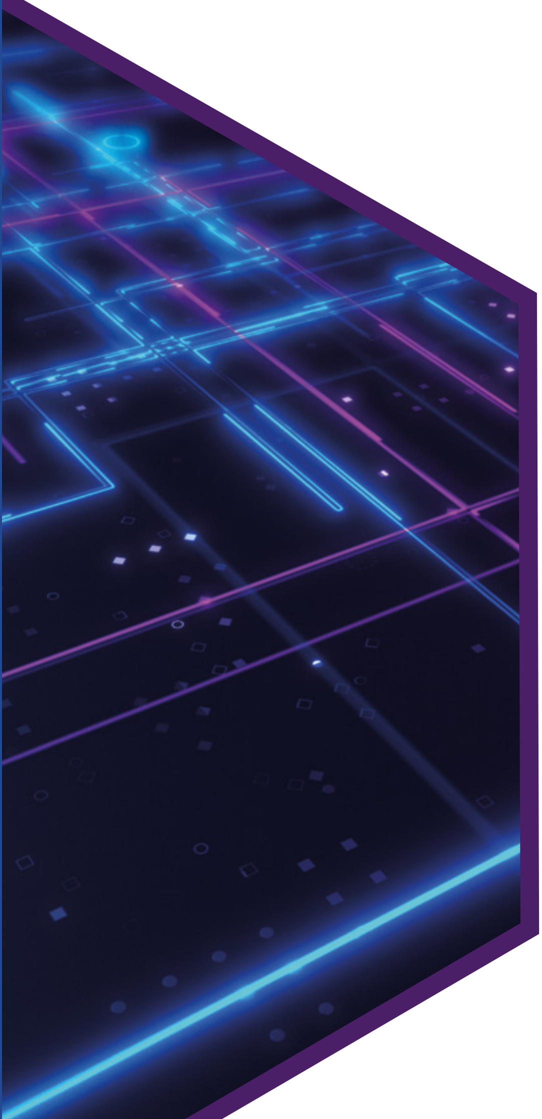
OUR INVESTMENTS

INVESTMENT STRATEGY

The Trustee is responsible for investing the Scheme's assets in order to pay pensions to members now and in the future. Taking advice from specialist advisers, the Trustee sets out its investment strategy in a document called the Statement of Investment Principles. During the year, the Trustee engaged Lane, Clark & Peacock to undertake an external review of the Scheme's fiduciary management investment services, and we are pleased to confirm River & Mercantile were re-appointed as a result of this process.

The Scheme's return-seeking assets (£520 million as at 5 April 2020) are managed by River & Mercantile Solutions and are invested in a wide range of asset classes. The Trustee has delegated the day-to-day management of the assets to the investment manager.

The 'off-risk' portion of the Scheme's assets (£408 million as at 5 April 2020) is in a mix of hedging instruments and Government bonds which track changes in the liability profile of the Scheme when long-term interest rate and inflation expectations change. As at 5 April 2020, there was also £22 million in DC funds (AVCs and 100+ Retirement Accounts) and £175 million in an insurance buy-in policy.



ALLOCATION OF ASSETS AS AT 5 APRIL 2020

Asset class	Value	% of investment portfolio	% of total assets
Equity	£174m	19%	15%
Alternatives	£122m	13%	11%
Bonds	£62m	7%	6%
Property	£33m	4%	3%
Cash	£135m	14%	12%
Currency hedge	-£6m	-1%	-1%
Total on-risk	**£520m**	**56%**	**46%**
Off-risk	**£408m**	**44%**	**36%**
Insurance buy-in policy	£175m		16%
DC assets	£22m		2%
Total	**£1,125m**		**100%**

Further information about the Scheme’s investments is available in the 2020 Report and Accounts.

OUR INVESTMENTS CONTINUED

INVESTMENT PERFORMANCE

The year to 5 April 2020 saw volatile market conditions for the Scheme. The falls in return-seeking assets experienced during the first quarter of 2020 as a result of the COVID-19 pandemic were unprecedented. These falls were subsequently materially recovered during strong investment performance through the remainder of 2020; however, the position at 5 April 2020 was challenging. Returns are shown to 5 April 2020, net of any fees paid from assets.

Looking first at the performance of the Scheme's return-seeking portfolio alone, returns over the year were below the target benchmark, and this performance impacted the position over longer periods:

Return-seeking portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	-8.4%	-0.6%	2.0%
Target (cash + 3% p.a.)	3.8%	3.6%	3.6%
Investment return relative to target	-12.2%	-4.2%	-1.6%

The returns for the total portfolio (including the off-risk assets) were positive, principally because of the significant movements in liability-related assets in recent years, although behind the targeted return:

Total portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	7.2%	4.3%	8.5%
Liability-related target	15.2%	8.4%	10.6%
Investment return relative to target	-7.4%	-4.1%	-2.1%

KEEPING YOU UP TO DATE

FUTURE CHANGES TO RPI METHODOLOGY

The Government and the UK Statistics Authority have published their response to a joint consultation on the reform of the methodology for calculating the Retail Prices Index (RPI). It is expected that the calculation of RPI will change from February 2030, so that from then on it will be calculated in line with the Consumer Prices Index (including housing) (CPIH). CPIH inflation has typically been lower than RPI inflation in the past. If this position continues, we may see lower values of RPI inflation from 2030 onwards than otherwise, which will be reflected in the calculation of pension benefits and Scheme assets which are linked to the RPI.

EMPLOYER CHANGE OF NAME

Leonardo MW Ltd is changing its name to Leonardo UK Ltd from 31 March 2021. This is a name change only to harmonise company names across the Leonardo group, and there is no change in the entity supporting the Scheme. References to the Company in this newsletter reflect the new name.

KEEP IN TOUCH

Please remember to let us know if any of your details change, such as your address. If you have any queries about your pension, please contact the administrator.

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