

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

A meeting of the PCC took place via Webex conference call on 19 October 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 eleven representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Jim Cull	Edinburgh (Chair)
Imran Bashir	Capability Green
Duncan Charlick	Basildon
James Fordyce	Edinburgh
Adam Hedley	Capability Green
Martin Johnson	Pensioner Representative (Deputy Chair)
Stephen Park	Edinburgh
Scott Wallace	Edinburgh
Paul Wilton	Southampton
Colin Wylie	Edinburgh
Alan Good	HR – Leonardo UK Ltd
Mike Nixon	Head of Pensions
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 meeting on 5 October 2021.

Annual Report and Accounts

The 2021 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, Cardano Advisory (previously Lincoln), provides a review of the financial strength of Leonardo UK Ltd and Leonardo SpA. The financial position was assessed as remaining strong, taking into account the Scheme's funding position and having assessed the recent challenges arising as a result of the COVID-19 pandemic.

Quarterly Funding Update to 30 June 2021

The quarterly funding update showed that the estimated surplus had increased from £203m at 31 March 2021 to £229m at 30 June 2021. The returns on the investment fund assets over the quarter exceeded their targets, which improved the funding position.

The cost of new benefit accrual had increased during the period from 31 March 2021 (34.3%) to 30 June 2021 (35.7%) due to movements in real interest rate expectations. The cost remains volatile and is significantly higher than the contributions being paid to the Scheme with the surplus supporting this shortfall.

Investment Performance

The market value of the total assets of the Scheme as at 30 June 2021 was £1.220bn.

The quarter was positive, continuing the market bounce back post the COVID-19 outbreak. Investment performance of the return-seeking assets over the quarter had been 3.8% which was 3% ahead of objective. The returns over three years and since inception were also ahead of benchmark.

The total performance measure (both the return-seeking and the matching assets) had been strong over all periods with a return of 6.3% over the quarter which is 3% ahead of the benchmark (which looks at the change in the Scheme's liabilities).

Following recent improvements in the funding position, the Trustee has taken action to de-risk the portfolio by 10% (from a 60% on-risk allocation to 50%). This helps protect the funding position by reducing risk and banking some of the gains achieved. Further work is ongoing to plan the journey from the current funding level to full funding on a more prudent funding basis known as 'low dependency'. This basis has a lower risk approach to investment, and therefore the current funding level is lower on this basis.

Factor review

The Trustee undertakes a review of Scheme factors after each valuation cycle. The review following the 5 April 2020 Actuarial Valuation had been delayed slightly whilst the de-risking activity was carried out but has now been completed and factors will change on 1 November 2021.

Scheme factors are used to calculate various member options. The majority of the factors will improve, including the Scheme's commutation factors used in the calculation of tax free cash lump sums.

A small number of factors will decrease. For members of the 100+ Section and Main Section retiring from active service over the age of 60, the reduction for early payment will increase slightly to align with movement in market conditions and the basis used to calculate transfer values. The Trustee will implement a lead in time, with members who have resigned and already received a formal written quotation from XPS being given the best of both sets of factors if their retirement date is between 1 November 2021 and 31 January 2021. Impacted members retiring on or after 1 February 2022 will receive benefits calculated on the new factors.

For members who are over 65 and have ceased paying into the Scheme, the factors used to increase their deferred pension benefits between 65 and their retirement date will reduce slightly. Any members who opted out at 65 and are still working for the Company will be informed of the change and will receive benefits calculated using the previous factors if they wish to retire before 30 June 2022.

Administration

MyPension.com/LEPS

68.9% 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.** Members can log onto

MyPension.com/LEPS to view and update personal details, update Expression of Wish forms, view DC savings and make investment switches as well as run retirement quotations (active members only).

For misplaced login details please contact XPS Administration by emailing LEPS@xpsgroup.com.

Annual Benefit Statements

The 2021 Annual Benefit Statement is now available to view electronically on www.MyPension.com/LEPS. Members who have previously opted out of electronic communications will have been sent a hard copy at the beginning of August 2021.

Joint DC investment committee meeting

A Joint DC investment committee meeting of the Leonardo UK pension schemes was held on 22 September 2021. 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

All 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 2 2021 markets had recovered well and were more stable compared to the unprecedented volatility seen in early 2020. The investment position continues to be closely monitored.

Membership

58% of active pension scheme members across Leonardo UK Ltd are now in FuturePlanner, with 67% of the active FuturePlanner members working within the Electronics division.

Sharia fund

An Islamic global equity fund, compliant with Sharia law, has been introduced into the Pick & Mix options with effect from 1 June 2021.

Mobius Life micro-site

A new DC investment 'micro site' has gone live on 1 June 2021.

The new microsite allows members to access current data on all the Leonardo Defined Contribution (DC) investment funds, including unit prices, historic performance and asset allocation. It also includes functionality to compare different funds in graphical form.

To access the new site, login into the DC investments section of www.MyPension.com/LEPS and click on the "Compare Funds" tab.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 18 January 2022.

Contact Details

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