

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 5 APRIL 2022**

A meeting of the PCC took place via Webex conference call on 5 April 2022.

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:-

James Cull	Edinburgh (Chair)
Duncan Charlick	Basildon
Adam Hedley	Capability Green
Martin Johnson	Pensioner Representative
Scott McMillan	Basildon
Stephen Park	Edinburgh
Scott Wallace	Edinburgh
Andrew Letton	HR – Leonardo UK Ltd
Alan Good	HR – Leonardo UK Ltd
Mike Nixon	Head of Pensions
Rachael Skuse	Pensions Manager
Helen Thompson	Pensions Administration Manager
Laura Fox	Pensions Information and Investment Adviser

The meeting was held to receive feedback from the LEPS Trustee meeting on 24 March 2022.

Quarterly Funding Update to 31 December 2021

The quarterly funding update showed that the estimated surplus had increased from £234m at 30 September 2021 to £248m at 31 December 2021.

The cost of new benefit accrual had increased during the period from 30 September 2021 (34.9%) to 31 December 2021 (37.3%) due to a decrease in real interest rates (interest rates net of inflation) over the quarter. 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 31 December 2021 was £1.301bn.

Investment performance of the return-seeking assets over the quarter had been good and was 2.9% which was 2.1% ahead of the benchmark. 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 6.2% over the quarter which is 2.4% ahead of the benchmark (which looks at the change in the Scheme's liabilities).

Following the improvements in the funding position, and the reaching of 2 trigger points, the Trustee has taken actions to de-risk the portfolio by 10% initially followed by a further 13% (from a 60% on-risk allocation to 50%, then to 37%). This has helped reduced risk and bank some of the gains achieved. De-risking activity results in a prospective reduction in the assessment of the Scheme's ongoing funding position, due to a need to reduce the expected investment return on the assets.

The Trustee has changed the basis of the liability hedge from the ongoing funding basis to the low dependency basis and this was implemented in November 2021.

The sale of River & Mercantile's Solutions business (the Scheme's investment manager) to Schroders completed in February 2022. The transition appears to have been smooth.

Ukraine

In February 2022 the events in Ukraine caused market volatility and falls in assets which impacted Scheme funding levels. The position improved into March but volatility remains.

Analysis has been undertaken of the investment holdings in Russia. There are minimal holdings due to the Environmental, Social and Governance (ESG) screening which was already in place – 0.015% of the portfolio. These holdings will be divested subject to trading limitations.

Funding and Covenant

The Trustee has reviewed the employer covenant with advice from the Scheme's covenant adviser Cardano (previously named Lincoln). The 2021 year-end position showed improvement on 2020 following recovery after the impact of the pandemic. The Employer covenant remains 'strong', but concerns continue regarding order intake which was behind budget, particularly in the Helicopters division.

Transfer value basis review

Following the de-risking activity, the transfer value basis has been updated to reflect the new investment return expectations. A lower assumed investment return increases the CETV values for members. The new basis has been implemented.

Annual rates

The following annual rates have been set by the Trustee:

- SBS Credited Interest at 5.5% for the year commencing 6 April 2022.
- Main Section revaluation factor for Protected Rights and Individual Pension Accounts at 4.9% as at 5 April 2022.
- The shadow earnings cap for the year commencing 6 April 2022 is £181,200.

Buy Up

The election window for Buy Up during the 2022/23 Scheme Year closed on 8 March 2022. 39 members have elected to increase their accrual rate, and 6 to reduce their accrual rate.

Administration

MyPension.com/LEPS

76.93% 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.

Joint DC investment committee meeting

A Joint DC investment committee meeting of the Leonardo UK pension schemes was held on 9 March 2022. 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 Schroders (previously 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 to 31 December 2021 performance was good, but the environment in the first quarter of 2022 is much more difficult. The return over 12 months has been excellent, with the long-term growth fund returning 14.1% against the long term target of 10.4%. The investment position continues to be closely monitored.

Investment strategy

Risk

The Trustee has agreed, following advice from Schroders, that there is a need to take some additional risk within the Blend funds to make it more likely they achieve the inflation plus targets. This will mean typically higher allocations to equities with the central benchmarks changing as illustrated below:

	Current percentage of equities	New percentage of equities
Long term growth	65%	90%
Stable growth	50%	70%
Cautious growth	40%	50%

To offset the additional risk the default 'Lifestyle' strategy will 'de-risk' somewhat faster on the approach to the member's Target Retirement Age. The quarterly switching into the Retirement Focus fund will occur over the five rather than three years before the member's Target Retirement Age. Impacted members have been informed.

Retirement Focus funds

At the end of the Default 'Lifestyle' investment strategy funds are gradually switched into the Retirement Focus fund. There are currently four Retirement Focus funds – a 'managed for me' Default and three optional funds focused on cash, annuity or income drawdown.

From 25 April 2022

- The Retirement Focus Default fund will have 10% in the Stable Growth fund (take from the Annuity focus fund). The revised allocation is 50% Cautious Growth, 25% Annuity Focus, 15% Cash and 10% Stable Growth which is expected to be a better fit to a new at retirement 'income drawdown' solution being developed.
- The Retirement Focus Income Drawdown fund will no longer be available.

XPS have written to all those members who will be impacted by the changes. Members who have chosen the Income Drawdown fund will move to the new Retirement Focus Default fund.

The above changes will also affect AVC funds and 100+ Retirement Accounts for LEPS members.

The Trustee is preparing to introduce a new 'at retirement' solution for members (a Master Trust). The changes to the Retirement Focus fund will allow members wishing to transfer to the new solution to transition seamlessly. More information will be published shortly.

Membership

60% 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.

Member Nominated Trustee elections

Brian Airlie and Craig Weston have been reappointed as Member Nominated Trustees, and Kealey Judd has been appointed to the interim position (following the resignation of Oliver Grammar).

Date of the Next Meeting

The next meeting of the PCC is scheduled for 28 June 2022.

Contact Details

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