

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 18 OCTOBER 2022**

A meeting of the PCC took place via Webex conference call on 18 October 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 nine representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Imran Bashir	Capability Green (Chair)
James Cull	Edinburgh
James Fordyce	Edinburgh
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
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 4 October 2022.

Quarterly Funding Update to 30 June 2022

The quarterly funding update showed that the estimated surplus had decreased from £213m at 31 March 2022 to £149m at 30 June 2022.

The estimated cost of new benefit accrual had also decreased during the period from 31 March 2022 (32.2%) to 30 June 2022 (24.8%) due to an increase 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.

The buy-out funding position also deteriorated over the quarter to 30 June 2022, with a deficit of £18m (£21m surplus as at 31 March 2022) and a funding level of 98% (102% as at 31 March 2022).

Funding conditions post-quarter end have shown falls in the ongoing surplus position. There has also been a further material decrease in the assessed cost of accrual amid increases in net interest rate expectations.

Investment Performance

The market value of the total assets of the Scheme as at 30 June 2022 was £813m.

Investment performance of the return-seeking assets over the quarter had been poor and was -5.6% which was -6.6% behind the benchmark. The return over three years was also behind the benchmark (returning -0.8% behind the benchmark) but remained slightly ahead of benchmark since inception.

The total performance measure (both the return-seeking and the matching assets) had underperformed over the quarter, with a return of -21.0% which is -1.2% behind the benchmark (which looks at the change in the Scheme's liabilities). However, the total performance had been 1.4% ahead of benchmark over three years.

Post quarter end, market conditions continue to be volatile with further falls in asset values through the period.

The Scheme allocates 33% on-risk following the previous de-risking activity in Q4 2021. This de-risking activity helped protect the Scheme against further impact from the widespread market falls through the first half of 2022. The investment portfolio remains defensive, with Schroders monitoring conditions and not currently looking to move back on-risk.

The economic turbulence in September 2022 following the Chancellor's 'mini budget' caused significant implications for pension schemes. The 'unfunded' budget caused a market shock, with assets and sterling falling dramatically and unprecedented increases in interest rates (gilt yields) over a short period of time. This pushed down the value of gilts.

Liability hedging contracts are 'collateralised' each day with schemes being required to post collateral to banks as rates rise. The speed with which rates increased meant some schemes were unable to post collateral quickly enough. With limited buyers for gilts, the Bank of England stepped in to buy up gilts with a view to stabilising the markets. This intervention was expressed to be temporary.

LEPS has had sufficient collateral to withstand the movements to date, and the Trustee has taken immediate action to grant Schroders increased flexibility to take action to protect the Scheme's position. This enables assets to be sold quickly to meet collateral requirements if necessary.

Whilst Scheme assets and liabilities have fallen sharply (with assets at £584m + £100m buy-in), the funding position post quarter-end has remained fairly stable with a funding level of 118%. The ongoing surplus has decreased by £49m, with the low dependency basis remaining similar and an improvement in the buy-out position bringing that measure back into surplus at £18m. The figures are estimated and are highly provisional given asset movements.

Annual Report and Accounts

The 2022 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.

Taskforce on Climate Related Financial Disclosures

The Trustee has been undertaking work on compliance with the Taskforce on Climate Related Financial Disclosures (TCFD) in preparation for the 2023 accounting process which will require a publicly available report on climate risks to be prepared.

The Trustee has set a number of climate scenarios for risk analysis, which include an 'orderly transition', 'disorderly transition' and 'failed transition' to a low-carbon climate resilient economy. An objective has been adopted to achieve net zero by 2050 (in line with the Schroders target).

Administration

79.14% 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 22 September 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

The majority of the Schroders 'blend funds' (which make up the default fund in the DC investment strategy) had marginally out-performed their long term targets since the inception of the funds.

During the quarter to 30 June 2022 performance was poor, reflecting the market reaction to the war in Ukraine, and wider market uncertainty. For example, the long-term growth fund returned -8.8% against a long term target of 5.3%. The investment position continues to be closely monitored.

Protected Minimum Retirement Age

The minimum age people need to be to take their pension benefits is due to increase to age 57 from 2028. However, some schemes have protected ages and FuturePlanner is one of them.

Therefore, existing FuturePlanner members as at 3 November 2021 will have a protected pension age of 55 under the relevant legislation. Employees who join FuturePlanner after 3 November 2021 will have a minimum retirement age of 57 from 6 April 2028 onwards.

Auto Enrolment and Escalation

Every three years employers are required by legislation to 'auto enrol' employees into a pension scheme and increase contributions for pension scheme members who are paying less than 3%.

The re-enrolment and auto escalation exercises for the Helicopters and Electronics divisions are underway. Twenty non-members have been contacted regarding re-enrolment, and 76 members have been contacted regarding increasing their contributions.

Any adjustments will be processed in the October 2022 payroll.

Annual Report and Accounts

The 2022 Report & Accounts have been completed and signed (available at www.futureplanner.co.uk).

Membership

62% of active pension scheme members across Leonardo UK Ltd are now in FuturePlanner, with 68% of the active FuturePlanner members working within the Electronics division.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 17 January 2023.

Contact Details

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