

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 17 JANUARY 2023**

A meeting of the PCC took place via Webex conference call on 17 January 2023.

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:-

James Cull	Edinburgh
Dan Amy	Southampton
Leigh Clarke	Basildon
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
Rachael Skuse	Pensions Manager
Helen Thompson	Pensions Administration Manager
Laura Fox	Pensions Information and Investment Advisor

The meeting was held to receive feedback from the LEPS Trustee meeting on 8 December 2022.

Quarterly Funding Update to 30 September 2022

The quarterly funding update showed that the estimated surplus had decreased from £149m at 30 June 2022 to £135m at 30 September 2022.

The estimated cost of new benefit accrual had also decreased during the period from 30 June 2022 (24.8%) to 30 September 2022 (19.3%) due to an increase in real interest rates (interest rates net of inflation) over the quarter. The cost remains volatile and is higher than the contributions being paid to the Scheme with the surplus supporting this shortfall.

The buy-out funding position reduced over the quarter to 30 September 2022, with a deficit/surplus of £0 (£18m surplus as at 30 June 2022) and a funding level of 100%.

Investment Performance

The market value of the total assets of the Scheme as at 30 September 2022 was £784m.

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 had been negative at -16.8%. However, this is 1.4% ahead of the benchmark (which looks at the change in the Scheme's liabilities). The total performance had been 1.8% 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. A further 10% de-risk also took place at the end of Q4 2022.

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 took prompt 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.

Buy Up

The Buy Up rates for 2023/24 have been set:

- Main & 2000 Buy Up to 1/60th = 2.4% of Pensionable Salary (4.1% for 2022/23)
- 100+ Buy Up to 1/95th = 0.9% (1.8% for 2022/23)
- 100+ Buy Up to 1/90th = 2.4% (3.7% for 2022/23)

Letters will be issued to eligible members on 19 January 2022 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 if you currently Buy Up you will see a reduction in your contributions from April 2024.

Administration

MyPension.com/LEPS

80.01% 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 30 November 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 under-performed their long term targets since the inception of the funds.

During the quarter to 30 September 2022 performance was challenging. For example, the long-term growth fund returned -2.1% against a long term target of 2.9%. The investment position continues to be closely monitored.

There had been a period of extreme market volatility with the economic turbulence in September 2022 following the Chancellor's 'mini budget'. This had significant implications for DB pension schemes, and had a negative impact on DC asset values.

Whilst the long term growth, and stable growth funds held up fairly well over the quarter to end September, the funds with higher exposure to gilts reduced in value (Retirement Focus and Annuity Focus funds especially). The corresponding price of annuities fell meaning members would need less funds to purchase the same level of annuity income into retirement.

Auto Enrolment and Escalation

The re-enrolment and auto escalation exercises for the Helicopters and Electronics divisions took place on 1 October 2022.

Every three years the Company is required to auto-enrol any employees not paying into a pension scheme into FuturePlanner, and increase the contributions of any members paying less than 3% up to 3%.

Twenty employees who were not in a Company pension scheme had been contacted regarding re-enrolment, 9 of whom were auto-enrolled. The other 11 employees confirmed they did not wish to be enrolled into FuturePlanner.

Seventy six members were identified as paying contributions lower than 3%. Three chose to increase their contributions prior to 1 October, 11 choose to remain at less than 3% and the remaining sixty members were auto-escalated to 3% on 1 October 2022.

99.85% of eligible employees are now in a Company pension scheme.

Membership

64% of active pension scheme members across Leonardo UK Ltd are now in FuturePlanner, with 69% of the active FuturePlanner members working within the Electronics division.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 25 April 2023.

Contact Details

Name	Location	Email Address	Phone Number
Imran Bashir	Capability Green	Imran.Bashir@leonardo.com	01582 795520
Leigh Clarke	Basildon	Leigh.Clarke@leonardo.com	07793 427518
Jim Cull	Edinburgh	James.Cull@leonardo.com	07801 715260
James Fordyce	Edinburgh	James.Fordyce@leonardo.com	07523 921188
Adam Hedley	Capability Green	Adam.Hedley@leonardo.com	01582 886344
Martin Johnson	Pensioner Representative	martin.h.johnson@gmail.com	01268 794601
Scott McMillan	Basildon	Scott.McMillan@leonardo.com	07793 420130
Stephen Park	Edinburgh	Stephen.Park@leonardo.com	07813 369508
Scott Wallace	Edinburgh	Scott.Wallace@leonardo.com	07906 781405