

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 25 APRIL 2023**

A meeting of the PCC took place via Webex conference call on 25 April 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:-

Imran Bashir	Edinburgh
James Cull	Edinburgh
Dan Amy	Southampton
Leigh Clarke	Basildon
James Fordyce	Edinburgh
Adam Hedley	Capability Green
Martin Johnson	Pensioner Representative
Stephen Park	Edinburgh
Scott Wallace	Edinburgh
Andrew Letton	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 21 March 2023.

Quarterly Funding Update to 31 December 2022

The quarterly funding update showed that the estimated surplus had decreased from £135m at 30 September 2022 to £99m at 31 December 2022. This quarter captured the reduction in the level of liability hedging during the 'mini-budget' LDI crisis.

The estimated cost of new benefit accrual had also decreased during the period from 30 September 2022 (19.3%) to 31 December 2022 (17.7%) 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 estimated buy-out funding position improved over the quarter to 31 December 2022, with a deficit/surplus of £12m (£0 surplus as at 30 September 2022) and a funding level of 102%. This is a proxy and does not take into account the particular complexities and features of the LEPS arrangement.

Investment Performance

The market value of the total assets of the Scheme as at 31 December 2022 was £735m. The assets and liabilities have reduced through 2022, primarily due to the increasing interest rates.

Investment performance of the return-seeking assets over the quarter had been good and was 4.1% which was 2.6% ahead of the benchmark. The return over three years was behind the benchmark (returning -3.0% behind the benchmark) and also slightly behind the benchmark since inception.

The total performance measure (both the return-seeking and the matching assets) had been negative at -7.5%. However this is 0.7% 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.

The Scheme allocates 23% on-risk following the previous de-risking activity in 2021 and 2022. This de-risking activity helped protect the Scheme against further impact from the widespread market falls through 2022.

The economic turbulence in September 2022 following the Chancellor's 'mini budget' caused significant implications for pension schemes. Restrictions were revised to enable assets to be sold quickly to raise cash if needed to meet collateral requirements, and the liability hedge was reduced to bring down the leverage and help alleviate the collateral position.

The hedge has subsequently been increased as market stability returned, although to a lower level than previously to maintain higher collateral buffers. New regulation is expected to require increased prudence around collateral positions.

Annual Rates

The following annual rates have been set by the Trustee:

- SBS Credited Interest at 2.5% for the year commencing 6 April 2023.
- Main Section revaluation factor for Protected Rights and Individual Pension Accounts at - 32.6% as at 5 April 2023.
- The shadow earnings cap for the year commencing 6 April 2023 is £204,600.

Buy Up

The election window for Buy Up during the 2023/24 Scheme Year closed on 8 March 2023. 71 members have elected to increase their accrual rate, and no members have reduced their accrual rate.

Actuarial Valuation

The actuarial valuation is calculated as at 5 April 2023. The preliminary results are expected to be shared with the Trustee for the Q3 2023 meeting cycle.

Changes to pensions tax allowances

The Chancellor recently announced changes to pensions tax allowances, including:

- Removing the Lifetime Allowance (LTA)

The LTA is a limit on total pension savings over a members lifetime (£1,073,100 for 2022-23). The LTA charge will be removed from 6 April 2023, with the LTA then proposed to be removed by legislation from 5 April 2024.

- Increasing the Annual Allowance (AA) from £40,000 to £60,000 per year.

The AA is a limit on how much you can pay into a pension tax free each year.

- Raising the Money Purchase Annual Allowance (MPAA) from £4,000 to £10,000.

The MPAA limit applies to those who have drawn their benefits flexibly whilst still paying into a pension scheme.

- The limit for higher earners (the Tapered Annual Allowance) has also been raised to £10,000.
- Capping the amount of tax-free cash you can take at retirement at 25% of the current Lifetime Allowance (except where protections apply). This is set at £268,275.

Administration

MyPension.com/LEPS

80.21% 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 7 March 2023. 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 31 December 2022 performance was challenging. For example, the long-term growth fund returned 3.2% against a long term target of 4.0%. The investment position continues to be closely monitored.

Environmental, Social and Governance (ESG)

The annual ESG review has been undertaken by Schroders to facilitate understanding of this growing area of trustee governance responsibility.

Schroders have made significant ESG commitments and believe this is a key component of long term return. They are a founding member of the net zero asset manager initiative and a signatory to the UN's global compact on climate change.

All management of assets has ESG integrated into the processes with all internal asset managers required to go through an accreditation process.

Master Trust

The Trustee has introduced a new 'at retirement' option for members retiring from FuturePlanner. This is called Smart Pension Master Trust ('Smart Pension') and will give members access to a range of flexible retirement options.

1327 deferred FuturePlanner members have already become members of Smart Pension through a bulk transfer process.

Smart Pension will offer members an innovative new retirement product called 'Smart Retire'. This enables members to combine different options to provide an income in retirement. They can split their savings between four different investment pots allowing them to take a flexible monthly income, take cash lump sums and keep money invested for later in retirement or for their dependants.

You can find more information at the Smart Pension Master Trust on the scheme website, www.FuturePlanner.co.uk. The latest Scheme Newsletter contains an article on this new retirement option available at www.futureplanner.co.uk/library/

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 29 June 2023.

Contact Details

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