

**PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 29 JUNE 2023**

A meeting of the PCC took place via Webex conference call on 29 June 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 (Chair)
Adam Hedley	Capability Green
Scott McMillan	Basildon
Stephen Park	Edinburgh
Scott Wallace	Edinburgh
Leigh Clarke	Basildon
Andrew Letton	HR – Leonardo UK Ltd
Mike Nixon	Head of Pensions
Rachael Skuse	Pensions Manager
Laura Fox	Pensions Information and Investment Advisor

The meeting was held to receive feedback from the LEPS Trustee meeting on 13 June 2023.

Quarterly Funding Update to 31 March 2023

The quarterly funding update showed that the estimated surplus had decreased slightly from £99m at 31 December 2022 to £98m at 31 March 2023.

The estimated cost of new benefit accrual had increased during the period from 31 December 2022 (17.7%) to 31 March 2023 (23.5%) due to a decrease 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 March 2023, with a surplus of £17m (£12 surplus as at 31 December 2022) and a funding level of 102%. This is a proxy measure 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 March 2023 was £771m. The assets and liabilities have reduced through 2022, primarily due to the increasing interest rates however seen an increase of £36m during this quarter.

Investment performance of the return-seeking assets over the quarter had been good and was 3.1% which was 1.4% ahead of the benchmark. The return over three years was ahead of the benchmark (returning 2.0% more).

The total performance measure (both the return-seeking and the matching assets) had been positive at 4.7% over the quarter. This is 0.2% ahead of the benchmark (which looks at the change in the Scheme's liabilities). The total performance had been 3.6% ahead of benchmark over three years.

The strong funding position and the closure to future accrual from 5 April 2024 means the Scheme is in a good position. The funding focus can switch to the buy-out funding position. As an interim step it was decided to undertake a further de-risking step.

20% of assets are in Buy and Maintain Credit and it is likely this will become a larger focus of the strategy – known as 'Cashflow Driven Investment'. These returns are more certain and assets are invested in a similar way to an insurance company (as the potential long-term provider of the benefits).

There was additional information provided on the protection within the off risk portfolio for rapid rate rises as happened in the mini-budget crisis in 2022. Schroders minimum standard is for off risk assets to cover a rate rise of 3% and for readily saleable growth assets to cover a further 2% rise. The Scheme can cover a rate rise of 7.2% from off risk assets alone.

Actuarial Valuation

The three yearly actuarial valuation is due to be calculated as at 5 April 2023. The preliminary results are expected to be shared with the Trustee for the Q3 2023 meeting cycle. Following the Company consultation with active members of the Scheme during 2022, the Scheme Lawyers have prepared the deed of amendment for the closure to future accrual of benefits in the Scheme from 5 April 2024 which was approved at the 13 June Trustee meeting and this will be factored into the actuarial valuation results.

Administration

MyPension.com/LEPS

81.34% 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.

Data security

Security processes at XPS have been updated. Member contact with XPS now includes an additional data item for security purposes to enhance protective measures

Joint DC investment committee meeting

A Joint DC investment committee meeting of the Leonardo UK pension schemes was held on 18 May 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 Long Term Growth, Stable Growth and Retirement Focus funds of the Schroders 'blend funds' (which make up the default fund in the DC investment strategy) are broadly in line with their long term targets since the inception of the funds.

Following challenging conditions through 2022, during the quarter to 31 March 2023 performance had been positive. For example, the long-term growth fund returned 2.8% against a long term target of 2.50%. The investment position continues to be closely monitored.

Membership

65% of active pension scheme members across Leonardo UK Ltd are now in FuturePlanner, with 70% of the active FuturePlanner members working within the Electronics division.

Date of the Next Meeting

The next meeting of the PCC is scheduled on 31 October 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
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