Spring 2024

InFocus

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LEONARDO

ELECTRONICS Pension Scheme

SCHEME CHANGES

Following a consultation process between Leonardo UK Ltd (the Company) and its employees and their representatives over a two-year period, it has been announced that the Leonardo Electronics Pension Scheme will close to future pension accrual from April 2024. Pension benefits already built up within the Scheme will be fully protected.

For active members, the build-up of pension benefits within the Electronics Scheme will cease with effect from 5 April 2024 and future pension provision will be through Leonardo FuturePlanner, the Company's 'best in class' defined contribution pension arrangement. Members who will be transferring to FuturePlanner will have received communications from the Company and the FuturePlanner Trustee with details of the future pension offering and any actions to take.

Following confirmation of the outcome of the consultation process, a Deed of Amendment to the Scheme Rules was entered into between the Company and the Trustee effecting the closure to future pension accrual from April 2024. This will establish a new 'employed deferred' category of membership within the Electronics Scheme, which will provide a series of enhanced deferred benefits whilst members remain in employment with the Company. This includes enhanced rates of inflation revaluation up to your retirement, and enhancements to the deferred benefits provided in the event of ill health. Employed deferred members will receive a 'closure statement' in mid-2024.

There are no changes for current pensioner members of the Scheme. For those who have previously left service and already hold a deferred pension with us, there are no changes other than a lifting of the £50,000 voluntary savings limit detailed below.

For those members who have not yet started to draw their pension, there is an improvement to the Scheme's voluntary savings facility for retirements after 5 April 2024. The £50,000 limit on the amount of Additional Voluntary Contributions (AVCs) and Selected Benefits Scheme (SBS) you can take as part of your pension commencement lump sum (known as 'tax-free cash') when you retire has now been lifted. HMRC limits will continue to apply.

The Trustee is working closely with the Scheme's providers and the Company to implement the changes from April 2024, and will continue to focus on de-risking the Scheme wherever possible to ensure members' benefits are protected.

EXPRESSION OF WISH FORM

Does the Trustee know what your wishes are?
Whether you have many years to retirement or are drawing your pension, completing an Expression of Wish form is very important. The Trustee regularly needs to make decisions on who to pay benefits to in the event of a death. The benefits are held under trust and do not automatically become part of a member's wider estate. This can be challenging when members have not provided any indication of who they would like us to consider. **Help us to provide for your loved ones.**

In the event of your death, a benefit may be payable from the Scheme to your beneficiaries. The Trustee will need to decide who to pay the benefits to and, whilst not binding, they will take into account any Expression of Wish form you have completed.

Therefore it is important that you review and update your wishes regularly.

It is advisable to complete an updated Expression of Wish, even where the person(s) you are nominating is not changing. This reconfirms your decision, making it easier for the Trustee to determine what your wishes would be.

It is particularly important to update an Expression of Wish if you have had significant changes in your life or family circumstances.

The easiest way to update your Expression of Wish is online at **https://login.mypension.com/LEPS**. Alternatively, you can download the form at **www.lepensions.co.uk/library**

If you have pension benefits in other arrangements, including Leonardo FuturePlanner, please make sure you complete separate Expression of Wish forms for those schemes too.

PENSION SCAM AWARENESS

Please remain vigilant when it comes to your pension. Some fraudulent companies may write to you when you reach age 55 and advise that they can help you access your pension even whilst you are still working. This would involve transferring your pension to another arrangement and would not provide a 'defined benefit' pension like the Electronics Scheme. Unsolicited contact from pension companies is generally illegal and not in your best interests.

Your pension savings are a valuable benefit. Please make sure you continue to be alert to potential pension scam activity. You can find more information on scam awareness on our website: **www.lepensions.co.uk/are-you-at-risk-of-a-pensions-scam**

VALUATION NEWS AND FUNDING UPDATE

We are pleased to confirm the actuarial valuation of the Scheme as at 5 April 2023 has now been completed. The Scheme Actuary calculated how much money the Scheme needs to be able to meet the pension liabilities built up so far (based on actuarial assumptions about the future) and compared this with the assets currently held by the Scheme and the contributions being paid. The Trustee and Leonardo UK Ltd (the Company) have agreed the basis for the 2023 valuation as set out below.

Past service liabilities:

Scheme assets (excluding DC)
£766m

Scheme liabilities
£716m

Funding surplus
£50m

As at 5 April 2023, there was a surplus in the Scheme of £50 million (in relation to pensions which have already been earned), representing a funding ratio of 107%. This is a fall in the funding level since the 2020 valuation position, which showed a surplus in the Scheme of £125 million and a funding ratio of 113%. The key factors which contributed to the reduction in the funding position were a portion of the surplus being used to support the future service cost (as agreed as part of the 2020 valuation) and a net reduction in surplus from the impact of rising inflation and interest rates with market conditions over the period having been extremely volatile.

The surplus position has also reduced as a result of the de-risking activity which has been carried out in the Scheme over recent years. As the Scheme has been reducing the risks within the investment portfolio, the investment return expectations are also reduced.

Market conditions over the valuation period have been extremely volatile with rising inflation and interest rates, and challenging investment conditions. The Trustee has worked closely with its advisers to navigate the difficulties arising from the war in Ukraine and then the ‘mini-budget’ crisis in September 2022, which caused UK gilt markets to cease functioning and generated distress within many pension liability hedging portfolios.

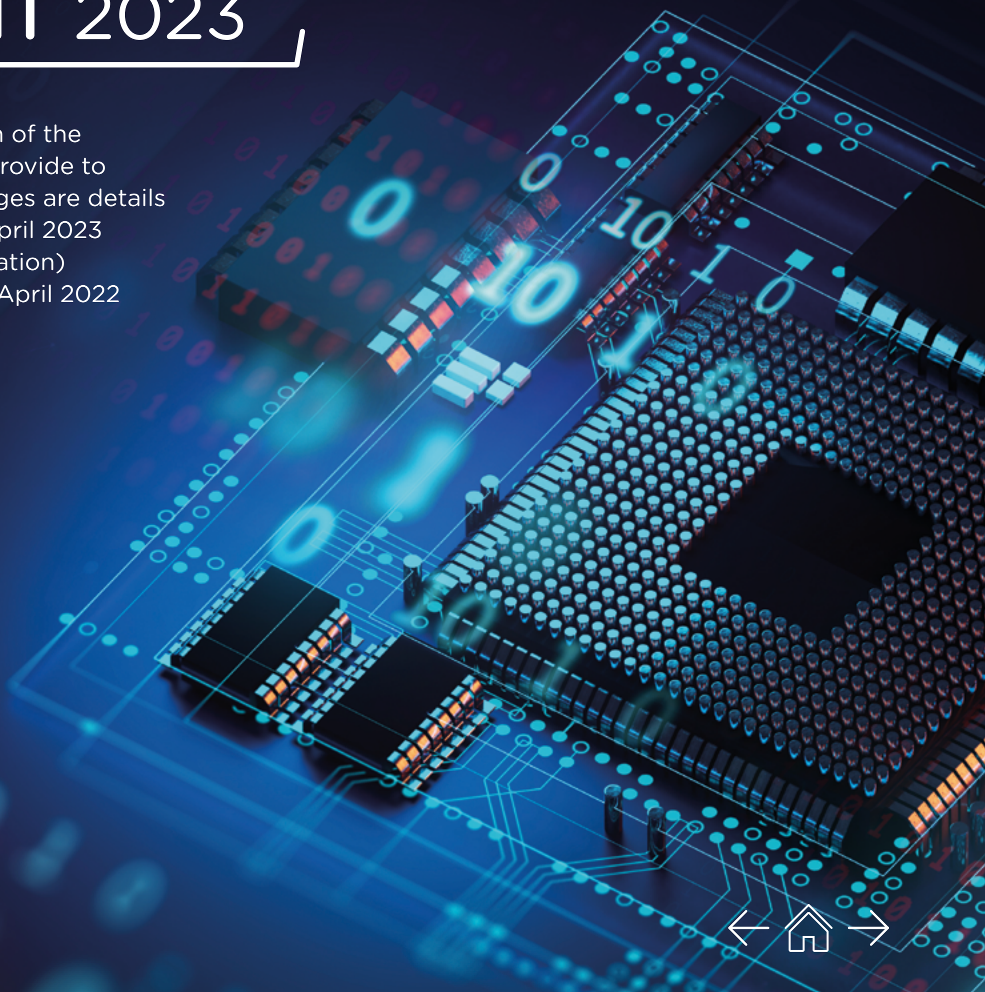
The Electronics Scheme was fortunate to have come through the crisis with limited long-lasting implications, and the profile of our investments and agility of response to a rapidly changing situation helped avoid further impact. The size of the Scheme, along with many other pension arrangements, has reduced significantly primarily due to increased interest rates which resulted in a fall in the value of the Scheme’s liability hedge. There has, however, been a similar reduction in the value placed on the Scheme liabilities and therefore the funding level has been maintained, providing assurance that the Scheme can continue to meet its pension payment obligations.

The volatile nature of the market reaction during the 2022 mini-budget was unprecedented, and the Trustee engaged an external review of the actions taken by the Scheme’s investment advisers. This found that the actions taken were appropriate and in line with other advisory firms which reassured the Trustee that the Scheme’s governance processes are working effectively.

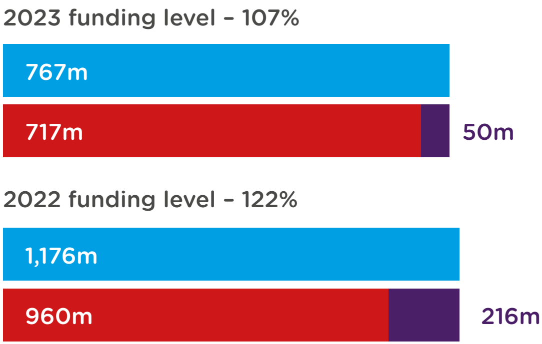
It was agreed there would be no changes to the contributions payable for future service benefits, and the Company and members will continue to pay the existing contribution rates through to when the Scheme closes to future benefit accrual in April 2024. The Company will continue to pay contributions for administration expenses of £1.15 million p.a.

SUMMARY FUNDING STATEMENT 2023

This is your update on the funding position of the Scheme, which the Trustee is required to provide to you each year. Set out on the following pages are details of the Scheme's funding position as at 5 April 2023 (the date of the most recent actuarial valuation) together with the funding position as at 5 April 2022 (the date of the last actuarial report).



Values are in £ million



Definitions

Funding level %: the value of the assets, expressed as a percentage of the value of the liabilities.

- **Assets:** the amount of money held by the Scheme in various forms (excluding DC assets). This includes cash, equities, bonds, swaps and other investments.
- **Liabilities:** the amount of money the Scheme is estimated to need to pay all of its future benefits, based on benefits earned up to the valuation date.
- **Surplus:** the amount by which the Scheme's assets exceed its liabilities.

Change in ongoing funding position since the last Summary Funding Statement

As at 5 April 2022, there was an estimated surplus of £216 million. Since then, this has reduced to £50 million as at 5 April 2023. This was mainly due to investment returns from the Scheme's assets being lower than assumed over the year to 5 April 2023. Market conditions over the period have been extremely volatile with rising inflation and interest rates, and challenging investment conditions. A portion of the surplus has also been used to support the cost of new benefit accrual over the year (agreed as part of the 2020 actuarial valuation process).

The surplus position has also reduced as a result of the de-risking activity which has been carried out in the Scheme over recent years. As the Scheme has been reducing the risks within the investment portfolio, the investment return expectations are also reduced. Therefore, the reduction in assessed surplus is partially due to the lower risk profile which is a positive development for the Scheme as this de-risking will help reduce volatility in the funding position.

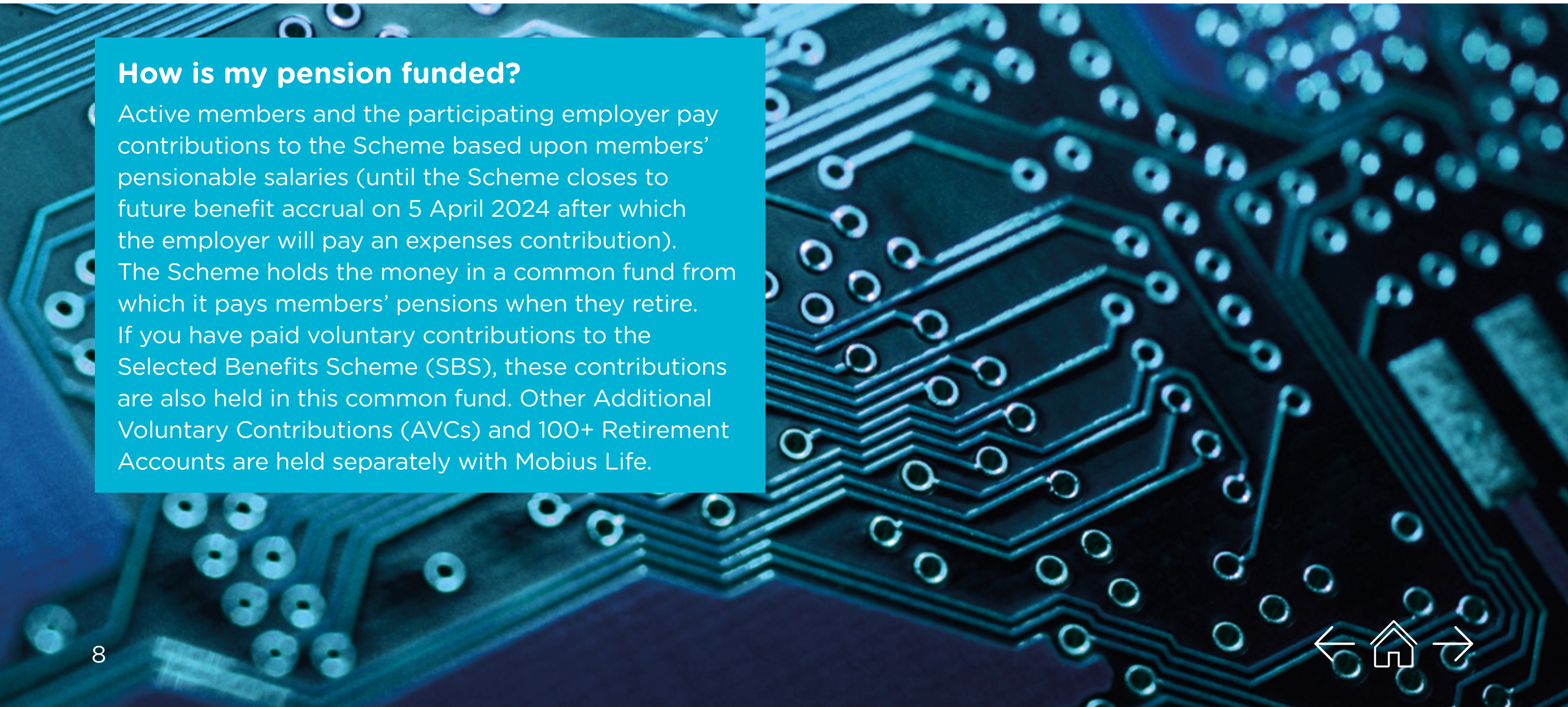
The next detailed calculation of the Scheme's funding position will occur as part of the actuarial valuation as at 5 April 2026. The Trustee does, however, monitor the approximate funding position of the Scheme on a quarterly basis and will take action if necessary.

Buyout/discontinuance basis

This is the amount of money needed to buy an insurance policy to pay all the benefits due from the Scheme. This would only be relevant if it was decided to wind up the Scheme. As at 5 April 2023, the Actuary valued the Scheme at 101% funded on a discontinuance basis (surplus of £9 million). It is a legal requirement to produce these discontinuance figures and it does not mean that there is any intention to wind up the Scheme.

How is the amount of money the scheme needs worked out?

The Trustee obtains regular actuarial valuations of the benefits earned by members. Using this information and recommendations from the Scheme Actuary, the Trustee and the Company must agree on the future contributions that are required to ensure there is sufficient money in the Scheme to pay the benefits. As part of this process, the Trustee reviews the financial strength of the Leonardo companies supporting the Scheme.



How is my pension funded?

Active members and the participating employer pay contributions to the Scheme based upon members' pensionable salaries (until the Scheme closes to future benefit accrual on 5 April 2024 after which the employer will pay an expenses contribution). The Scheme holds the money in a common fund from which it pays members' pensions when they retire. If you have paid voluntary contributions to the Selected Benefits Scheme (SBS), these contributions are also held in this common fund. Other Additional Voluntary Contributions (AVCs) and 100+ Retirement Accounts are held separately with Mobius Life.

Which funding basis is used?

The ongoing funding basis is used to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that the Company will continue in business and support the Scheme. The discontinuance basis is not used; however, it would be relevant if the Scheme were to wind up, for example if the Company became insolvent.

What if the scheme started to wind up?

We are legally required to tell you what would happen if the Scheme were to wind up. It does not mean there is any intention to wind up the Scheme in the foreseeable future. Wind up is different to a closure to future accrual as the Scheme continues in the case of closure but with no new benefits being earned. If the Scheme were to wind up, the Company is required to pay enough into the Scheme to secure the members' benefits with an insurance company. If the Company is not able to pay the deficit (if any), the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members. Further information about the PPF can be found at **www.ppf.co.uk**

Our work on climate change

More information on our identification, assessment and management of climate change risk is contained in our TCFD (Task Force on Climate-Related Financial Disclosures) report, a copy of which is published on our website at **www.lepensions.co.uk/compliance**. A hard copy of the TCFD report is available on request.

Other information

No payments have been made from the Scheme to any participating employers in the last 12 months (other than those required for the pensions management services provided by Leonardo UK Ltd). If you are thinking of leaving the Scheme, you should consult a professional independent financial adviser first.

FINANCIAL HIGHLIGHTS AND MEMBERSHIP

In the year to 5 April 2023, the Scheme's assets (including DC assets) decreased to £801 million. This reduction in asset value was primarily driven by the significant increase in interest rates, which has pushed down the value of the Scheme's liability hedging assets. The Scheme's liabilities have also reduced by a corresponding amount and whilst the size of the Scheme has reduced, the funding level has remained broadly stable.

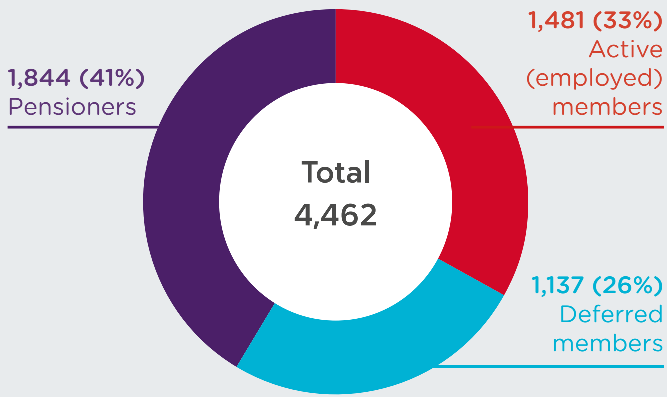
The table below shows a summary of the financial transactions of the Scheme during the year:

Value of Scheme assets at 5 April 2022	**£1,204m**
+ income	£35m
- benefits and expenses	(£28m)
- change in market value of investments*	(£410m)
Value of Scheme assets at 5 April 2023	**£801m**

*as noted above, a large proportion of this fall in asset value was driven by significant increases in government bond (gilt) yields.

This information has been taken from the Trustee's Annual Report and Accounts 2023, which have been independently audited by RSM UK Audit LLP. If you would like to see a copy of the full Report and Accounts, it is available from the library on the Scheme website: **www.lepensions.co.uk/library**

As at 5 April 2023, the membership of the Scheme was as follows:



OUR INVESTMENTS

Investment strategy

The Trustee is responsible for investing the Scheme's assets in order to pay pensions to members now and in the future. Taking advice from specialist advisers, the Trustee sets out its investment strategy in a document called the Statement of Investment Principles. Schroders Solutions manage the Scheme's assets (other than the insurance buy-in policy).

The Scheme's return-seeking (growth) assets (£111 million as at 5 April 2023) are invested in a wide range of asset classes. The Trustee has delegated the day-to-day management of the assets to its investment manager.

The 'off-risk' portion of the Scheme's assets (£552 million as at 5 April 2023) is in a mix of hedging instruments and government bonds, which track changes in the liability profile of the Scheme when long-term interest rate and inflation expectations change. This also includes the Scheme's allocations to active structured equity and cashflow matching credit.

As at 5 April 2023, there was also £28 million in DC funds (AVCs and 100+ Retirement Accounts) and £109 million in an insurance buy-in policy.

Allocation of assets as at 5 April 2023

Asset class	Value	% of investment portfolio	% of total assets
Equity	£44m	7%	5%
Alternatives	£13m	2%	2%
Bonds	£22m	3%	3%
Property	£14m	2%	2%
Cash	£18m	3%	2%
Total on-risk growth assets	**£111m**	**17%**	**14%**
Off-risk	**£552m**	**83%**	**69%**
Insurance buy-in policy	£109m		14%
DC assets	£28m		3%
Current assets – current liabilities	£1m		0%
TOTAL	**£801m**	**100%**	**100%**

Further information about the Scheme’s investments is available in the 2023 Report and Accounts.

Investment performance

The year to 5 April 2023 saw negative investment returns for the Scheme amid volatile market conditions. There was a challenging backdrop to the start of 2022, with the Russian invasion of Ukraine impacting markets across the globe, unprecedented rises in oil and gas prices, and increasing levels of inflation and interest rates. Asset values fell and the portfolio was positioned defensively at 5 April 2023 in light of the unpredictable conditions. The mini-budget crisis in September/October 2022 resulted in further asset falls. Returns are shown to 5 April 2023, net of any fees paid from assets.

Looking first at the performance of the Scheme's return-seeking growth asset portfolio alone, returns over the year were behind the target benchmark, although performance over longer periods remains around or above target.

The returns for the total portfolio (including the off-risk assets) were negative over the one-year period, although in line with the benchmark. This was driven by significant increases in gilt yields, which drove down the value of the assets alongside a corresponding reduction in the value of the Scheme's liabilities.

Growth asset portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	-3.9%	8.4%	4.0%
Target (cash + 3% p.a.)	5.4%	3.9%	3.9%
Investment return relative to target	-9.3%	4.5%	0.1%

Total portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	-36.2%	-11.2%	-4.2%
Liability-related target	-36.3%	-15.0%	-6.0%
Investment return relative to target	0.1%	3.8%	1.8%

KEEPING YOU UP TO DATE

Thank you to our retiring Trustee directors

We would like to thank the outgoing Trustee directors Bernard Walsh, James Cull and Scott Wallace, who have retired from the Trustee board during the year. They provided a longstanding contribution to the management of the Scheme and we wish them every happiness in their retirements.

> "GOING FORWARD, THERE WILL BE ONE LARGER TRUSTEE BOARD LOOKING AFTER THE THREE SCHEMES."

New Trustee structure

The Company will be implementing a new single-trustee structure across the Leonardo pension arrangements to improve governance processes. There are currently three separate Trustee boards, each responsible for one of the Leonardo pension schemes. Going forward, there will instead be one larger Trustee board looking after the three schemes with 50% of the Trustee Directors being Member-Nominated. It is expected this structure will be in place during the second quarter of 2024.

The initial member-nominated directors of the new trustee company will be selected using the current selection arrangements for each scheme and will primarily be drawn from amongst the current Trustee directors to maintain continuity and to retain the valuable knowledge of our trustee directors as we transition into the new structure. The initial Trustee directors will be appointed for a three-year term, and the new Trustee board will establish arrangements for the selection of future member-nominated Trustees.

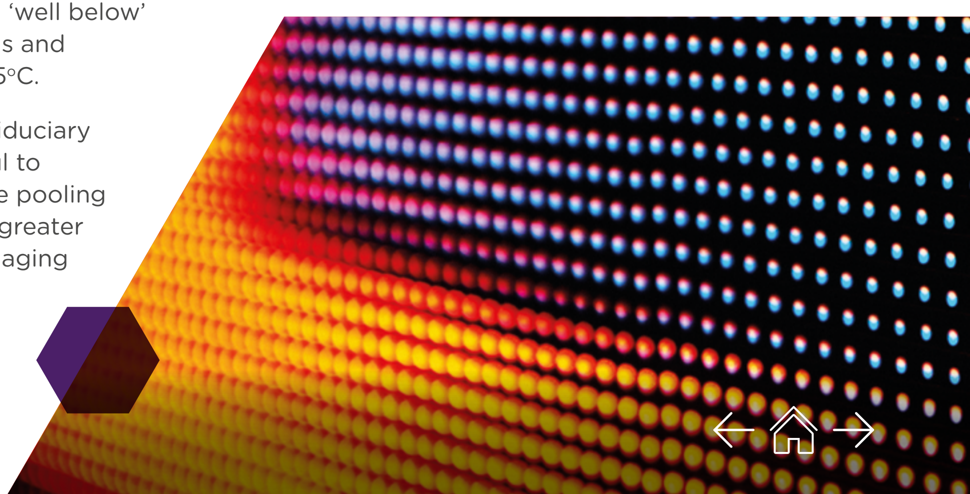
Climate disclosures

The Trustee has prepared its first climate-related disclosures report for the Scheme year ending 5 April 2023 in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

The key findings of the report are as follows:

- The Trustee recognises climate change as a material long-term risk to the Scheme.
- There has been major progress in the quality of the research and data that is available to the Trustee to understand climate-related risks and opportunities. We are able to monitor the carbon intensity of much of our portfolio and see progress in reducing this.
- The Trustee is supportive of the goals of the Paris Agreement, to limit global warming to 'well below' 2°C compared with pre-industrial levels and pursuing efforts to limit warming to 1.5°C.
- The Trustee believes that its use of a fiduciary manager, Schroder Solutions, is helpful to maximise positive impacts through the pooling of assets with other schemes and the greater influence they are likely to have in engaging managers to achieve net zero.
- The Trustee has set a goal of achieving net zero by 2050, in line with the target set by Schroders across its investment portfolios.
- The main climate risks identified are in the growth portfolio. In this context, it is helpful that the Scheme's funding is strong and a significant proportion of the assets are in off-risk assets (with low carbon intensity).
- The environment is one of the three ESG (Environmental, Social and Governance) pillars of responsible investment. Alongside climate change, the Trustee has identified human rights and corporate governance as its engagement priorities.

The full TCFD report is available at **www.lepensions.co.uk/compliance**



KEEP IN TOUCH

Please remember to let us know if any of your details change, such as your postal or email address. If you have any queries about your pension, please contact the administrator.

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