LEONARDO

HELICOPTERS PENSION SCHEME

Autumn 2018

INTOUCH

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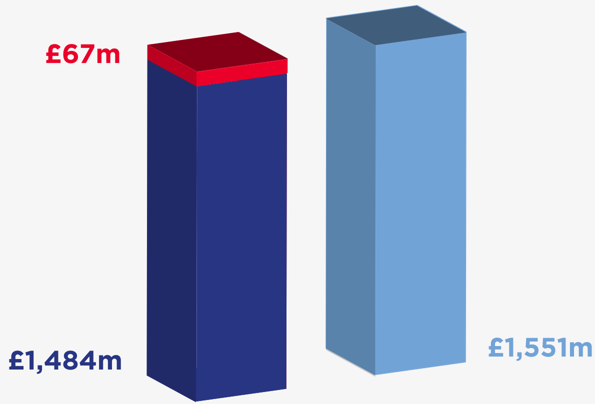
VALUATION NEWS - FUNDING POSITION IMPROVES

The 2017 actuarial valuation of the Scheme has now been completed. The Scheme actuary calculated how much money the Scheme needs to be able to meet the pension liabilities accrued so far and compared this with the assets currently held by the Scheme and the contributions being paid. The actuary also looks at how much money is needed to provide pensions going forward (see page 3).

The Trustee and Leonardo MW Ltd (the Company) have agreed the basis for the 5 April 2017 valuation and the results are as follows:

PAST SERVICE LIABILITIES

- Scheme assets (excluding AVCs)
- Scheme liabilities
- Funding deficit



As at 5 April 2017, there was a deficit in the Scheme of £67m with a funding ratio of 95.7%. This is an improvement since the 2014 valuation position, which showed a deficit of £123m.

The key factors which have contributed to the improvement in the funding position are:

- positive investment returns over the period.
- additional contributions paid into the Scheme by the Company under the deficit recovery plan agreed as part of the 2014 valuation.
- changes to the funding assumptions used to value the liabilities because of updated information or to reflect the Scheme's investment strategy.
- Pension Increase Exchange (PIE) liability management exercises undertaken and to be implemented (see below).

Also, associated with the PIE, the Company undertook a consultation with active members of the Scheme which will affect pensions earned after 5 April 2019. The change is to the inflation index used to increase pension after retirement from the Retail Prices Index (RPI) to the statutory measure of inflation for pension purposes, which is currently the Consumer Prices Index (CPI) capped at 2.5% per annum. Alongside this change, a new PIE option will be launched to members during 2019, enabling members, as they reach retirement, to have additional choices about future pension increases.

It was agreed that the Company will increase its regular contributions and administration expense contributions, from 1 January 2019. There will be no change in contributions from members.

An updated recovery plan has been put in place which provides for the Company to pay additional contributions to fund the deficit and still targets the Scheme being fully funded by 2024. The amount to be paid each year is set out in the recovery plan, with the next payment being due in January 2019 (£10m). The recovery plan has been submitted to the Pensions Regulator who has replied with an acceptance of the plan.

FUTURE SERVICE COST

The future service cost has been a particular challenge at this valuation.

While there has been an improvement in the funding position relating to past service benefits (i.e. liabilities relating to pensions which have already been earned), there has been a significant increase in the cost of providing pensions being earned going forwards (known as the future service cost).

The problem is primarily due to the significant fall in interest rate expectations over the period since the last valuation, with the assessed future service cost for the Company (doubling to 18.2% p.a. of pensionable salaries).

VALUATION NEWS CONTINUED

However, given the improved overall funding position and the strength of the covenant support from the Company, it was agreed to only make a modest increase in Company contributions for future service (to 9.3% p.a.). Instead, an additional reserve was included within the Scheme's liability calculation which means that the Company makes extra deficit payments, in anticipation of interest rate expectations returning to historically more typical values. It also means it was not necessary to make further changes to member contributions or to pension benefits during this valuation.

The Company and Trustee are pleased with the outcome of the valuation and the further period of pension stability this provides to members of the Scheme. The future service costs will be reviewed again formally as part of the 5 April 2020 valuation.

NEW NAMES AND CONTACT DETAILS FOR SCHEME ADVISERS

Following business mergers, two of the Scheme's advisers have announced new names and brands. There is no change to the adviser or the services they provide, only a change of name and email address.

PSAL becomes XPS Administration

Our new administrator, PS Administration (PSAL) has merged with Xafinity and is now known as XPS Administration. The team looking after your benefits, who took on the Scheme's administration on 1 February 2018, will remain the same. There is a new email address for members to use, as set out below.

You can contact XPS Administration at:
Leonardo Helicopters Pension Scheme
XPS Administration
Queen's Quay
33-35 Queen Square
Bristol BS1 4LU

Email: LHPS@XPSgroup.co.uk

Telephone: 0117 440 2493

XPS Administration

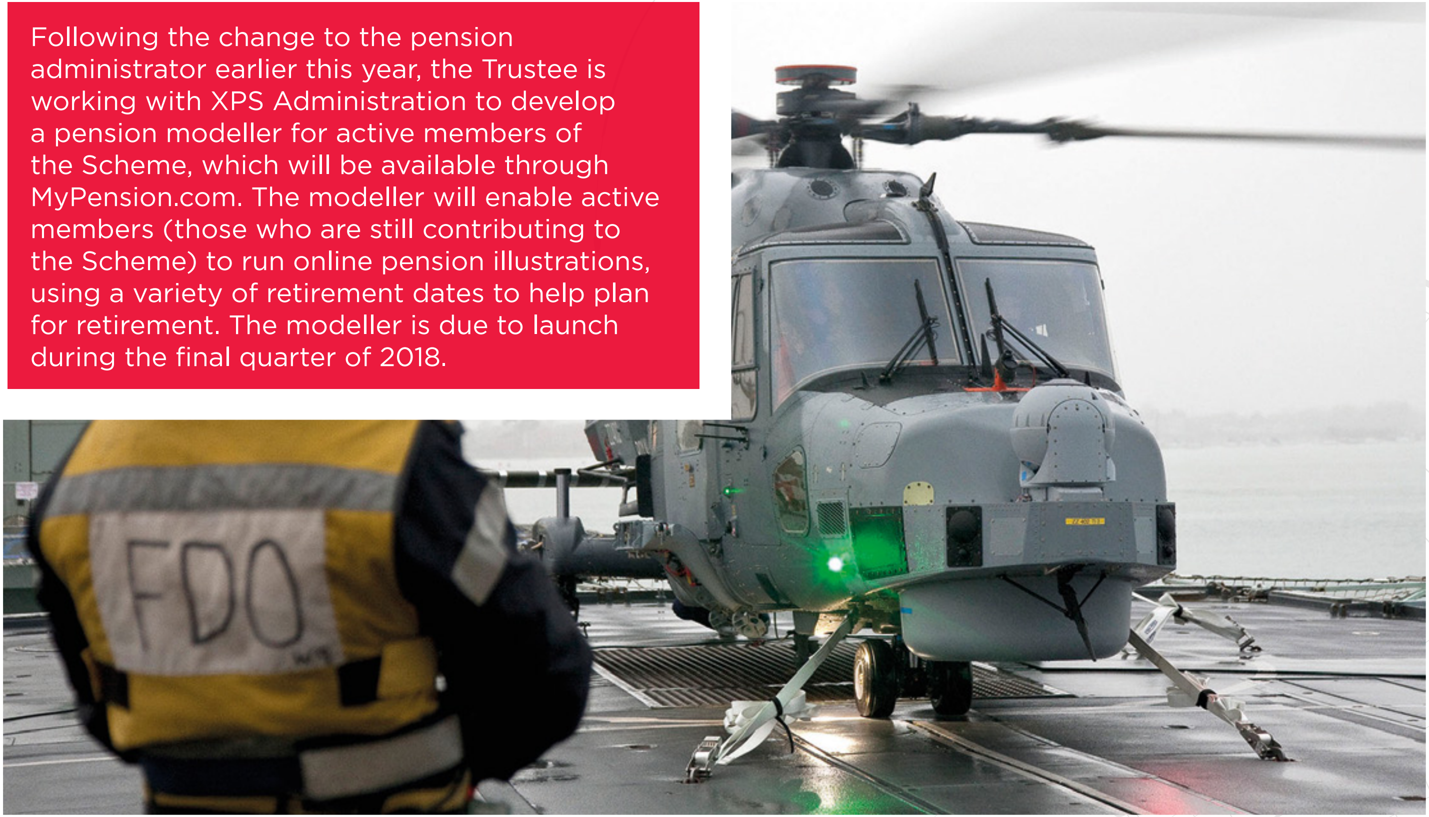
P-Solve becomes River and Mercantile

Our investment manager, P-Solve, has merged with River and Mercantile and has rebranded as River and Mercantile Solutions.

RIVER AND MERCANTILE
SOLUTIONS

PENSION MODELLER – COMING SOON!

Following the change to the pension administrator earlier this year, the Trustee is working with XPS Administration to develop a pension modeller for active members of the Scheme, which will be available through MyPension.com. The modeller will enable active members (those who are still contributing to the Scheme) to run online pension illustrations, using a variety of retirement dates to help plan for retirement. The modeller is due to launch during the final quarter of 2018.



AVC FUNDS – CHANGES TO OUR DEFAULT INVESTMENT STRATEGY

Since pension freedoms were introduced in 2015, people are changing how they access their defined contribution savings at retirement – and income drawdown is becoming increasingly popular.

Income drawdown is where savings continue to be invested into retirement and an income is taken out as required. To facilitate this, we have changed the balance of one of the funds used in the default investment strategy for Additional Voluntary Contributions (AVCs) invested with Old Mutual Wealth. Our 'off-risk' Retirement Protection Fund has been renamed the Retirement Focus Fund and is now made up of:

- 50% Cautious Growth (previously 37.5%)
- 25% Annuity Focus (previously 37.5%)
- 25% Cash (previously 25%)

We have done this because the Cautious Growth fund is a more natural fit when a member continues to invest their savings into retirement through income drawdown.

If you are in the default investment strategy, your savings will automatically move into the Retirement Focus Fund three years before your Target Retirement Age.

The change to the fund will cause a marginal increase in the risk profile.

It is really important to make sure your Target Retirement Age reflects when you plan to take your AVC benefits. You can check this on MyPension.com and update it if necessary.

Please note, this change does not affect your core defined benefit pension.

SUMMARY FUNDING STATEMENT 2017 & 2018

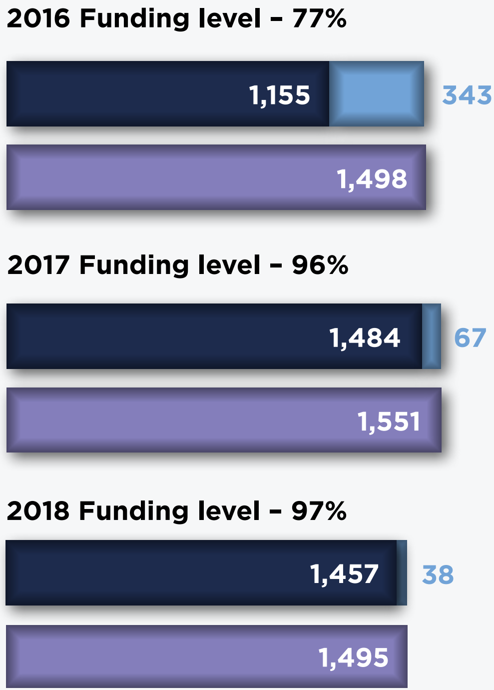
This is your update on the funding position of the Scheme, which the Trustee is required to provide to you each year. Set out opposite are the details of the Scheme's funding position as at 5 April 2017 (the date of the most recent formal actuarial valuation), together with the interim valuations as at 5 April 2016 (the position shown in the last summary funding statement) and 5 April 2018.

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 AVCs). 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.
- **Deficit:** the amount by which the Scheme's liabilities exceed its assets.

Values are in £ million



Change in funding position since last Summary Funding Statement

As at 5 April 2016, there was an estimated deficit of £343 million. At 5 April 2017, the deficit was £67 million, a reduction of £276 million over the year. This was mainly due to investment returns generated by the Scheme's assets being greater than expected over the year, and changes to the derivations of certain assumptions used to place a value on the Scheme's liabilities (agreed as part of the actuarial valuation as at 5 April 2017).

Since 5 April 2017, the deficit has reduced from £67 million to £38 million as at 5 April 2018. This was mainly due to the payment of deficit contributions into the Scheme (as agreed as part of the 5 April 2017 actuarial valuation process) and other market experience.

The value of the liabilities as at 5 April 2017 was calculated using assumptions agreed as part of the actuarial valuation by the Company and Trustee. The assumptions used to value the liabilities as at 5 April 2018 are consistent with those in 2017, but reflect changes in the relevant interest and inflation rates.

The next detailed calculation of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2020. The Trustee does, however, monitor the funding position of the Scheme on a regular basis and will take action if necessary.

SUMMARY FUNDING STATEMENT CONTINUED

Buyout/discontinuance basis

This is the amount of money needed to buy an insurance policy to pay your benefits. This would only be relevant if it was decided to wind up the Scheme. As at 5 April 2017, the Actuary valued the Scheme at 59% funded on a discontinuance basis (deficit of £1,021 million), which is equivalent to a £238 million deterioration in the funding position since the last formal discontinuance valuation (as at 5 April 2014). This is mainly due to a significant fall in the discount rates used to calculate the liabilities (due to changes in market conditions over the period), leading to a significant increase in the value placed on the liabilities.

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 my pension funded?

Active members and the participating employers pay contributions to the Scheme based upon members' Pensionable Salaries. The Scheme holds the money in a common fund from which it pays members' pensions when they retire. If you pay Additional Voluntary Contributions, these are held separately with Old Mutual Wealth.

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

The Trustee obtains regular 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.

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. 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.pensionprotectionfund.org.uk.

Other information

The Pensions Regulator has various powers which it can exercise if it thinks the Scheme's recovery plan is not appropriate. The Trustee can confirm the Pensions Regulator has not used any of its powers in relation to the Scheme.

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 MW Ltd).

If you are thinking of leaving the Scheme, you should consult a professional independent financial adviser first.

KEEPING UP TO DATE

New data protection legislation: GDPR

The new EU General Data Protection Regulation (GDPR) came into force in the UK in May 2018, replacing the Data Protection Act 1998. Companies and organisations (including pension scheme trustees) must be able to justify why they hold people's personal data, as well as record how they use it. Personal data is broadly any piece of information that can be used to identify you as an individual.

What does GDPR mean for the Scheme?

The Trustee is a 'data controller' and is responsible for how it holds and processes your personal information in line with our data protection policy and the GDPR legislation. Details of how we do this can be found in the Scheme's Fair Processing Notice (which you may also hear referred to as a 'privacy notice') in the publications section of the website at www.lhpensions.co.uk.

Scheme Rule Amendments

The Scheme Rules have been updated to reflect the legislative position which provides equality of survivor's benefits to same sex spouses and civil partners.

A Rule change was also made as part of the 2017 actuarial valuation to change the inflation index used to increase pension after retirement from the Retail Prices Index (RPI) to the statutory measure of inflation for pension purposes, which is currently the Consumer Prices Index (CPI) capped at 2.5% per annum. This will affect pensions earned after 5 April 2019.

Timescales for putting pensions into payment

When it comes to retirement, it can take time to set up your pension. There may be a couple of months between when you receive your last salary and when your first pension payment is received. We try to keep this period as short as possible, however it is important for you to have plans in place to cover this. The reasons for this timescale include:

- We need to wait until you have received your last salary payment from the Company and this information has been transferred to us and loaded to your pension record;
- If you are making any voluntary savings (AVCs), we need to receive these contributions from payroll, invest them with the remainder of your funds and then disinvest your whole fund ready for your retirement;
- If you have legacy AVCs with an external provider (for example with Prudential or Equitable Life), these may take an additional period of time to process with that provider;
- We need to have received final signed forms from you, confirming which retirement options you wish to take (including how you wish to use your AVCs), together with relevant birth and marriage certificates.

All in all, this can take a number of weeks. Only when we have received all this information can we calculate your final pension figures and proceed to make payment. Your pension will be backdated to the date of your retirement.

KEEPING UP TO DATE CONTINUED

Challenging investment times ahead?
The last few years have seen buoyant times in equity markets and the growth in investments has been good. However, our investment managers, River and Mercantile, are anticipating uncertain times for the next 12 months or more.

They have already taken de-risking steps to mitigate potential losses and diversify into other asset classes, ready to maximise gains when they see an opportunity.

This does not mean that our Scheme will not see investment growth and we still expect to achieve our long-term goals. However, as always, there is a risk that investment growth will be challenging in the short term and the ride might be bumpy. The level of investment return impacts on both the core Scheme assets which the Trustee invests, and also on members who have AVC funds.

Pensioner payslips
Please remember that hard copy payslips for our pensioner members will be issued once a year alongside your P60, or more frequently if there is a change in the value of your net monthly pension of more than £10. Soft copies of your monthly payslips can be accessed on the XPS Administration online pension tool, MyPension.com.

KEEP IN TOUCH

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

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The content of this newsletter is given for the purpose of providing you with information about the Scheme only and has no legal effect. The Rules of the Scheme govern how the Trustee must act and if there is any inconsistency between the Rules and the information given in this newsletter, the Rules will prevail.

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