



SPRING 2021

IN TOUCH

NEWSLETTER FOR MEMBERS

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HELICOPTERS
Pension Scheme

FUTURE COMMUNICATIONS

The way we communicate with you is changing

As confirmed in the summer edition of InTouch, and the letter about electronic communications we sent to your home address in August 2020, we will be issuing future communications electronically instead of printing and posting them to you. This is so we can:

- contact you quickly and effectively
- reduce the risk of losing important information
- cut down on paper and postage costs
- reduce our environmental impact.

Going paperless: www.MyPension.com/LHPS

The August 2020 electronic communications letter from XPS detailed how to log onto MyPension.com/LHPS and what to do if you wish to continue to receive printed communications. If you have not yet registered, we would encourage you to do so.

From 2021, your annual benefit statement (if you receive one) will be uploaded to your personal account at MyPension.com/LHPS and if you have registered with an email address, we will email you when a new statement is available to view. If you returned the form to confirm that you still wish to receive printed communications, you will receive a copy in the post.

The delivery of this newsletter, InTouch, will also change going forwards. This is the last printed copy you will receive (unless you opted-in to receive printed communications) and instead, it will be published on the Scheme website: www.lhpensions.co.uk. If you have registered with MyPension.com/LHPS, you will receive an email when there is a new edition available to read.

You can change your mind about receiving printed communications by asking the Trustee (via XPS Administration) who will update your record, alternatively you can change your communication preferences in your personal account at MyPension.com/LHPS.

What to do if you have lost your login details?

If you need a reminder of your MyPension.com/LHPS login details, please contact XPS Administration, preferably by email, confirming the following details:

- Your full name
- Your postal address
- The first four digits of your NI number (e.g. AB12)
- The day of your birthday (e.g. 24th).

Changing your email address

Please remember to inform us (via MyPension.com/LHPS) if you change your email address, so we can continue to communicate effectively with you.



ARE YOU MAKING THE MOST OF OUR ONLINE TOOLS?

Our online tools at [MyPension.com/LHPS](https://www.mypension.com/LHPS) are a great source of instant pension information. If you are an active member, you can use the online pension modeller to run pension illustrations using a variety of retirement dates.

In addition to the pension modeller, you can also:

- view your personal details and provide us with any updates to your contact information (e.g. address, email address, phone number)
- view your salary and service history
- view your recent active benefit statements
- view any AVC fund holdings you have with Mobius Life, access fund factsheets and change how your AVCs are invested
- update your Expression of Wish form to assist the Trustee with who you would like any benefits to be paid to in the event of your death.

If you are a pensioner, once you are registered you are able to access copies of your monthly payslips, and P60 statements.

If you are a deferred member (i.e. you have left the Company but have not drawn your pension yet) you can view details of your annual pension at your date of leaving.



AWARDS SUCCESS

We are delighted to confirm the Leonardo pensions governance team were 'Highly Commended' in the Organisational Award for Supporting Diversity at the Women in Pensions Awards 2020.

We are also very pleased to announce that the following awards were presented to our Scheme advisers at the Professional Pensions UK Pensions Awards 2020.

- River & Mercantile won fiduciary manager of the year
- Mobius Life won institutional investment platform provider of the year
- XPS won third-party administrator of the year
- EY won sponsor covenant provider of the year
- Aon won risk reduction provider of the year.

WELCOME TO OUR NEW TRUSTEE DIRECTOR



We welcome Clive Higgins to the Trustee board as a company-nominated Trustee director. Clive's day-to-day role within Leonardo UK Ltd is Director, Government Affairs. He brings wide-ranging experience to the board having worked for the business for over 26 years, including a number of years in Italy as SVP Human Resource and Organisation for Leonardo Helicopter Division and more recently as Director, Human Resource for Leonardo UK Ltd. He sits on the full Trustee board and on the investment sub-committee.

VALUATION NEWS AND FUNDING UPDATE

We are pleased to confirm the actuarial valuation of the Scheme as at 5 April 2020 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 Actuary also looked at the level of contributions that are required to provide pensions going forwards. The Trustee and Leonardo UK Ltd (the Company) have agreed the basis for the 2020 valuation as set out below.

Past service liabilities

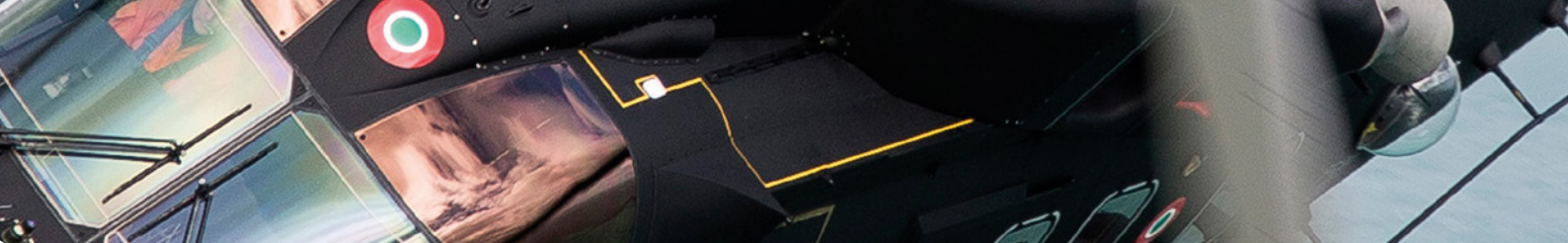
Scheme assets (excluding AVCs)
£1,589m

Scheme liabilities
£1,684m

Funding deficit
£95m

As at 5 April 2020, there was a deficit in the Scheme of £95 million, representing a funding ratio of 94.4%. This is a fall in the funding level since the 2017 valuation position, which showed a deficit of £67 million and a funding ratio of 95.7%.

While Scheme experience over the valuation period was largely positive, with strong investment returns through to early 2020 and additional contributions paid into the Scheme by the Company under the deficit recovery plan agreed in 2017, the key factor which contributed to the reduction in funding position was the COVID-19 global pandemic. The financial conditions at the April 2020 valuation date, specifically the ultra-low interest rates, increased the value placed on the Scheme's liabilities, and the fall in global financial markets during March and April 2020 had a direct impact on the value of the Scheme's assets. The falls in asset values were subsequently materially recovered during strong investment performance through the remainder of 2020, although markets remain volatile.



Given the unprecedented conditions at the time of the valuation, the Trustee and the Company held frequent discussions throughout 2020 to understand and mitigate the financial impact of the pandemic. Changes were agreed to the assumptions used for the valuation to reflect Scheme experience and the longer-term market expectations.

The Trustee and Company reached agreement on an updated recovery plan, which provides for the Company to pay additional contributions of £3 million p.a. to fund the deficit from 2022 if the funding position has not improved sufficiently. It also extends the Company’s previous deficit payments (excluding the payments used to fund the lower future service cost, in light of the increased future service contributions described on page 8) beyond the existing 2024 commitment to January 2027. The recovery plan sets out the amount to be paid each year and targets the Scheme being fully

funded by 2027 (see table of contributions below). No changes were proposed to members’ benefits or contributions as a result of the 2020 valuation process, and the Company continues to pay contributions for administration expenses of £2 million p.a.

Due date	Regular deficit contributions (£m)	Additional deficit contributions (£m)*
31 January 2021	3.7	-
31 January 2022	4.0	3.0
31 January 2023	4.3	3.0
31 January 2024	4.6	3.0
31 January 2025	4.9	3.0
31 January 2026	5.2	3.0
31 January 2027	5.6	3.0

*payable if the funding position has not improved sufficiently under pre-determined criteria.

VALUATION NEWS AND FUNDING UPDATE *continued*

Future service cost

The cost of providing future pension benefits for members who are still earning pension within the Scheme (the future service cost) has increased further since the last valuation to 18.8% p.a. of pensionable salaries (after deducting member contributions). This is primarily due to continued falls in interest rate expectations. You may recall that at the 2017 valuation, it was agreed to set the Company contribution rate at 9.3% p.a. for future service, together with some additional deficit payments. This was to meet the balance of the future service cost in the hope of interest rates returning to historically more typical values. In light of the fact that interest rates show no sign of material increase in the near future, the Company will pay the full 18.8% p.a. future service cost, while the additional deficit contributions, which were supporting the lower future service cost, have ceased.

The Trustee and the Company are pleased with the outcome of the valuation and are grateful for the hard work of all parties and the Scheme's advisers to conclude this process during a particularly challenging year.



SUMMARY FUNDING STATEMENT 2020

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 the details of the Scheme's funding position as at 5 April 2020 (the date of the most recent formal actuarial valuation), together with the interim update as at 5 April 2019 (the position shown in the previous summary funding statement).

Values are in £ million

2020 Funding level – 94%



2019 Funding level – 98%



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, based on benefits earned up to the valuation date.
- **DEFICIT:** the amount by which the Scheme's liabilities exceed its assets.

SUMMARY FUNDING STATEMENT 2020 continued

Change in ongoing funding position since the last summary funding statement

As at 5 April 2019, there was an estimated deficit of £24 million. Since then, this has increased to £95 million as at 5 April 2020. This was mainly due to falls in investment returns experienced during the first quarter of 2020 as a result of the COVID-19 pandemic and changes in financial conditions, specifically a fall in interest rates, which have increased liabilities. This was, however, offset slightly by the payment of deficit contributions into the Scheme and changes to the Scheme's valuation assumptions.

The value of the liabilities as at 5 April 2019 was calculated using assumptions agreed by the Company and the Trustee as part of the 2017 actuarial valuation. The value of the liabilities as at 5 April 2020 was calculated using assumptions agreed as part of

the 2020 actuarial valuation. The recovery plan put in place as part of the 5 April 2020 valuation requires the Company to pay additional contributions to fund the deficit. The recovery plan targets the Scheme being fully funded by January 2027. The next payment is due in January 2022, with further payments each year until January 2027 (see table of contributions on page 7).

The Trustee and the Company have also agreed for the Company to pay additional contributions of £3 million p.a. to fund the deficit from 2022 if the funding position has not improved sufficiently. The next detailed calculation of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2023. The Trustee does, however, monitor the funding position of the Scheme on a regular 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 2020, the Actuary valued the Scheme at 64% funded on a discontinuance basis (deficit of £886 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 my pension funded?

Active members and the participating employer 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 AVCs, these are held separately with Mobius Life.

SUMMARY FUNDING STATEMENT 2020 continued

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.ppf.co.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 UK Ltd). If you are thinking of leaving the Scheme, you should consult a professional independent financial adviser first.

FINANCIAL HIGHLIGHTS

In the year to 5 April 2020, the Scheme's assets (including AVCs) increased to £1,600 million. This primarily related to the positive investment returns on the Scheme's assets and the payment of deficit recovery contributions into the Scheme. The table below shows a summary of the financial transactions of the Scheme during the year:

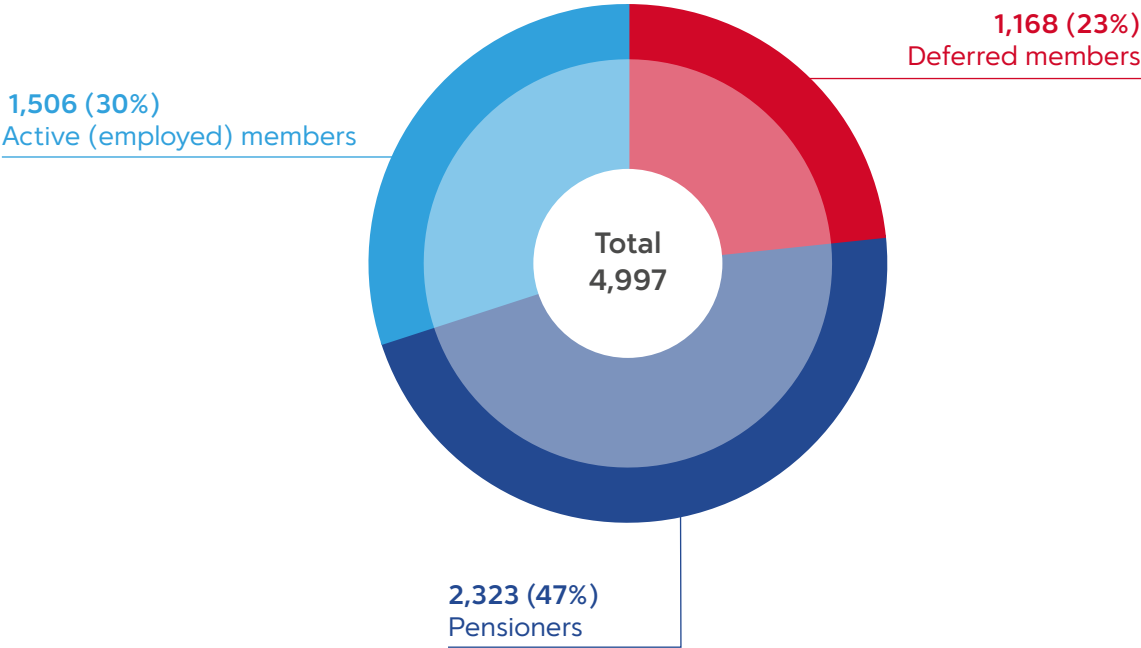
Value of Scheme assets at 5 April 2019	£1,575m
+ income	£49m
– benefits and expenses	(£70m)
+ change in market value of investments	£46m
Value of Scheme assets at 5 April 2020	£1,600m

This information has been taken from the Trustee's Annual Report and Accounts 2020, 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.lhpensions.co.uk



MEMBERSHIP

As at 5 April 2020, 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. During the year, the Trustee engaged Lane, Clark & Peacock to undertake an external review of the Scheme's fiduciary management investment services, and we are pleased to confirm River & Mercantile were re-appointed as a result of this process.

The Scheme's return-seeking assets (£1,083 million as at 5 April 2020) are managed by River & Mercantile Solutions and are invested in a wide range of asset classes. The Trustee has delegated the day-to-day management of the assets to the investment manager.

The 'off-risk' portion of the Scheme's assets (£512 million as at 5 April 2020) 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. As at 5 April 2020, there was also £11 million in AVC funds.



Allocation of assets as at 5 April 2020

Asset class	Value	%
Equity	£413m	26%
Private Equity	£20m	1%
Alternatives	£221m	14%
Bonds	£124m	8%
Property	£52m	3%
Cash	£266m	17%
Currency Hedge	-£13m	-1%
Total on-risk	£1,083m	68%
Off-risk	£512m	32%
AVCs	£11m	1%
Current liabilities-current assets	-£6m	-1%
TOTAL	£1,600m	100%

Further information about the Scheme's investments is available in the 2020 Report and Accounts.



OUR INVESTMENTS continued

Investment performance

The year to 5 April 2020 saw volatile market conditions for the Scheme. The falls in return-seeking assets experienced during the first quarter of 2020 as a result of the COVID-19 pandemic were unprecedented. These falls were subsequently materially recovered during strong investment performance through the remainder of 2020; however, the position at 5 April 2020 was challenging. Returns are shown to 5 April 2020, net of any fees paid from assets.

Looking first at the performance of the Scheme's return-seeking portfolio alone, returns over the year were below the target benchmark, and this performance impacted the position over longer periods:

Return-seeking portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	-8.4%	-0.7%	2.0%
Target (cash + 3% p.a.)	3.8%	3.6%	3.6%
Investment return relative to target	-12.2%	-4.3%	-1.6%

The returns for the total portfolio (including the off-risk assets) were positive, principally because of the significant movements in liability-related assets in recent years, although behind the targeted return:

Total portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	3.6%	3.4%	7.8%
Liability-related target	11.7%	6.9%	9.5%
Investment return relative to target	-8.1%	-3.5%	-1.7%

PENSION INCREASES AND REVALUATION RATES

PENSION INCREASES: Pension increases will be awarded to all pensioners on 1 April 2021. Different levels of increase will apply depending on whether pensioners have previously opted for a Pension Increase Exchange (PIE). Letters will be issued to pensioners in March 2021, setting out the increase that will apply to your pension. These will be uploaded

to MyPension.com/LHPS or sent by post depending on your communication preferences.

REVALUATION: If you are currently participating in the Scheme, your Career Salary benefits will increase by 0.5% on 6 April 2021. The effect on your pension will be shown in your 2021 benefit statement.

KEEPING YOU UP TO DATE

Future changes to RPI methodology

The Government and the UK Statistics Authority have published their response to a joint consultation on the reform of the methodology for calculating the Retail Prices Index (RPI). It is expected that the calculation of RPI will change from February 2030, so that from then on it will be calculated in line with the Consumer Prices Index (including housing) (CPIH). CPIH inflation has typically been lower than RPI inflation in the past. If this position continues, we may see lower values of RPI inflation from 2030 onwards than otherwise, which will be reflected in the calculation of pension benefits and Scheme assets which are linked to the RPI.

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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Employer change of name

Leonardo MW Ltd is changing its name to Leonardo UK Ltd from 31 March 2021. This is a name change only to harmonise company names across the Leonardo group, and there is no change in the entity supporting the Scheme. References to the Company in this newsletter reflect the new name.

Disclaimer

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.