

LEONARDO HELICOPTERS PENSION SCHEME

Report and Financial Statements for the period from 6 April 2019 to 30 September 2019

Scheme Registration No: 10260073



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XPS Administration is a trading name of XPS Administration Limited
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Part of XPS Pensions Group

LEONARDO HELICOPTERS PENSION SCHEME

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TRUSTEE AND ADVISERS

Trustee:	Leonardo Helicopters Pension Scheme (Trustee) Limited
Trustee Directors:	Martin Flavell * (Chair) Caroline Beaumont * Michael Bird ** (Resigned 30 September 2019) Christopher Burton ** (Appointed 25 November 2019) Malcolm Gillam ** Steve Jenkins ** Simon Jones * Nicola McKenzie * Craig Porter * Rebecca Ward **
	<i>* Company Nominated</i> <i>** Member Nominated</i>
Secretary to the Trustee:	Rachael Skuse
Scheme Address:	Leonardo Helicopters Pension Scheme Box 205 Leonardo MW Ltd Lysander Road Yeovil Somerset BA20 2YB
Principal Employer:	Leonardo MW Ltd (02426132) Sigma House Christopher Martin Road Basildon Essex SS14 3EL
Actuary:	Chris Vaughan-Williams Aon Hewitt Limited 25 Marsh Street Bristol BS1 4AQ
Auditor:	RSM UK Audit LLP 25 Farringdon Street London EC4A 4AB
Legal Adviser:	Burges Salmon LLP One Glass Wharf Bristol BS2 0ZX
Bankers:	Barclays Bank plc 1 Churchill Place London E14 5HP
Covenant Adviser:	Ernst & Young LLP

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Investment Managers:	River and Mercantile Investments Limited T/A River and Mercantile Solutions
Custodian:	CACEIS (formerly known as KAS Bank NV)
AVC Providers:	Mobius Life Ltd Prudential Assurance Company Ltd The Equitable Life Assurance Society
Administrators:	XPS Administration Limited Queen's Quay 33-35 Queen Square Bristol BS1 4LU
Investment Advisers:	River and Mercantile Investments Limited T/A River and Mercantile Solutions

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TRUSTEE'S REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Introduction

The Trustee and associated Directors of the Leonardo Helicopters Pension Scheme (Trustee) Limited ('Trustee directors') present the Scheme Financial Statements of the Leonardo Helicopters Pension Scheme ('the Scheme') for the period from 6 April 2019 to 30 September 2019. These financial statements have been prepared for the purpose of enabling the Scheme Actuary to prepare a valuation under section 179 Pensions Act 2004.

Scheme Information

The Leonardo Helicopters Pension Scheme is governed by Scheme Rules and provides pensions and lump sum benefits on retirement and death for those employees who are members of the Scheme.

The Scheme provides defined benefit pensions. The Scheme closed to new entrants in October 2007.

The Trustee of the Scheme is Leonardo Helicopters Pension Scheme (Trustee) Limited.

The Trustee Board is made up of nine Trustee Directors consisting of five Trustee Directors nominated by the Principal Employer (one of which is the Chair of the Trustee Board) and four nominated by the membership.

The Trustee Directors meet frequently to deal with various matters relating to the management of the Scheme including monitoring funding and investing the Scheme assets. The Trustee Directors have the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents, and in the best interests of the members.

The investment sub-committee and administration sub-committee also meet regularly and in advance of each full Trustee meeting.

In addition, there is a Joint DC Investment Committee, which is a joint committee for the Leonardo Helicopters Pension Scheme, Leonardo FuturePlanner and the Leonardo Electronics Pension Scheme. The purpose of the DC Committee is to review the AVC investment strategy of the Leonardo Helicopters Pension Scheme (together with the investment strategy of Leonardo FuturePlanner and the defined contribution elements of the Leonardo Electronics Pension Scheme).

Employer's Covenant

The Principal Employer of the Scheme is Leonardo MW Ltd.

The Trustee Directors recognise that the ability of the Principal Employer to meet its ongoing contribution requirement is important to the funding of the Scheme and hence the security of members' benefits. As a way of increasing the security of the Scheme, the Trustee has entered into an agreement with the Leonardo Group's parent company, Leonardo SpA, in which Leonardo confirms it will provide support for the Scheme. Leonardo has agreed that it will be responsible for the liabilities of the participating employers and has undertaken to pay any outstanding Scheme contributions and pay any Scheme deficit if the Scheme were to wind up with insufficient assets.

The Trustee regularly monitors the financial status of the Principal Employer and has engaged Ernst & Young LLP to carry out regular 6 monthly independent reviews of the financial strength of the employers, or more frequently if the Trustee considers this appropriate.

Voluntary contributions

The Additional Voluntary Contribution (AVC) option provides members with an opportunity to make further provision for their retirement in addition to the benefits provided by the Scheme. Investment choices are available in the form of a "Lifestyle" arrangement and a "Pick & Mix" option. In addition, some members have AVCs with Prudential and Equitable Life but cannot contribute more to these funds.

In addition to AVCs, members of the Main Section are able to contribute under the Buy Up option which provides for a higher career salary accrual rate, in return for an additional member contribution. The cost of the Buy Up option is set by the Trustee each year.

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TRUSTEE'S REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2019 (continued)

Membership

The number of members as at the period end was:

Active members at 6 April 2019		1,660
Retirement	(79)	
Deferred	(14)	
Active members at 30 September 2019		<u>1,567</u>
Deferred pensioners at 6 April 2019		1,185
From Active	14	
Transfer Out	(10)	
Retirement	(15)	
Trivial commutation	(1)	
Deferred pensioners at 30 September 2019		<u>1,173</u>
Pensioners at 6 April 2019		2,185
Retirement	94	
New dependants / spouses	7	
Death	(11)	
Trivial commutation	(1)	
Pensioners at 30 September 2019		<u>2,274</u>
Total members at 30 September 2019		<u><u>5,014</u></u>

Part of the benefits for 138 pensioners is covered by an external annuity policy (5 April 2019: 138).

Financial Development of the Scheme

Changes in the Scheme's net assets during the period were as follows:

	£'000s
Net assets at 5 April 2019	1,574,428
Net withdrawals from dealings with members	(19,209)
Net returns on investments	<u>221,246</u>
Net assets at 30 September 2019	<u><u>1,776,465</u></u>

The financial statements for the period have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

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INVESTMENT REPORT

The Trustee determines its investment strategy after taking advice from the adviser. It has delegated the management of the investments to the investment managers listed on page 3.

Background

At the Scheme period end, 30 September 2019, the net investments of the Scheme were valued at £1.78bn, compared with £1.57bn at the 5 April 2019.

The majority of the assets of the Scheme continue to be invested in the Fiduciary Management Portfolio (FM) provided by River and Mercantile Investments Limited.

The Trustee also has a liability hedging portfolio through which the impact of movements in long-term interest rate and inflation expectations are managed.

This report gives information about the assets as at 30 September 2019.

Investment Principles

The Trustee has produced a Statement of Investment Principles (SIP) showing how it invests the assets of the Scheme. The SIP is reviewed regularly by the Trustee and was last updated in September 2019.

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. This is broken down into the following qualitative objectives:

1. Acquire suitable assets which, having due regard to risk, will generate income and capital growth to pay, together with the Employer and member contributions, the benefits as they fall due.
2. Limit the risk of the assets failing to meet the liabilities over the long term.
3. Achieve a return on investment which is expected at least to meet the Actuary's assumptions over the long term.

The Trustee has translated its objectives into benchmarks for the Scheme. The benchmarks are consistent with the Trustee's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk measured relative to liabilities.

The Trustee has also produced a defined contribution SIP which was last updated in August 2019.

Copies of the SIPs are available to members from www.lhpensions.co.uk.

Investment Manager

The Trustee has delegated responsibility for the day-to-day management of the assets to the Scheme's Investment Manager, River and Mercantile Investments Limited ("River and Mercantile Solutions"). An Investment Management Agreement between the Trustee and River and Mercantile Investments Limited governs this relationship.

The Investment Manager has been appointed in two capacities:

- (i) Implement a liability hedging strategy and
- (ii) Actively manage assets through its Fiduciary Management Portfolio ("FM") which covers a wide range of asset classes and investment managers

LEONARDO HELICOPTERS PENSION SCHEME

Market Commentary

The period ended 30 September 2019 gave investors a nervous, rollercoaster ride, with uncertainty the order of the day, although gains were experienced in most return-seeking asset classes over the period as a whole. An overall decrease in gilt and swap yields is however likely to have increased the value of UK pension schemes' liabilities.

The six month period reflected a change in momentum towards loose monetary policy. Equity markets responded with a strong rebound from earlier in the year, but it was not without a reversal of its own, due to escalating tensions between the US and Chinese governments. Global political events still dictated large movements in the markets resulting in investors' flight to safe haven assets and further stimulus from central banks. The UK gilts market were buffeted by uncertainty over Brexit and the global trend of interest rate cuts, with sterling weakening against the dollar over the course of the six month period.

Asset Allocation

The Trustee reviews the strategic asset allocation of the Scheme on a regular basis. However, investment decisions within this framework are delegated to River and Mercantile Solutions.

The Trustee has allocated 75% of assets to return seeking assets and 25% of assets off-risk for liability matching.

The Trustee continues to monitor the strategy through regular reviews. In addition, the Trustee will review on an on-going basis the extent to which risk and volatility can be reduced further as the deficit for the Scheme is recovered over time.

The table below shows the asset allocation at the current and prior period ends:

	30 September 2019		5 April 2019	
	Market Value £'000	% of funds (ex AVCs)	Market Value £'000	% of funds (ex AVCs)
Equity	586,386	33.2	539,412	34.3
Private Equity	26,686	1.5	25,756	1.6
Alternatives	220,912	12.5	214,273	13.6
Bonds	243,027	13.8	227,193	14.4
Property	51,504	2.9	49,392	3.2
Cash	101,942	5.7	97,929	6.3
Currency Hedge	(5,850)	(0.3)	1,598	0.1
Total return seeking portfolio	<u>1,224,607</u>	<u>69.3</u>	<u>1,155,553</u>	<u>73.5</u>
Liability matching portfolio	542,358	30.7	417,292	26.5
Total assets (excluding AVCs)	<u>1,766,965</u>	<u>100.0</u>	<u>1,572,845</u>	<u>100.0</u>
AVCs	11,514		11,860	
Cash in transit	<u>29</u>		<u>43</u>	
Total investments	<u>1,778,508</u>		<u>1,584,748</u>	

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Liability Risk

The Trustee has put a programme in place to reduce some of the unrewarded risks that the Scheme faces in relation to the value of the liabilities. River and Mercantile Derivatives manage the liability hedge which is in place via a number of counterparty banks.

During the period, the Trustee maintained a hedge for 100% of the interest rate risk and 100% of the inflation risk of the liabilities, including the liabilities due to be accrued to the date of the next scheduled actuarial valuation (as at 5 April 2020).

The Trustee also has a derivatives programme to manage the exposure of the assets to currency movement which is managed by River and Mercantile Solutions.

The Trustee will continue to consider further opportunities to reduce unrewarded risks where this can be done cost effectively. There are appropriate arrangements in place to provide collateral for the derivatives programmes.

Liability Matching Portfolio

The liability hedge is designed to protect the Scheme from adverse movements in long-term interest rates and inflation which directly impact the value of the liabilities. The value of the gilts that are part of the liability hedge portfolio tends to move in line with the Scheme's liabilities when long-term interest rates and inflation change. Similarly, the swaps in the liability hedge portfolio are such that, if interest rates fall significantly (and so the liabilities rise in value) the swap counterparty pays the Scheme to cover the rise in the value of the liabilities. Conversely, if the value of the liabilities falls due to interest rate and inflation changes, the Scheme pays the counterparty under the swap contracts an amount that is in line with this fall in the liabilities. Importantly, the purpose of the liability hedge is to offset (or hedge) the changes in the value of the liabilities whether there is a rise or fall.

	30 September 2019 £000	5 April 2019 £000	5 April 2018 £000	5 April 2017 £000	5 April 2016 £000	5 April 2015 £000
Interest rate swaps	124,927	32,049	13,162	50,907	61,937	107,970
Inflation swaps	(13,820)	(18,385)	(27,334)	(22,253)	(54,872)	(37,698)
Swaptions	-	-	-	(13,502)	-	-
Gilt total return swaps	<u>68,570</u>	<u>28,814</u>	<u>19,977</u>	<u>34,794</u>	<u>29,074</u>	<u>26,053</u>
Total Gain/(Loss)	<u>179,677</u>	<u>42,478</u>	<u>5,805</u>	<u>49,946</u>	<u>36,139</u>	<u>96,325</u>

A positive mark-to-market value of the swaps represents a rise in the value of the swaps from the Scheme's perspective and vice versa. However, this rise will have been necessary to offset the rise in the value of the Scheme's liabilities and so the impact of the rate changes on the Scheme's finances will (as intended) have been broadly neutral.

At the period end the portfolio was hedging 100% of the interest rate risk and 98% of the inflation risk.

Collateral

The gilts can be used to meet collateral calls from the Scheme's counterparties: Barclays Bank plc, Credit Suisse International, Goldman Sachs plc, JP Morgan plc, HSBC plc, Lloyds plc, Royal Bank of Scotland plc, Merrill Lynch & Co. Inc., Morgan Stanley & CO. International plc and UBS plc. The Scheme would be obliged to post collateral to the counterparties as and when the swap mark-to-market is negative to the Scheme (i.e. in the counterparties' favour). Once the collateral is transferred to the respective counterparty it is held by the counterparty but in the name of the Trustee.

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Return Seeking Portfolio

The Growth Assets (GA) is designed to deliver performance in excess of a client specific target through exposure to diversified investment arrangements. River and Mercantile Solutions invests and manages the Scheme's assets on behalf of the Trustee.

River and Mercantile Solutions' fiduciary management service reduces the risks and costs of decision delay and provides access to a broad range of asset allocation and increased investment specialisation, such as commodities, high yield bonds, leveraged loans and other alternative asset classes as well as currency hedging. As well as the delegated responsibility for dynamic asset allocation, River and Mercantile Solutions are also responsible for selecting, combining and replacing fund managers.

The core strength of the fiduciary management portfolio proposition lies in the delegation to the manager of the flexibility to dynamically allocate across all asset classes in accordance with medium to long term views on global markets, and to 'defend' by increasing the allocation to cash when the risk/return attributes of multiple asset classes are poor. This is demonstrated in the Asset Allocation table above showing the variation at the current and prior period end.

The investment objective for GA is a return of Cash + 3% p.a., after the deduction of fees, over rolling three year periods. Performance of the GA assets against objective is as follows:

GA including EDOS	1 Year	3 Years p.a.	5 Years p.a.
Investment return	2.3%	4.6%	5.5%
Objective	3.8%	3.6%	3.6%
Investment return relative to target	-1.5%	1.0%	1.9%

Performance is shown to 30 September 2019 after the deduction of fees (to the extent that fees are paid from assets). The objective is shown to 30 September 2019.

The Trustee monitors the performance of GA on a quarterly basis and is provided with a valuation of all of the Scheme's assets on a monthly basis.

Total Investment Performance

The performance of the Scheme's return-seeking portfolio and the total performance (including the performance of the swaps) was positive over the year ended 30 September 2019.

Performance against objective over different time periods is as follows:

Total performance	1 Year	3 Years p.a.	5 Years p.a.
Investment return	22.3%	7.5%	13.2%
Objective	23.0%	5.6%	13.9%
Investment return relative to target	-0.7%	1.9%	-0.7%

Investment Expenses

Investment management expenses amounted to £3.0m during the period (previously £6.0m). It should be noted that, in addition to these direct expenses, the majority of underlying managers' fees are reflected in unit prices and these are not separately disclosed. Discounts on investment management fees are negotiated where possible.

Custody of Assets

The swap contracts entered into with Barclays Bank plc, Credit Suisse International, Goldman Sachs plc, JP Morgan plc, HSBC plc, Lloyds plc, Royal Bank of Scotland plc, Merrill Lynch & Co. Inc., Morgan Stanley & Co. International plc and UBS plc are held directly in the Trustee's name. These direct principal to principal contracts do not themselves require safe custody. However, the collateral provided to the counterparties to secure their value when their mark-to-market is positive is held by CACEIS, as custodian for the Scheme, in the name of its nominee company, KAS Nominees Limited.

The pooled fund units and shares comprising the assets managed through the fiduciary management portfolio are held by CACEIS in the name of its nominee company, KAS Nominees Limited.

Social Responsibility

The Trustee is seeking to maximise overall investment returns subject to an acceptable level of risk. Social, environmental or ethical considerations are not directly taken into account by the Trustee in the selection, retention and realisation of investments but the Investment Manager may take account of such factors with a view to positive effects on the expected financial return on investment.

Corporate Governance

The majority of the Scheme's investments are made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or social, ethical or environmental factors, is delegated to the manager of the pooled investment fund. The extent to which these factors are taken into account in the selection, retention and realisation of investments is considered by the Investment Manager as part of the process of selecting organisations with which to invest.

The Trustee supports the Myners Principles and the UK Stewardship Code. It has conducted a 'comply or explain' review in respect of both of the Myners Principles and Investment Guidance from the Pensions Regulator.

Employer Related Investments

There were no employer related investments during the period.

Date: 23 March 2020

Name:

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Date: 23 March 2020

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to contain the information specified in Regulation 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995 as if those requirements applied under the Pension Protection Fund (Valuation) Regulations 2005, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities including the maintenance of an appropriate system of internal control.

LEONARDO HELICOPTERS PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LEONARDO HELICOPTERS PENSION SCHEME

Opinion

We have audited the financial statements of the Leonardo Helicopters Pension Scheme for the period from 6 April 2019 to 30 September 2019 which comprise the Fund Account, the Statement of Net Assets (Available for benefits) and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the period from 6 April 2019 to 30 September 2019, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identifiable material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. The Scheme's Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

LEONARDO HELICOPTERS PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF LEONARDO HELICOPTERS PENSION SCHEME

Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 11, the Trustee has determined that audited financial statements should be prepared for the purposes of a valuation under Pensions Protection Fund (Valuation) Regulations 2005. The Trustee is responsible for the preparation of the financial statements and being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's report.

Use of our Report

This report is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 23 March 2020

LEONARDO HELICOPTERS PENSION SCHEME

FUND ACCOUNT

For the period from 6 April 2019 to 30 September 2019

	Note	6 April 2019 to 30 September 2019 £'000s	Year to 5 April 2019 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions		14,597	42,587
Employee contributions		18	41
Total contributions	3	14,615	42,628
Other income	4	-	206
		<u>14,615</u>	<u>42,834</u>
Benefits paid or payable	5	28,586	47,715
Payments to and on account of leavers	6	4,209	6,710
Other payments	7	150	400
Administrative expenses	8	879	1,696
		<u>33,824</u>	<u>56,521</u>
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(19,209)</u>	<u>(13,687)</u>
RETURNS ON INVESTMENTS			
Investment income	9	9,342	21,649
Change in market value of investments	11	214,946	103,906
Investment management expenses	10	(3,042)	(6,036)
NET RETURNS ON INVESTMENTS		<u>221,246</u>	<u>119,519</u>
NET INCREASE IN THE FUND FOR THE PERIOD		202,037	105,832
OPENING NET ASSETS		<u>1,574,428</u>	<u>1,468,596</u>
CLOSING NET ASSETS		<u><u>1,776,465</u></u>	<u><u>1,574,428</u></u>

The notes on pages 16 to 27 form part of these financial statements.

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 30 September 2019

	Note	30 September 2019 £'000s	5 April 2019 £'000s
INVESTMENT ASSETS			
Bonds	11	438,772	494,370
Pooled investment vehicles	12	1,124,949	999,880
Derivatives	13	237,590	103,020
AVC investments	14	11,514	11,860
Cash deposits		11,294	20,815
Other investment balances	15	1,455	1,460
		<u>1,825,574</u>	<u>1,631,405</u>
INVESTMENT LIABILITIES			
Derivatives	13	(47,066)	(46,657)
Other investment balances	15	-	-
		<u>(47,066)</u>	<u>(46,657)</u>
TOTAL NET INVESTMENTS		<u>1,778,508</u>	<u>1,584,748</u>
CURRENT ASSETS	19	8,826	1,041
CURRENT LIABILITIES	20	<u>(10,869)</u>	<u>(11,361)</u>
CLOSING NET ASSETS		<u>1,776,465</u>	<u>1,574,428</u>

The notes on pages 16 to 27 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme period.

These financial statements were approved by the Trustee on 23 March 2020.

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised November 2014).

These financial statements have been prepared for a period from 6 April 2019 to 30 September 2019.

2. ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared on an accruals basis.

(b) Contributions

Employers' contributions, members' contributions, including those paid under the SMART option, are accounted for on an accruals basis in accordance with the Schedule of Contributions.

AVC's are accounted for on an accruals basis, and the resulting investments are included within the net assets statement on the basis values provided by the AVC investment managers.

Augmentation contributions are accounted for in accordance with the agreement under which they are payable, or, in the absence of an agreement, on a receipt basis.

Employer deficit funding contributions are recognised on the due dates in accordance with the Schedule of Contributions or in the absence of a formal agreement on a receipts basis.

(c) Payments to Members

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

(d) Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration.

(e) Investment Income

Dividends from equities are accounted for on the ex-dividend date.

Income from bonds, other interest receivable and annuity income is taken into account on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager. Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

(f) Investments

Investments are included at fair value as follows:

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Unquoted securities are included at fair value estimated by the Trustee using appropriate valuation techniques.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

2. ACCOUNTING POLICIES (continued)

(f) Investments (continued)

Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Annuities purchased by the Trustee, which fully provide the benefits for certain members, are included in the financial statements at nil value. The cost of purchasing immediate annuities in respect of pensioners is reported with the Fund Account under 'Benefits'. The Trustee has reviewed the Scheme's annuity policies and has concluded that these are not significant to the Scheme's assets and the fund account movement, and therefore not valued these policies of the grounds of materiality.

Exchange traded futures are included at fair value, determined using market quoted prices.

Swaps are valued based on the present value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Options are valued at fair value using pricing models and relevant market data at the period end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

(g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the period end.

(h) Currency

The Scheme's functional and presentational currency is Pound Sterling (GBP). Monetary amounts in these financial statements are rounded to the nearest £.

3. CONTRIBUTIONS

	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s
Employer contributions		
Normal	3,511	7,369
Additional voluntary	1,072	2,101
Section 75	-	13,013
Deficit funding	5,000	10,000
Additional SMART	4,014	8,479
Expenses	1,000	1,625
	<hr/>	<hr/>
	14,597	42,587
Employee contributions – Normal	<hr/>	<hr/>
	18	41
	<hr/>	<hr/>
	14,615	42,628
	<hr/>	<hr/>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

3. CONTRIBUTIONS (continued)

SMART contributions are in respect of salary sacrifice arrangements made available to certain members by the employer.

Employee AVC contributions are disclosed as employer contributions as they are paid via SMART.

Contributions received from members and participating employers were in accordance with the Schedule of Contributions.

The deficit funding is payable under the recovery plan. The deficit payments will continue to be paid to the end of the recovery plan in 2024.

In the prior period, ATIL paid the sum of £13,013,000 to the Scheme in respect of its estimated Section 75 liability on 13 December 2018, as agreed under the Flexible Apportionment Arrangement. Leonardo MW Ltd has assumed responsibility for any residual ATIL liabilities.

4. OTHER INCOME	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s
Other income	-	2
Claims on term insurance policies	-	204
	<u>-</u>	<u>206</u>
5. BENEFITS PAID OR PAYABLE	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s
Pensions	16,366	29,806
Commutation of pensions and lump sum retirement benefits	11,934	17,571
Purchase of annuities	22	-
Lump sum death benefits	-	265
Refunds of contributions on death	-	2
Taxation where lifetime or annual allowance exceeded	264	71
	<u>28,586</u>	<u>47,715</u>
6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s
State scheme premiums	2	-
Individual transfers out to other schemes	4,207	5,710
	<u>4,209</u>	<u>5,710</u>
7. OTHER PAYMENTS	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s
Premiums on term insurance policies	<u>150</u>	<u>400</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

8. ADMINISTRATIVE EXPENSES	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s			
Administration	297	564			
Actuarial fees	109	194			
Legal fees	6	106			
Other professional fees	9	35			
Audit fees	15	31			
PPF levy	441	726			
Other fees	2	40			
	<u>879</u>	<u>1,696</u>			
	<u>879</u>	<u>1,696</u>			
9. INVESTMENT INCOME	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s			
Income from bonds	1,395	7,553			
Income from pooled investment vehicles	5,527	9,012			
Interest on cash deposits	27	92			
Gains/(losses) on foreign exchange	1	(499)			
Income from derivatives / swaps	2,364	5,427			
Annuity income	28	64			
	<u>9,342</u>	<u>21,649</u>			
	<u>9,342</u>	<u>21,649</u>			
10. INVESTMENT MANAGEMENT EXPENSES	Period ended 30 Sep 2019 £'000s	Year ended 5 April 2019 £'000s			
Administration, management & custody	3,305	6,394			
Investment fee rebate	(391)	(581)			
Investment custodian fees	128	223			
	<u>3,042</u>	<u>6,036</u>			
	<u>3,042</u>	<u>6,036</u>			
11. RECONCILIATION OF INVESTMENTS					
	Value at 5.4.20'9	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 30.9.2019
	£'000s	£'000s	£'000s	£'000s	£'000s
Defined Benefit Section					
Bonds	494,370	54,013	(162,932)	53,321	438,772
Pooled investment vehicles	999,880	330,556	(243,404)	37,917	1,124,949
Derivatives	56,363	20,259	(9,361)	123,263	190,524
AVC investments	11,860	1,337	(2,113)	430	11,514
	<u>1,562,473</u>	<u>406,165</u>	<u>(417,810)</u>	214,931	1,765,759
Cash deposits	20,772			15	11,265
Cash in transit	43			-	29
Other investment balances	1,460			-	1,455
	<u>1,584,748</u>			<u>214,946</u>	<u>1,778,508</u>
	<u>1,584,748</u>			<u>214,946</u>	<u>1,778,508</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

11. RECONCILIATION OF INVESTMENTS (continued)

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. Transaction costs analysed by main asset class and type of cost are as follows:

	Fees	Commission	Stamp duty & taxes	30 Sep 2019	5 April 2019
	£'000	£'000	£'000	Total	Total
				£'000	£'000
Other	1	-	-	1	142
5 April 2019	34	108	-	-	142

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

12. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the period end comprised:

	30 September	5 April
	2019	2019
	£	£
Defined Benefit Section		
Equity	568,642	488,184
Bonds	227,236	177,636
Property	51,504	49,391
Cash	23,638	44,640
Alternative	233,463	214,273
Private Equity	20,466	25,756
	<u>1,124,949</u>	<u>999,880</u>

13. DERIVATIVES

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme as follows.

Futures – the Trustee did not want cash held to be “out of the market” and therefore bought exchange traded index based futures contracts which had an underlying economic value broadly equivalent to cash held.

Options – the Trustee wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the period the Scheme held a number of equity option contracts that protect it from falls in value in the main markets in which the Scheme invests.

Swaps – the Trustee's aim is to match as far as possible the fixed income portfolio and the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate swaps during the period that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

13. DERIVATIVES (continued)

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the period end the Scheme held the following derivatives:

	30 September 2019	30 September 2019	5 April 2019	5 April 2019
	Asset £'000	Liability £'000	Asset £'000	Liability £'000
Swaps & Swaptions	217,426	(37,749)	87,002	(44,524)
Options	18,916	(2,219)	13,995	(1,707)
Forward foreign exchange contracts	1,248	(7,098)	2,023	(426)
	<u>237,590</u>	<u>(47,066)</u>	<u>103,020</u>	<u>(46,657)</u>
	<u>190,524</u>		<u>56,363</u>	

Swaps	Expiration	Notional principal £'000	Asset £'000	Liability £'000
Nature				
Interest rate swaps (OTC)	2019-2069	698,219	124,927	-
Inflation swaps (OTC)	2019-2046	536,576	9,470	(23,290)
Total return swaps	2019-2022	619,885	<u>83,029</u>	<u>(14,459)</u>
Total 2019			<u>217,426</u>	<u>(37,749)</u>

Included in bonds is collateral of £Nil (5 April 2019: £2.9m) which has been pledged to the counterparty.

At the period end the Scheme held £200.5m (5 April 2019: £69.1m) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

Options

Type	Expiration	Underlying Investment	No of outstanding contracts	Asset £'000	Liability £'000
Call	31/10/2019	SPX Index	1	-	(7)
Put	31/10/2019	SPX Index	2	986	(117)
Call	18/12/2019	SPX Index	1	-	(211)
Put	18/12/2019	SPX Index	2	1,272	(353)
Call	31/1/2020	SPX Index	1	-	(259)
Put	31/1/2020	SPX Index	2	1,988	(732)
Call	29/3/2021	UKX Index; SPX Index; SX5E Index; NYK Index	1	14,670	-
Put	29/3/2021	UKX Index; SPX Index; SX5E Index; NYK Index	1	-	(540)
	Total 2019			<u>18,916</u>	<u>(2,219)</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

13. DERIVATIVES (continued)

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000	Liability £'000
Forward OTC	Under 1 month	£85,280,338	€94,721,200	1,248	-
Forward OTC	Under 1 month	£292,292,989	\$367,006,000	-	(6,328)
Forward OTC	Under 1 month	£29,566,009	¥3,972,240,000	-	(320)
Forward OTC	Under 1 month	¥1,306,400,000	£9,949,894	-	(121)
Forward OTC	Under 1 month	€17,202,400	£15,453,008	-	(197)
Forward OTC	Under 1 month	£34,136,050	\$42,116,000	-	(132)
Total 2019				<u>1,248</u>	<u>(7,098)</u>

14. AVC INVESTMENTS

The Trustee holds assets invested separately from the main fund securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to the year end confirming contributions paid and the value of their fund. The aggregate amounts of AVC investments are as follows:

	30 September 2019 £'000s	5 April 2019 £'000s
Equitable Life	460	496
Prudential	603	642
Mobius Life	<u>10,451</u>	<u>10,722</u>
	<u>11,514</u>	<u>11,860</u>

15. OTHER INVESTMENT BALANCES

	30 September 2019 £'000s	5 April 2019 £'000s
Amounts due from broker	1,037	186
Dividends and interest receivable	<u>418</u>	<u>1,274</u>
	<u>1,455</u>	<u>1,460</u>

16. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2019

16. FAIR VALUE DETERMINATION (continued)

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

Defined Benefit Section	At 30 September 2019			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	438,772	-	-	438,772
Pooled investment vehicles	422,422	566,454	136,073	1,124,949
Derivatives	-	190,524	-	190,524
AVC investments	-	10,547	967	11,514
Cash	11,265	-	-	11,265
Cash in transit	29	-	-	29
Accrued investment income	418	-	-	418
Unsettled items	1,037	-	-	1,037
	<u>873,943</u>	<u>767,525</u>	<u>137,040</u>	<u>1,778,508</u>

Defined Benefit Section	At 5 April 2019			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	-	494,370	-	494,370
Pooled investment vehicles	361,007	519,253	119,620	999,880
Derivatives	-	56,363	-	56,363
AVC investments	-	10,826	1,034	11,860
Cash	20,772	-	-	20,772
Cash in transit	43	-	-	43
Accrued investment income	1,274	-	-	1,274
Unsettled items	186	-	-	186
	<u>383,282</u>	<u>1,080,812</u>	<u>120,654</u>	<u>1,584,748</u>

17. INVESTMENT RISK DISCLOSURES

(a) Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2019

17. INVESTMENT RISK DISCLOSURES (continued)

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Credit Risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, OTC derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore indirectly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Trustee's policy for managing credit risk is detailed in the Statement of Investment Principles.

The Scheme holds £438.8m in directly held bonds (Apr 2019: £494.4m), £190.5m in OTC derivatives (Apr 2019: £56.4m) and £12.3m in directly held cash balances (Apr 2019: £21.0m). The Scheme also holds £250.9m bonds and cash through underlying pooled fund investments (Apr 2019: £222.3m).

Credit risk arising on derivatives held directly depends on whether the derivative is exchange traded or over the counter (OTC). The Scheme holds OTC derivative contracts which are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. Credit risk for OTC derivative contracts is mitigated by placing restrictions on River and Mercantile Solutions which ensure that new contracts are only entered into with counterparties that are investment grade. The credit risk in respect of OTC swaps is further reduced by collateral arrangements.

Credit risk arising on bonds held directly is mitigated by River and Mercantile Solutions choosing to only invest in government bonds, where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

Directly held cash balances are at financial institutions which are at least investment grade credit rated. This is the position at the period end.

In all above instances, "investment grade" is defined as being rated at least BBB- by Standard & Poor's or Baa3 by Moody's.

Indirect credit risk arises in relation to underlying investments held in bond and cash pooled investment vehicles. This risk is mitigated by the Trustee mandating River and Mercantile Solutions that the underlying investment in sub-investment grade debt may not exceed 30% of the GA.

Both direct and indirect credit risk is mitigated by holding a diversified portfolio to minimise the impact of default by any one issuer. The Trustee monitors the investment strategy adopted by River and Mercantile Solutions to ensure that the arrangement remains diversified.

Direct credit risk arises in respect of pooled investment vehicles. The Scheme's Growth Assets is invested across a large number of different pooled funds which have various legal structures in various domiciles (e.g. open-ended investment companies, unit trusts, limited partnerships etc.).

The direct credit risk associated with these managers is also mitigated by:

- the regulatory environments in which those managers operate;
- diversification amongst a large number of pooled arrangements; and
- due diligence checks by River and Mercantile Solutions on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2019

17. INVESTMENT RISK DISCLOSURES (continued)

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee's policy for managing this risk is detailed in the Statement of Investment Principles.

Currency risk is mitigated by delegating management of currency exposures at total portfolio level to River and Mercantile Solutions. River and Mercantile Solutions implement currency hedging through the use of hedged shared classes of pooled funds (where available) and the use of Foreign Exchange (FX) forward contracts.

Net of currency hedging, 12.7% of the Scheme's holdings were exposed to overseas currencies as at period end (Apr 2019: 12.8%).

Interest rate risk

The Scheme's assets are subject to interest rate risk because some of the Scheme's investments are held in bonds, interest/inflation rate swaps for the purpose of liability hedging. Under this strategy if interest rates fall the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise these investments will fall in value as will actuarial liabilities because of an increase in the discount rate. At the period end, the assets held for liability hedging purposes comprised of:

	30 September 2019 £'000s	5 April 2019 £'000s
Direct		
Bonds	438,772	494,370
Swaps	179,677	42,478
Indirect		
Bond PIVs	227,236	177,636
Cash PIVs	23,638	44,640

Please note clean values have been used where applicable.

Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, other alternatives and property. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the period end, the Scheme's exposure to investments subject to other price risk was:

	30 September 2019 £'000s	5 April 2019 £'000s
Direct		
Equity Options	14,130	12,470
Put Equity Options	2,567	(182)
Indirect		
Bond PIVs	227,236	177,636
Cash PIVs	23,638	44,640
Equity PIVs	568,641	488,184
Property PIVs	51,504	49,392
Alternative PIVs	227,244	214,273
Private Equity PIVs	26,686	25,756

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2019

18. CONCENTRATION OF INVESTMENTS

The following investments represented over 5% of the net assets of the Scheme in the current or previous period:

	30 September 2019		5 April 2019	
	£'000s	%	£'000s	%
R&M Interest rate swaps	124,927	7.0	-	-
Vanguard S&P 500 – ETF (USD)	132,508	7.5	59,957	<5%

19. CURRENT ASSETS

	30 September 2019 £'000s	5 April 2019 £'000s
Bank balance	2,736	778
Employer deficit contributions	5,000	-
Employer expenses contributions	1,000	-
VAT recoverable by the Employer	90	81
Life assurance paid in advance	-	182
	<u>8,826</u>	<u>1,041</u>

The tax recoverable by the Employer is VAT on administrative expenses which the Employer reclaims and reimburses to the Scheme.

Contributions due at the period end have been received after the period end in accordance with the Schedule of Contributions.

20. CURRENT LIABILITIES

	30 September 2019 £'000s	5 April 2019 £'000s
Accrued expenses	6,257	4,009
Unpaid benefits	1,345	582
Tax payable	374	367
Contributions prepaid	<u>2,893</u>	<u>6,403</u>
	<u>10,869</u>	<u>11,361</u>

21. EMPLOYER RELATED INVESTMENTS

There were no employer related investments within the meaning of Section 40(2) of the Pensions Act 1995.

22. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 September 2019 (5 April 2019: Nil).

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2019

23. RELATED PARTIES

Six of the nine Trustee Directors in office during the period were contributing members of the Scheme during the Scheme Period. Their contributions were calculated and paid to the Scheme in accordance with the Scheme Rules.

One of the Trustee Directors is a pensioner member of the Scheme, who receives pension benefits in line with the Scheme Rules.

Management and governance services are provided by an in-house Pensions Management team based at Leonardo MW Ltd which is the Principal Employer. Costs of the governance service are agreed with Leonardo MW Ltd and are met by the Scheme. For the six months to 30 September 2019, these costs amounted to £80,000 (Year to 5 April 2019: £160,000).

Trustee Directors who are pensioner members of a Leonardo Group Pension Scheme receive remuneration from Leonardo MW Ltd for governance services. Trustee remuneration for the period totalled £9,900 (2018/19: £20,625).

£90,406 was due to the Scheme from the Employer at the period end in respect of VAT reclaimed by the Employer on Scheme Administration expenses.

The Trustee Directors are not aware of any material related party transactions that require disclosure in the financial statements, other than those already disclosed.

24. CAPITAL COMMITMENTS

There were no outstanding capital commitments as at 30 September 2019 (5 April 2019: Nil).

25. TAXATION

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

26. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this further at future meetings and decisions will be made as to the next steps once additional guidance has been published. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

27. POST BALANCE SHEET EVENTS

As a result of the Covid-19 (Coronavirus) pandemic, there was a dramatic downturn in global markets in March 2020. The outbreak is having a significant financial impact and the Trustee is monitoring the situation and is considering how best to respond to the emerging issues.