HELICOPTERS
Pension Scheme

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InTouch

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LEONARDO

MARKET UPDATE

PENSION IMPLICATIONS OF VOLATILE MARKET CONDITIONS ON DC SAVINGS

This article focuses on the impact of volatile market conditions **on defined contribution savings, and not your core defined benefit pension which is a guaranteed amount**. The Scheme's Additional Voluntary Contributions (AVCs) are defined contribution savings.

As you may be aware, the economic conditions have been challenging over the last year or so, which has resulted in volatile market performance. There have been a variety of reasons for the instability, including the ongoing conflict in Ukraine and political challenges within the UK, particularly last Autumn when the Chancellor's 'mini-budget' on 23 September 2022 resulted in market turmoil. The impacts have been noticeable in 'safer' assets and UK government bonds in particular.

These economic challenges create uncertainty and impact investment performance across the financial markets, including pension savings.

Unexpected rises and falls in financial markets can affect how much you have in your AVC savings pot. We have seen a period during which the majority of the major asset classes, including equities and bonds, have been falling in value, together with increasing interest rates and levels of inflation.

The Trustee has been discussing investment performance regularly with the Scheme's advisers, and reviewing the AVC funds in place to ensure these remain appropriate as conditions change.

The Trustee is aware that difficult market conditions can be of concern to Scheme members, and it is important that you do not make any hasty decisions which may not be in your long-term interest. Market fluctuations are a natural part of investing, and it is worth remembering that pensions are long-term savings vehicles generally invested over years or decades. This means they can take advantage of longer-term market rises with the intention of ultimately smoothing out short-term volatility.

For members who are close to their intended retirement date, you may wish to consider how current market volatility may impact the investments you currently hold within your AVC savings and how this could ultimately affect the final value of your AVC savings when you retire. It is also important to take independent financial advice before making decisions about your pension. The government offers a free money guidance service through **MoneyHelper**, and if you are over 50, you can make a free appointment with **Pension Wise**, part of the MoneyHelper service. More information on the services MoneyHelper provides is available **here**.

It is important for members with AVC savings to consider at what date you are targeting retirement, and what type of benefits you may wish to take from your AVC fund when you retire. This will help you decide whether the funds in which you are currently invested are suitable for your circumstances and future plans. If your plans change, please ensure you update your 'target retirement age' with us and take time to consider whether the funds you are currently invested in remain suitable for your needs. Your target retirement age can be updated in your online pensions account **here**.

Your pension savings are a valuable benefit. Please make sure you continue to be alert to potential pension scam activity. You can find information on this on our website **here**.

REVIEW YOUR TARGET RETIREMENT AGE

In the default strategy, your target retirement age affects the investment funds your AVC Savings are moved into over time. If the date you set is too early, your funds may de-risk too soon and this could have an effect on your investment return. Similarly, if you set a later date you may remain in funds with more risk than you intend.

MINIMUM PENSION AGE INCREASE

The government has announced that the earliest date at which individuals can start to receive their pension benefits (the Minimum Pension Age) will be increasing in April 2028 from age 55 to age 57. Members in serious ill health can apply to take their benefits earlier than this.

As part of this increase, there are some transitional provisions which enable those who have a 'protected pension age' of age 55 to keep it. These are complex provisions, however, **in the majority of cases if you are a member of the Leonardo Helicopters Pension Scheme then you will continue to be able to receive your Helicopters Scheme pension benefits from age 55**. There are a couple of legacy sections of the Scheme where this will increase to age 57 in 2028, namely those in the Hadland Section, and those in the Senior Executive Section.

If you have pension savings elsewhere, it is recommended that you check whether this increase to age 57 will apply to those benefits (certain schemes will be covered by transitional protections and may be able to retain lower ages).

This change is unlikely to affect the majority of members, as most people take their benefits much later than age 55.

CHANGES TO PENSIONS TAX ALLOWANCES

The Chancellor recently announced changes to pensions tax allowances, which in summary include:

- Removing the Lifetime Allowance (LTA). The LTA was a limit on the amount of pension savings you could build up tax free over your lifetime.
- Increasing the standard Annual Allowance (AA) from £40,000 to £60,000 per year. The AA is a limit on how much you can pay into a pension tax free each year.
- Raising the Money Purchase Annual Allowance (MPAA) from £4,000 to £10,000. The MPAA limit targets those who have drawn their benefits flexibly whilst still paying into a pension scheme. The limit for higher earners (the Tapered Annual Allowance) has also been raised to £10,000.
- Capping the amount of tax-free cash you can take at retirement at 25% of the current Lifetime Allowance, except where protections apply. This has been set at £268,275.

Neither the Trustee nor the Scheme Administrator can provide advice on personal financial matters, so if you think you might be affected by these changes, you should consider speaking to an independent financial adviser.

COMPANY CONSULTATION

The Trustee is aware that the Company has undertaken a consultation with employees regarding changes to the Leonardo pension arrangements. It has been announced by the Company that the Scheme will close to future pension accrual from April 2024, and the Trustee is liaising with the Company over the changes. Further details will be available in due course as the project progresses.

TRANSFER TIMESCALES

Whilst most of our members draw their pensions directly from the Scheme at retirement, some look to transfer their pension benefits out of the Scheme. This might be a portion of their benefits such as where they have large voluntary savings pots which exceed the amount that can be taken as a cash lump sum, or the whole fund where they wish to take their benefits in a more flexible way.

There are some strict regulatory requirements, and the Trustee must undertake a number of checks in order to protect you and reduce the risk that your benefits are being transferred as part of a scam. The transfer out process can take a number of months, and the Trustee has prepared a guide to help you understand what the process may entail. This can be accessed through the Scheme website Library **here**.

WELCOME TO OUR NEW TRUSTEE DIRECTOR

We welcome Adrian Weir to the Trustee board as a company-nominated Trustee director.

Adrian's role within Leonardo UK Ltd is UK Finance & Performance Director and he brings wide-ranging experience to the Trustee board. He sits on the full Trustee board and on the investment sub-committee.

We would like to thank the outgoing Trustee director, Craig Porter, for his long-standing contribution to the management of the Scheme, and we wish him all the best for the future.

EXPRESSION OF WISH FORM

ARE YOU KEEPING US UP TO DATE?

Help us to provide for your loved ones. In the event of your death, a benefit may be payable from the Scheme to your beneficiaries. The Trustee will need to make a decision about who to pay the benefits to and, whilst not binding, they will take into account any Expression of Wish form you have completed.

Where an Expression of Wish form has been completed recently, it gives a clear indication of your intention, and it is therefore important that you review and update your wishes regularly. **It is advisable to complete an updated Expression of Wish, even where the person(s) you are nominating are not changing**. This reconfirms your decision, making it easier for the Trustee to determine what your wishes would be.

It is particularly important to update an Expression of Wish if you have had significant changes in your life, such as having a child or a change in your relationship status or family circumstances.

The easiest way to update your Expression of Wish is online at **My Account**. Alternatively, you can **download the form**. We have recently updated the online Expression of Wish to add a comments box in which you can provide additional information about your wishes to help the Trustee when making their decision. This is also available on the form.

SUMMARY FUNDING STATEMENT 2022

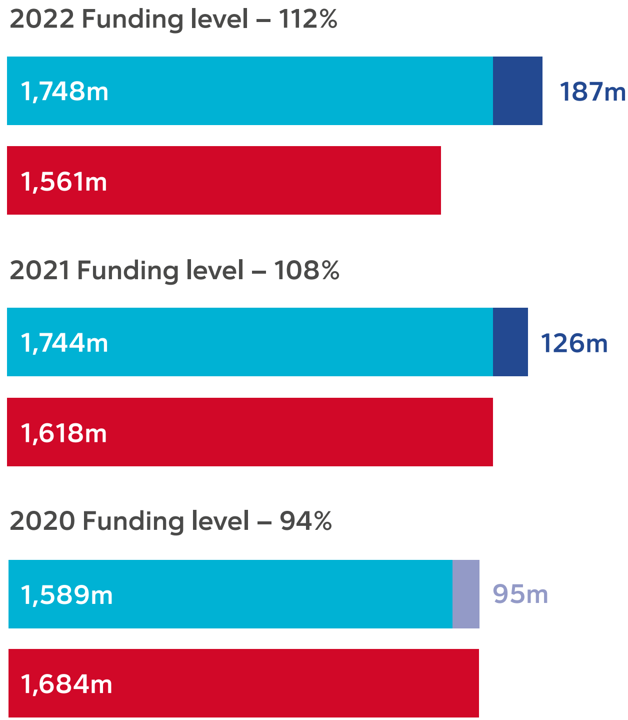
This is your update on the funding position of the Scheme, which the Trustee is required to provide to you each year. Set out on the following pages are the details of the Scheme's funding position as at 5 April 2022 (the date of the most recent actuarial report), together with the funding position as at 5 April 2021 (the date of the last actuarial report) and 5 April 2020 (the date of the most recent actuarial valuation).

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.
- **SURPLUS:** the amount by which the Scheme's assets exceed its liabilities.
- **DEFICIT:** the amount by which the Scheme's liabilities exceed its assets.

VALUES ARE IN £ MILLION



CHANGE IN ONGOING FUNDING POSITION SINCE THE LAST SUMMARY FUNDING STATEMENT

As at 5 April 2021, there was an estimated surplus of £126 million. Since then, the funding position has improved and the Scheme now has an estimated surplus of £187 million at 5 April 2022. This was mainly due to investment returns from the Scheme's assets being greater than assumed up to 5 April 2022.

The value of the liabilities as at 5 April 2020 have been calculated using assumptions agreed by the Company and Trustee as part of the 2020 actuarial valuation. The assumptions used to value the liabilities as at 5 April 2022 are consistent with those used for the 2020 actuarial valuation, but reflect changes in the relevant interest and inflation rates at 5 April 2022.

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 shown in the 2020 valuation. The recovery plan targets the Scheme being fully funded by January 2027, and the funding position at 5 April 2022 shows the Scheme is currently well ahead of this target.

The Trustee and the Company 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. This will be assessed annually using pre-determined criteria.

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.

The next detailed calculation of the Scheme's funding position will occur as part of the actuarial valuation as at 5 April 2023. The Trustee does, however, monitor the funding position of the Scheme on a more 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.

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

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

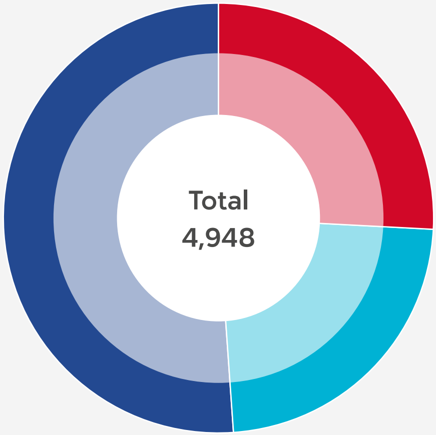
In the year to 5 April 2022, the Scheme's assets (including AVCs) increased to £1,760 million. This primarily related to the positive investment returns on the Scheme's assets and the payment of deficit recovery contributions into the Scheme. The table below shows a summary of the financial transactions of the Scheme during the year:

Value of Scheme assets at 5 April 2021	£1,756m
+ income	£50m
– benefits and expenses	(£65m)
+ change in market value of investments	£19m
Value of Scheme assets at 5 April 2022	**£1,760m**

This information has been taken from the Trustee's Annual Report and Accounts 2022, 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 2022, the membership of the Scheme was as follows:



Active (employed) members	1,269 (26%)
Deferred members	1,133 (23%)
Pensioners	2,546 (51%)

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 Scheme Year the Scheme's investment manager, River & Mercantile Solutions, became part of Schroders IS Limited.

The Scheme's return-seeking (growth) assets (£752 million as at 5 April 2022) are managed by Schroders 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 (£1,005 million as at 5 April 2022) is in a mix of hedging instruments and government bonds, which track changes in the liability profile of the Scheme when long-term interest rate and inflation expectations change. This also includes the Scheme's allocations to active structured equity and cashflow matching credit. As at 5 April 2022, there was also £12 million in AVC funds.

ALLOCATION OF ASSETS AS AT 5 APRIL 2022

Asset class	Value	% of assets
Equity	£326m	18%
Private Equity	£9m	0%
Alternatives	£129m	7%
Bonds	£82m	5%
Property	£57m	3%
Cash	£133m	8%
Commodities	£20m	1%
Currency Hedge	(£4m)	0%
Total on-risk growth assets	**£752m**	**42%**
Off-risk	**£1,005m**	**57%**
AVCs	£12m	1%
Current liabilities - current assets	(£9m)	0%
TOTAL	**£1,760m**	**100%**

Further information about the Scheme's investments is available in the 2022 Report and Accounts.

INVESTMENT PERFORMANCE

The year to 5 April 2022 saw more modest investment returns for the Scheme amid volatile market conditions. Whilst performance through 2021 was strong, there was a challenging backdrop to the start of 2022 with the Russian invasion of Ukraine having impacted markets across the globe, unprecedented rises in oil and gas prices and increasing levels of inflation. Asset values fell through the first quarter of 2022 and the portfolio was positioned defensively at 5 April 2022 in light of the volatile conditions. Returns are shown to 5 April 2022, net of any fees paid from assets.

Looking first at the performance of the Scheme's return-seeking growth asset portfolio alone, returns over the year were ahead of the target benchmark, and this strong performance improved the position over longer periods:

Growth asset portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	6.0%	6.3%	5.1%
Target (cash + 3% p.a.)	3.3%	3.4%	3.5%
Investment return relative to target	2.7%	2.9%	1.6%

The returns for the total portfolio (including the off-risk assets) were also positive, and ahead of the targeted return:

Total portfolio	1 year	3 years p.a.	5 years p.a.
Investment return	1.8%	5.9%	4.8%
Liability-related target	-0.7%	2.8%	3.5%
Investment return relative to target	2.5%	3.1%	1.3%

PENSION INCREASES AND REVALUATION RATES

PENSION INCREASES: Pension increases are awarded to pensioners on 1 April 2023. Different levels of increase will apply depending on whether pensioners have previously opted for a Pension Increase Exchange (PIE). Letters will have been sent to pensioners in March 2023 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 on 6 April 2023. The effect on your pension will be shown in your 2023 benefit statement.

KEEPING YOU UP TO DATE

GUARANTEED MINIMUM PENSIONS

We have previously updated you on the work we are doing to ensure the Scheme records match those of HMRC in relation to elements of a member's pension, classed as Guaranteed Minimum Pension (GMP) amounts. We are pleased to report that this project, known as GMP Reconciliation, has now been substantially completed.

This has enabled us to move forward with the second part of our GMP project, known as GMP Equalisation. This is a project to equalise benefits, where these have historically been based on unequal State pension entitlements between men and women. We have been in contact with members through 2022 (or will be during 2023 depending on your membership status) in relation to how the Scheme proposes to carry out GMP Equalisation. GMP Equalisation calculations have been completed for the majority of our pensioner members, with the remaining pensioner calculations due to be completed during 2023. It is intended that GMP Equalisation calculations for our active and deferred members will be carried out as part of your retirement calculation.

The way that we are proposing to address any historical inequality means that we also have the opportunity to simplify Scheme pensions. Your pension will not reduce as a result of simplifying it – in fact, you could receive a small increase.

PENSION INCREASE EXCHANGE

In April 2019, a new retirement option was launched. Alongside the existing retirement flexibilities offered by the Scheme, retiring members were able to choose a Pension Increase Exchange (PIE) option.

PIE is a one-off option for members to exchange some of their future pension increases for a higher annual pension, which then only increases at the statutory minimum rate.

Once the GMP projects outlined above have been completed, it remains the Company and Trustee's intention to offer PIE to those who have not yet been eligible whilst GMP records have been reconciled. We have undertaken a PIE exercise during 2022 for the majority of our pensioner members, and intend to undertake a further offer to remaining pensioners towards the end of 2023. If you are eligible to be offered the PIE option in future, we will contact you with all the relevant information once we are in a position to do so.

ONLINE PENSION ACCOUNT – ADDITIONAL SECURITY FEATURE

As part of our ongoing commitment to improving cyber security measures, we have added an additional security feature to your online pension account at **MyPension.com/LHPS**. Multi-factor authentication (MFA) is an extra layer of protection which you can choose to set up if you wish. If you decide to set up MFA, you will need to use your usual password and a unique code sent to your device every time you log in to your account.

When you have logged into your MyPension account, select 'Preferences' in the top right-hand corner and you will see 'Add additional security'. If you click on this option, full details on how to set it up will be displayed.

KEEP IN TOUCH

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

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