

LEONARDO HELICOPTERS PENSION SCHEME

Report and Financial Statements for the year ended 5 April 2023

Scheme Registration No: 10260073



One Temple Quay, Temple Back East, Bristol BS1 6DZ

XPS Administration is a trading name of XPS Administration Limited
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB

Part of XPS Pensions Group

LEONARDO HELICOPTERS PENSION SCHEME

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LEONARDO HELICOPTERS PENSION SCHEME

CHAIR'S INTRODUCTION YEAR ENDED 5 APRIL 2023

I am pleased to present the Report and Financial Statements for the Leonardo Helicopters Pension Scheme (the "Scheme") for the year ended 5 April 2023.

Following the Company consultation process through 2022 with active Scheme members and their representatives, the Company announced changes to future pension provision. The Scheme will close to pension accrual from 5 April 2024, with future pension then being provided through an enhanced version of the Company's defined contribution arrangement; Leonardo FuturePlanner. An implementation plan is being worked through to effect the changes next year.

The investment environment through 2022 was difficult with high levels of volatility. There was a challenging backdrop at the start of the year with the Russian invasion of Ukraine having impacted markets across the globe, with unprecedented rises in oil and gas prices and increasing levels of inflation and interest rates. The third quarter saw significant market turmoil associated with the Government's 'mini-budget' which had material impacts on UK pension schemes with gilt yields increasing at exceptional rates, putting pressure on the levels of collateral required to support liability hedging programmes. Whilst there was some impact, the Leonardo Helicopters Scheme took urgent defensive action to put in place measures to help protect the Scheme when interest rates were spiralling upwards, and overall was well positioned during the crisis.

Whilst conditions have stabilised through the first quarter of 2023, the impact of the crisis during 2022 and the sustained levels of increased interest rates and inflation have changed the profile of the Scheme. There have been falls in asset values and corresponding falls in liability values. This has resulted in the Scheme being smaller in absolute terms over the year, which you will see in the reduction in assets as reported in the Financial Statements. The total portfolio reduction is 28%. Within this our on-risk assets fell by 3.9% with the balance of the reduction being the value of the liability hedge driven down by the significant increases in gilt yields. It is important to note, however, that the overall funding level of the Scheme has been stable, with the liability hedging having operated as intended by tracking the movements in liabilities.

The market environment continues to be uncertain and the Trustee remains focused on developing its risk control measures. A detailed review of Scheme funding and investment strategy in light of the volatile conditions and the announcement that future accrual will cease from April 2024 has allowed further steps in the de-risking journey with further assets moved from the growth portfolio into off-risk allocations.

The Scheme's triennial actuarial valuation is due as at 5 April 2023 and the preliminary results will be available to the Trustee later this year.

There has also been a focus on developing policies on the Scheme's Environmental, Social and Governance (ESG) strategy as this affects both funding and investment. The Trustee has prepared its first climate-related risk report (TCFD report) which is available at www.lhpensions.co.uk/compliance and includes information on our overarching goal to achieve Net Zero carbon emissions on the portfolio by 2050.

The Trustee and Company have implemented Guaranteed Minimum Pension equalisation by conversion for the majority of pensioner members, and this is also now in place at the point of retirement for active and deferred members. The GMP Equalisation and conversion project has been combined with a new Pension Increase Exchange (PIE) offer. The final tranche of pensioner members have been provided with their PIE offers, with the project due to complete in the first quarter of 2024.

I am grateful to all the Trustee Directors, Pensions Management and our advisers for their significant contribution to the management of the Scheme during a busy and challenging year.

Martin Flavell

Martin Flavell
Chair

Leonardo Helicopters Pension Scheme (Trustee) Limited

Date: 14 September 2023



LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE AND ADVISERS

Trustee:	Leonardo Helicopters Pension Scheme (Trustee) Limited	
Trustee Directors:	Martin Flavell * (Chair) Caroline Beaumont * Chris Burton ** Malcolm Gillam ** Clive Higgins * Steve Jenkins ** Simon Jones * Craig Porter * (Resigned 31 July 2022) Rebecca Ward ** Adrian Weir * (Appointed 20 September 2022)	

* *Company Nominated*

** *Member Nominated*

Scheme Secretary: Rachael Skuse

Scheme Address: Leonardo Helicopters Pension Scheme
Box 205
Leonardo UK Ltd
Lysander Road
Yeovil
Somerset BA20 2YB

Principal Employer: Leonardo UK Ltd (02426132)
One Eagle Place
London SW1Y 6AF

Actuary: Robert Watkin (Appointed 1 April 2023)
Isio Group Limited
Isio Bristol
22-24 Queens Square
Bristol BS1 4ND

Chris Vaughan-Williams (Retired 31 March 2023)
Aon Solutions UK Limited
1 Redcliff Street
Bristol BS1 6NP

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

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE AND ADVISERS (continued)

<i>Covenant Adviser:</i>	Cardano Advisory Limited
<i>Investment Managers:</i>	Schroders IS Limited
<i>Custodian:</i>	CACEIS
<i>AVC Providers:</i>	Mobius Life Ltd Prudential Assurance Company Ltd
<i>Administrator:</i>	XPS Administration Limited One Temple Quay Temple Back East Bristol BS1 6DZ
<i>Investment Adviser:</i>	Schroders IS Limited

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023

The Trustee presents to the members its annual report and financial statements for the year ended 5 April 2023.

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. Following a consultation process carried out by the Principal Employer with its employees and employee representatives, it has been announced that the Scheme will close to future benefit accrual from 5 April 2024.

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.

During the year, the Trustee Directors met 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 met regularly during the year in advance of each full Trustee meeting. A Joint DB Investment Committee met during the year made up of the investment sub-committees of the Leonardo Helicopters Pension Scheme and the Leonardo Electronics Pension Scheme. The Joint DB Investment Committee reviews common DB investment information and proposals and receives training from Schroders.

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).

In total there were 8 Trustee meetings and 13 sub-committee meetings during the year, with Trustee Director attendance at 95% for the year (2022: 97%).

The Trustee produces an annual business plan, and a long-term strategic plan which sets out the objectives of the Trustee. Progress against the business plans is monitored by the Trustee at each quarterly meeting.

Trustee knowledge

There is a requirement for the Trustee Directors to have knowledge and understanding of the law relating to pensions and the principles relating to the funding of the Scheme and the investment of the Scheme's assets. The Trustee Directors are also required to be conversant with the Scheme's documents. To fulfil these requirements the Trustee has adopted a training policy and attends regular training sessions.

Risk management

The Trustee Directors have put in place steps to monitor areas of potential risk to the Scheme. They regularly monitor, amongst other aspects of the Scheme, investments, the funding of the Scheme and the administration of the Scheme. The Scheme's risk register is reviewed on a quarterly basis by the Trustee and updated as necessary.

The Trustee has adopted an integrated risk management plan, which looks at the financial covenant, investment and funding risks faced by the Scheme.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023 (continued)

Employer's Covenant

The Principal Employer of the Scheme is Leonardo UK 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 Cardano Advisory Limited to carry out 6 monthly independent reviews of the financial strength of the employers, or more frequently if the Trustee considers this appropriate.

Overall, the employer covenant has been robust and continues to be rated as strong. The announced closure of the Scheme to future benefit accrual from 5 April 2024 will assist in controlling the risks inherent in a defined benefit pension arrangement and enable the Trustee to take further de-risking steps.

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. A Mobius Life microsite is in place providing additional investment fund information to members. In addition, some members have AVCs with Prudential 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, with the Buy Up option ceasing from 5 April 2024 when accrual ceases.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 April 2023 (continued)

Membership

The number of members as at the year-end was:

Active members at 6 April 2022		1,269
Death in Service	(3)	
Retirement	(67)	
Deferred	(46)	
		<hr/>
Active members at 5 April 2023		1,153
Deferred pensioners at 6 April 2022		1,133
From Active	46	
Transfer Out	(9)	
Retirement	(41)	
Death	(2)	
		<hr/>
Deferred pensioners at 5 April 2023		1,127
Pensioners at 6 April 2022		2,546
Retirement	108	
New dependants / spouses	35	
Death	(43)	
Exit to Triv comm	(1)	
Suspended member	(1)	
		<hr/>
Pensioners at 5 April 2023		2,644
		<hr/>
Total members at 5 April 2023		4,924

Pension increases

Different rates of increase, and caps on the level of increase, apply for different sections and tranches of benefit within the Scheme.

All pensions in payment were increased on 1 April 2023 in accordance with the Rules of the Scheme. The applicable increase rate (before caps) on 1 April 2023 was generally 12.6% which is the level of RPI in September 2022, with benefits accrued after 5 April 2019 having an applicable increase (before caps) of 10.1%, which is the level of CPI at the same date. Relevant deductions or additions were made for statutory obligations to provide increases in relation to Guaranteed Minimum Pension (GMP).

Some pensioners have elected to exchange the increases provided in the Rules of the Scheme for the statutory minimum increases required by legislation.

Deferred pensions in excess of the GMP are increased annually in line with the statutory measure of inflation for pension purposes, up to a maximum of 5% for benefits accrued before 6 April 2009 and 2.5% for benefits accrued after.

All increases to pensions in payment and deferred pensions were made in accordance with the Rules of the Scheme. There were no discretionary increases made during the year.

Transfer Values

Cash equivalents (transfer values to other approved pension arrangements) payable are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 April 2023 (continued)

Scheme Changes

There have been no changes to the Scheme Rules over the year. Two deeds of amendment were entered into post Scheme year-end.

The first brings into effect the closure of the Scheme to future benefit accrual with effect from 5 April 2024. As part of the Company proposals, a new category of membership will be established known as 'employed deferred' members. Members in this category are entitled to an enhanced level of deferred member benefit for the period during which they remain in Leonardo UK Ltd.'s employment.

The second enables the Trustee to effect transfers from the Scheme into a Master Trust arrangement. This supports the retirement solution which the Trustee has developed with Smart Pension which provides members with defined contribution benefits the ability to re-register their existing DC funds across to Smart Pension and access retirement flexibilities such as income drawdown which the Scheme does not provide.

Financial Development of the Scheme

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

	£'000s
Net assets at 5 April 2022	1,759,907
Net withdrawals from dealings with members	(34,183)
Net returns on investments	<u>(496,011)</u>
Net assets at 5 April 2023	<u><u>1,229,713</u></u>

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

Communication

"InTouch", a newsletter for Scheme members is issued by the Trustee on a regular basis. Benefit statements are issued on an annual basis to active members setting out the amount of pension built up so far, and forecasted benefits. In addition members can access information from the Scheme website, www.lhpensions.co.uk. XPS Administration Limited also offers MyPension.com, an online tool for members enabling them to view their pension records and undertake various activities online. All communications have moved to predominantly electronic distribution during the year, other than where members have opted into continuing with paper copies.

A series of pensions workshops are offered to members in line with demand.

Going concern

The Trustee of the Scheme has made an assessment on going concern and given the funding position and the support from the Principal Employer, the Trustee concludes that the Scheme retains sufficient liquidity that the going concern basis remains appropriate for the foreseeable future and at the very least for the next twelve months.

Taxation Status

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

Enquiries

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee:

c/o XPS Administration Limited
PO Box 562
Middlesbrough TS1 9JA
E-mail: lhps@xpsgroup.com

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 April 2023 (continued)

MoneyHelper

MoneyHelper provides pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MoneyHelper can be contacted at:

MoneyHelper
Holborn Centre
120 Holborn
London EC1N 2TD

Tel: 0800 011 3797

Email: pensions.enquiries@moneyhelper.org.uk

Website: www.moneyhelper.org.uk

Pensions Ombudsman

Early Resolution Service

The early resolution service is available to assist with any difficulty that has not been resolved or to assist with a potential complaint.

Tel: 0800 917 4487

Email: helpline@pensions-ombudsman.org.uk

Complaints

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

The Pensions Regulator (tPR)

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Telecom House
125-135 Preston Road
Brighton BN1 6AF

Tel: 0345 600 0707

Email: customersupport@tpr.gov.uk

Website: www.thepensionsregulator.gov.uk

The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10260073. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

The Pension Service
Post Handling Site A
Wolverhampton WV98 1AF

Tel: 0800 731 0193

Website: www.gov.uk/find-lost-pension

INVESTMENT REPORT

Background

At the Scheme year-end, 5 April 2023, the net investments of the Scheme were valued at £1.22bn, compared with £1.76bn at the start of the Scheme year. This reduction in asset value was primarily driven by the significant increase in interest rates, which has pushed down the value of the Scheme's liability hedging assets. The Scheme's liabilities have also reduced by a corresponding amount and whilst the size of the Scheme has reduced, the funding level has held up.

The majority of the assets of the Scheme continue to be invested by the fiduciary manager, Schroders IS Limited. This includes 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 5 April 2023.

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 2022.

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 volatility experienced during the year meant that asset allocation was occasionally outside of the minimum or maximum benchmarks for some asset classes, with the liability hedging assets above the maximum at the year end. The benchmarks are being reset in September 2023.

The Trustee has also produced a defined contribution SIP which was last updated in September 2022.

Copies of the SIPs are available to members from the Scheme Administrator, XPS Administration, using the contact details on page 4. The SIPs are also available from the Scheme website at www.lhpensions.co.uk/compliance.

Investment Manager

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

The Investment Manager has been appointed in two capacities:

- Implement a liability hedging strategy and
- Actively manage Growth Assets which covers a wide range of asset classes and investment managers, Cashflow Matching Credit, ASE, Liability Hedging and Collateral Fund.

INVESTMENT REPORT

Market Commentary

Equity market review

Global equities were under pressure at the start of the 12-month period. Following Russia's invasion of Ukraine in February 2022, investors moved to price in interest rate rises and an increased risk of recession. Inflation continued to move higher in many major economies during the second quarter. Among equities, the MSCI Value index outperformed its growth counterpart but both saw sharp falls. After a rally in July, global equities turned lower and registered negative returns for the third quarter. Any hopes of interest rate cuts were dashed as central banks reaffirmed their commitment to fighting inflation. The Federal Reserve, European Central Bank and Bank of England all raised interest rates in the quarter. Emerging markets underperformed their developed counterparts.

Equity market review (continued)

Stock markets rounded off a tumultuous year with gains in the final quarter of 2022. Asian shares were boosted by China's relaxation of its zero-Covid policy, while European equities also advanced strongly. Government bond yields edged up towards the end of the fourth quarter (meaning prices fell). This reflected some market disappointment at major central banks reiterating plans to tighten monetary policy, even as inflation showed signs of peaking. Commodities gained in the quarter, led by industrial metals.

The positive performance of global equities continued in the first quarter of 2023, buoyed by receding recession worries in developed markets. Gains came despite the collapse of Silicon Valley Bank, which caused significant volatility in bank shares. Growth stocks outperformed value in the quarter.

Fixed income review

Global government bond yields dropped towards the end of the period. The March collapse of Silicon Valley Bank prompted a sharp rally in government bond markets and dwarfed concerns over the re-accelerating of inflation.

Within days of the market reaction to the banking crisis, government bond markets went from pricing in rate hikes to discounting sizeable rate cuts in some markets. Meanwhile, the US government intervened and invoked a "systemic risk exception" guaranteeing depositors access to their money.

Amid the changing market dynamics, central banks continued with their interest rate hikes, though some adjusted their stance. In the last 12 months, the Federal Reserve (Fed) announced nine rate hikes, with the latest being a relatively slower hike of 0.25% in response to the banking sector's turmoil. The Bank of England also approved nine rate hikes and followed the Fed's lead by taking the final increase to 0.25%. The European Central Bank maintained its stance, also enacting six rate hikes but raising their final rate by 0.5%.

Against this backdrop markets have been volatile, with US and European investment grade posting positive returns, but high yield was negative with poor performance from the banking sector dominating. Eurozone and US inflation continued their downward trajectory, pulling back from record highs seen last year but remaining elevated.

The US 10-year yields rose from 2.34% to 3.47%, with the two-year going from 2.34% to 4.03%. Germany's 10-year yield increased from 0.55% to 2.29%. The UK 10-year yield increased from 1.61% to 3.49% and two-year increased from 1.35% to 3.44%.

The US dollar's rally continued to lose steam, losing ground against most other G-10 currencies by the end of the 12 month period.

LEONARDO HELICOPTERS PENSION SCHEME

INVESTMENT REPORT

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 Schroders Solutions.

The Trustee has undertaken some significant de-risking during the year as the funding level has improved, and has allocated 30% of assets to Growth Assets, 45% of assets to Liability Hedging Assets, 15% of assets to Active Structured Equity and 10% of assets to Cash Flow Matching Credit Assets.

The Trustee will continue to review on an on-going basis the extent to which risk and volatility can be reduced further as the funding position of the Scheme improves over time

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

	5 April 2023		5 April 2022	
	Market Value £'000s	% of funds (ex AVCs)	Market Value £'000s	% of funds (ex AVCs)
Equity	138,378	11.3	325,962	18.5
Private Equity	3,326	0.3	9,066	0.5
Alternatives	66,730	5.4	129,315	7.4
Return Seeking Credit	63,722	5.2	82,401	4.7
Property	39,244	3.2	57,094	3.2
Cash & Sovereign Bonds	45,634	3.6	132,970	7.6
Commodities	-	-	20,046	1.1
Currency Hedge	<u>(362)</u>	<u>(0.0)</u>	<u>(4,267)</u>	<u>(0.2)</u>
Total Growth Assets portfolio	<u>356,672</u>	<u>29.1</u>	<u>752,587</u>	<u>42.8</u>
Liability Hedging Assets	550,290	44.9	553,275	31.5
Active Structured Equity	172,711	14.1	287,551	16.4
Cash Flow Matching Credit Assets	<u>147,035</u>	<u>12.0</u>	<u>163,996</u>	<u>9.3</u>
Total assets (excluding AVCs)	<u>1,226,708</u>	<u>100.0</u>	<u>1,757,409</u>	<u>100.0</u>
AVCs	11,489		12,135	
Cash in transit	<u>33</u>		<u>9</u>	
Total investments	<u>1,238,230</u>		<u>1,769,553</u>	

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. In particular, Schroders Solutions Derivatives manages a liability hedge.

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 Scheme's liabilities. The value of the gilts that are part of the hedging portfolio tends to move in line with the Scheme's liabilities when interest rates and inflation rates change. Similarly the swaps in the hedging portfolio, which are implemented via a number of counterparty banks, 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.

The mark to market valuation of the swaps represented an unrealised gain/loss, as at 5 April, for the following years:

	2023 £000	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Interest rate swaps	(42,782)	(16,678)	34,813	149,439	32,049	13,162
Inflation swaps	18,320	19,629	(23,872)	(44,532)	(18,385)	(27,334)
Swaptions	-	-	-	-	-	-
Gilt total return swaps	(2,731)	(6,396)	(18,406)	26,248	28,814	19,977
Total Gain/(Loss)	(27,193)	(3,445)	(7,466)	131,155	42,478	5,805

LEONARDO HELICOPTERS PENSION SCHEME

INVESTMENT REPORT (continued)

Liability Risk (continued)

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 interest rate changes on the Scheme's finances will (as intended) have been broadly neutral.

During the Scheme Year, there were some adjustments in the level of the liability hedge to reflect the challenging market conditions associated with the 'mini-budget' crisis in September/October 2022. The hedge level was reduced during this period to ensure the Scheme retained sufficient collateral to support the hedge, and was subsequently increased when the volatile conditions subsided.

Collateral

The gilts can be used to meet collateral calls from the Scheme's counterparties: Barclays Bank plc, Citigroup Inc., Royal Bank of Scotland plc, Merrill Lynch & Co. Inc., Royal Bank of Canada, Lloyds Banking Group, JP Morgan and Morgan Stanley & CO. International 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.

Return Seeking Portfolio

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

Schroders 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 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, Schroders Solutions is 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 year end.

The investment objective for GA is a return of SONIA + 3.125% per annum, after the deduction of fees, over rolling three year periods. Performance of the GA assets against objective is as follows:

GA	1 Year	3 Years p.a.	5 Years p.a.
Investment return	-3.9%	8.2%	3.7%
Objective	5.4%	3.9%	3.9%
Investment return relative to target	-9.3%	4.3%	-0.2%

Performance is shown to 5 April 2023 after the deduction of fees (to the extent that fees are paid from assets). The objective is shown to 5 April 2023.

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. The impact of the challenging and volatile market conditions described above resulted in negative performance for GA over the 12 month period, although performance over longer periods remains around or above target.

LEONARDO HELICOPTERS PENSION SCHEME

INVESTMENT REPORT (continued)

Return Seeking Portfolio (continued)

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

The Trustee has de-risked the portfolio significantly during the year and 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.

Total Investment Performance

The performance of the Scheme's return-seeking portfolio and the total performance (including the performance of the swaps) was negative over the year ended 5 April 2023 although in line with benchmark. This was driven by the significant increases in gilt yields, which has driven down the value of the liability hedging assets alongside a corresponding reduction in the value of the Scheme's liabilities.

Performance against objective over different time periods is as follows:

Total performance	1 Year	3 Years p.a.	5 Years p.a.
Investment return	-28.2%	-6.3%	-1.6%
Objective	-27.3%	-10.3%	-3.2%
Investment return relative to target	-0.9%	4.0%	1.6%

The objective for three years covers the period 1 April 2020 to 5 April 2023, and for five years it covers 1 April 2018 to 5 April 2023.

Investment Expenses

Investment management fees and expenses amounted to £3.2m during the period (previously £6.4m). 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, Citigroup Inc., Royal Bank of Scotland plc, Merrill Lynch & Co. Inc., Royal Bank of Canada, Lloyds Banking Group, JP Morgan and Morgan Stanley & CO. International 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.

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.

Environmental, Social and Governance Factors

Financially material investment considerations can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates consideration of financially material factors to the Investment Manager, who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only and also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

INVESTMENT REPORT (continued)

Environmental, Social and Governance Factors (continued)

There has been a focus on developing policies on the Scheme's ESG strategy as this affects both funding and investment. The Trustee has prepared its first climate-related risk report (TCFD report) which is available at www.lhpensions.co.uk/compliance and includes information on our overarching goal to achieve Net Zero carbon emissions on the portfolio by 2050.

Corporate Governance and Stewardship

The Trustee and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of the SIP and is required to exercise its powers with a view to giving effect to the principles contained therein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee has appointed the Investment Manager to implement the Scheme's investment strategy. The Investment Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the underlying managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically reviews the overall value-for-money of using Schroders Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Investment Manager's remuneration is based on the Scheme's asset size, and the Investment Manager is therefore incentivised to maximise the Scheme's asset size over the long term. The Trustee is satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with issuers to improve this medium- to long-term performance.

The success of such engagement will contribute to the Scheme's performance, which is measured relative to the Trustee's long-term performance objectives.

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.

Financial Material Considerations

These considerations, which include the below "Risks", can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates consideration of financially material factors to the Investment Manager, who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

INVESTMENT REPORT (continued)

Non-financial matters

The Trustee does not directly take into account non-financial matters (such as members' ethical or future impact priorities) given the difficulty of establishing consensus views on such matters. The Trustee maintains a dialogue with members through the Pensions Council and may seek views directly from time to time. The DCISC consults members from time to time in the context of self-select investment options for DC assets.

Turnover costs

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

Conflicts of interest

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest framework is available publicly here: <https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/>

Employer Related Investments

There were no employer related investments during the year.

LEONARDO HELICOPTERS PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES

Section 222 of the Pensions Act 2004 stipulates that all pension schemes must have a “Statutory Funding Objective”, which should be to have “sufficient and appropriate assets” to cover its “technical provisions” (i.e. meet members’ benefit obligations). The valuation allows for all benefits accrued to members but yet to be paid at the valuation date. It uses assumptions about various factors that will influence the Scheme in the future, such as the levels of investment return and inflation, when members will retire and how long members will live. These assumptions are agreed between the Trustee and Employers and are set out in the Statement of Funding Principles, which is available to members on request.

The latest Actuarial Valuation of the Scheme was completed as at 5 April 2020 and the respective Schedule of Contributions was certified on 8 December 2020. This valuation disclosed technical provisions of £1,684.1 million compared to assets of £1,589.3 million, resulting in a deficit of £94.8 million.

There was an estimated shortfall of £886.1 million relative to the solvency position (i.e. the estimated level of assets needed to buy insurance policies for benefits earned to the valuation date).

Significant Assumptions

Set out below is a summary of the key actuarial assumptions used for the 5 April 2020 valuation, which used the Projected Unit Method to place a value on the technical provisions.

Discount rate: term dependent rates set by reference to 65%/35% of the gilt and SONIA swap yield curves at the valuation date plus adjustments of 2.85% per annum pre-retirement and 0.85% per annum post-retirement.

Rate of RPI price inflation: term dependent rates set by reference to 65%/35% of the break-even gilt and swap RPI yield curves at the valuation date.

Rate of CPI price inflation: The rate of RPI inflation less 0.7% per annum at each term.

Increases to pensions in service and payment: Derived from the appropriate price inflation assumption allowing for the maximum and minimum annual increases, and for price inflation to vary from year to year, with an adjustment to allow for the timing of increases and seasonal trends.

Pay increases: The rate of CPI inflation plus 1% per annum at each term.

Post retirement mortality: Standard tables S3PMA for males and S3PFA_M for females, with scaling factors of 100%.

Future improvements in mortality: An allowance for future improvements was made from 2013 in line with the CMI 2019 core projections with a smoothing parameter of 7.0, initial addition to improvement rates of 0.5% and long-term improvement rate of 1.50% per annum.

Retirement age: An allowance for early retirements was made for each section of the Scheme.

Cash commutation: 90% of members were assumed to commute 30% of their pension on retirement (before any allowance for at-retirement options) which includes an allowance for commutation factors expected following the 2020 valuation.

Pension increase exchange on retirement: An allowance was made for 30% take-up for those members not yet offered the option, based on terms which are 60% of the value of the non-statutory increases on the technical provisions basis.

Supplement purchase on retirement: An allowance was made for 40% of members to exchange 5% of their pension at retirement to buy supplementary pension, based on terms which are consistent with the assumed commutation factors.

GMP equalisation: An allowance was made of 0.15% of past service liabilities.

The next formal valuation of the Scheme will become due with an effective date of 5 April 2023 and is expected to be finalised no later than 5 July 2024.

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Certification of schedule of contributions

Leonardo Helicopters Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that:

The statutory funding objective could have been expected on 5 April 2020 to be met by the end of the period specified in the recovery plan dated 8 December 2020.

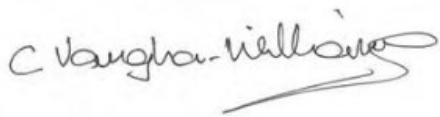
Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 8 December 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature

Date



8 December 2020

Name

Qualification

Chris Vaughan-Williams

Fellow of the Institute and Faculty of Actuaries

Address

Name of employer

1 Redcliff Street
Bristol
BS1 6NP

Aon Solutions UK Limited

LEONARDO HELICOPTERS PENSION SCHEME

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 the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- 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 the 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 obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, 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 these 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 is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

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 it 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.

The Trustee's Report, which includes the Investment Report, the Report on Actuarial Liabilities, the Statement of Trustee's Responsibilities and the Implementation Statement was approved by the Trustee.

Martin Flavell

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Name: Martin Flavell

Date: 14 September 2023

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Rebecca Ward

.....

Name: Rebecca Ward

Date: 14 September 2023

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

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 year ended 5 April 2023 which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including 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 year ended 5 April 2023, 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 year;
- 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

In auditing the financial documents, we have concluded that the Scheme Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Schemes ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Schemes Trustee with respect to going concern are described in the relevant sections of this report.

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 Schemes Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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

Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 19, the Trustee is responsible for the preparation of financial statements and for 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 Schemes ability to continue as a going concern, disclosing, as applicable, matters related 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Scheme operates in and how the Scheme is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

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

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates.

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 Schemes Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Schemes Trustee those matters we are required to state to them 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 Schemes Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK Audit LLP

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

14 September 2023

Date:

LEONARDO HELICOPTERS PENSION SCHEME

FUND ACCOUNT

For the year ended 5 April 2023

	Note	2023 £'000s	2022 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions	4	26,606	26,598
Employee contributions	4	25	24
Total contributions	4	<u>26,631</u>	<u>26,622</u>
Other income	5	564	441
		<u>27,195</u>	<u>27,063</u>
Benefits paid or payable	6	53,224	50,227
Payments to and on account of leavers	7	5,202	7,715
Other payments	8	287	325
Administrative expenses	9	2,665	2,043
		<u>61,378</u>	<u>60,310</u>
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(34,183)</u>	<u>(33,247)</u>
RETURNS ON INVESTMENTS			
Investment income	10	10,537	22,622
Change in market value of investments	12	(504,002)	19,405
Investment management expenses	11	(2,546)	(5,341)
NET RETURNS ON INVESTMENTS		<u>(496,011)</u>	<u>36,686</u>
NET (DECREASE) / INCREASE IN THE FUND FOR THE YEAR		(530,194)	3,439
OPENING NET ASSETS		<u>1,759,907</u>	<u>1,756,468</u>
CLOSING NET ASSETS		<u><u>1,229,713</u></u>	<u><u>1,759,907</u></u>

The notes on pages 25 to 36 form part of these financial statements.

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2023

	Note	2023 £'000s	2022 £'000s
INVESTMENT ASSETS	12		
Bonds		765,472	968,869
Pooled investment vehicles	13	453,359	751,617
Derivatives	14	221,972	379,158
AVC investments	15	11,489	12,135
Cash deposits		9,788	19,481
Cash in transit		33	-
Other investment balances	16	11,253	15,886
		<u>1,473,366</u>	<u>2,147,146</u>
INVESTMENT LIABILITIES			
Derivatives	14	<u>(235,136)</u>	<u>(377,593)</u>
TOTAL NET INVESTMENTS		1,238,230	1,769,553
CURRENT ASSETS	20	3,811	1,753
CURRENT LIABILITIES	21	<u>(12,328)</u>	<u>(11,399)</u>
CLOSING NET ASSETS		<u><u>1,229,713</u></u>	<u><u>1,759,907</u></u>

The notes on pages 25 to 36 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 year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section, is dealt with in the Report on Actuarial Liabilities on page 17 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on 14 September 2023.

Martin Flavell

Name: Martin Flavell

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Rebecca Ward

Name: Rebecca Ward

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2023

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 2018).

The Scheme is a registered hybrid pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the employer and employees are normally eligible for tax relief and income and capital gains earned by the Scheme receive preferential tax treatment. The Scheme is administered by the Trustee in accordance with the Trust Deed and Rules, solely for the benefit of its members and other beneficiaries.

As stated in the Statement of Trustee's Responsibilities on page 19, the Trustee is responsible for preparing the Financial Statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis. The Trustee has undertaken an assessment in relation to going concern and has considered such matters as the potential impact on the Scheme's investment strategy, the Employer's business and its ability to pay contributions to the Scheme, taking into account the Scheme's strong funding level, well diversified investment strategy, strength of the Employer covenant and the guarantee from Leonardo SpA. The Trustee believes it is appropriate to prepare the Financial Statements on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is c/o XPS Administration Limited, PO Box 562, Middlesbrough TS1 9JA.

Email: lhps@xpsgroup.com.

3. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

3. ACCOUNTING POLICIES (continued)

(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.

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 on the grounds of materiality.

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 year-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 year-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 £'000s.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

4. CONTRIBUTIONS

	2023 £'000s	2022 £'000s
Employer contributions		
Normal	11,780	11,934
SMART	6,843	6,878
Additional voluntary	1,683	1,786
Deficit funding	4,300	4,000
Expenses	<u>2,000</u>	<u>2,000</u>
	26,606	26,598
Employee contributions		
Normal	<u>25</u>	<u>24</u>
	<u><u>26,631</u></u>	<u><u>26,622</u></u>

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.

5. OTHER INCOME

	2023 £'000s	2022 £'000s
Other income	-	39
Claims on Term insurance policies	<u>564</u>	<u>402</u>
	<u><u>564</u></u>	<u><u>441</u></u>

6. BENEFITS PAID OR PAYABLE

	2023 £'000s	2022 £'000s
Pensions	40,941	38,229
Commutation of pensions and lump sum retirement benefits	11,722	11,816
Lump sum death benefits	531	141
Refunds of contributions on death	-	8
Taxation where lifetime or annual allowance exceeded	<u>30</u>	<u>33</u>
	<u><u>53,224</u></u>	<u><u>50,227</u></u>

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2023 £'000s	2022 £'000s
Individual transfers out to other schemes	<u>5,202</u>	<u>7,715</u>

8. OTHER PAYMENTS

	2023 £'000s	2022 £'000s
Premiums on term insurance policies	<u>287</u>	<u>325</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

9. ADMINISTRATIVE EXPENSES	2023 £'000s	2022 £'000s
Administration	864	692
Actuarial fees	612	332
Legal fees	129	55
Other professional fees	30	14
Audit fees	28	34
PPF levy	985	888
Other fees	11	27
Miscellaneous expenses	6	1
	<u>2,665</u>	<u>2,043</u>

There has been an increase in administrative expenses between 2022 and 2023 primarily due to the one-off project to equalise and convert Guaranteed Minimum Pensions.

10. INVESTMENT INCOME	2023 £'000s	2022 £'000s
Income from bonds	8,295	6,699
Income from pooled investment vehicles	9,229	8,289
Interest on cash deposits	381	(9)
Gains/(losses) on foreign exchange	(87)	440
Income from derivatives / swaps	(7,338)	7,141
Annuity income	57	62
	<u>10,537</u>	<u>22,622</u>

11. INVESTMENT MANAGEMENT EXPENSES	2023 £'000s	2022 £'000s
Administration, management & custody	2,716	5,202
Investment fee rebate	(393)	(112)
Investment custodian fees	223	251
	<u>2,546</u>	<u>5,341</u>

12. RECONCILIATION OF INVESTMENTS	Value at 5.4.2022 £'000s	Purchases at cost & derivative payments £'000s	Sales proceeds & derivative receipts £'000s	Change in market value £'000s	Value at 5.4.2023 £'000s
Defined Benefit Section					
Bonds	968,869	823,385	(703,760)	(323,022)	765,472
Pooled investment vehicles	751,617	438,935	(697,758)	(39,435)	453,359
Derivatives	1,565	171,902	(45,700)	(140,930)	(13,164)
AVC investments	12,135	3,690	(3,722)	(615)	11,489
	<u>1,734,186</u>	<u>1,437,912</u>	<u>(1,450,940)</u>	<u>(504,002)</u>	1,217,156
Cash deposits	19,472				9,788
Cash in transit	9			-	33
Other investment balances	15,886			-	11,253
	<u>1,769,553</u>			<u>(504,002)</u>	<u>1,238,230</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

12. 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 £'000s	Commission £'000s	Stamp duty and taxes £'000s	2023 Total £'000s	2022 Total £'000s
Other	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>
2022	<u>1</u>	<u>26</u>	<u>-</u>	<u>-</u>	<u>27</u>

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.

13. POOLED INVESTMENT VEHICLES

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

	2023 £'000s	2022 £'000s
Defined Benefit Section		
Equity	117,417	291,541
Bonds	208,567	244,467
Property	39,244	57,094
Cash	17,402	7,673
Alternatives	70,729	130,796
Commodities	-	20,046
	<u>453,359</u>	<u>751,617</u>

14. 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.

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 year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

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.

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 year 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.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

14. DERIVATIVES (continued)

At the year-end the Scheme held the following derivatives:

	2023 Asset £'000s	2023 Liability £'000s	2022 Asset £'000s	2022 Liability £'000s
Swaps	184,994	(212,186)	329,538	(332,983)
Options	36,225	(21,834)	47,870	(38,593)
Forward foreign exchange contracts	753	(1,116)	1,750	(6,017)
	<u>221,972</u>	<u>(235,136)</u>	<u>379,158</u>	<u>(377,593)</u>
		<u>(13,165)</u>	<u>1,565</u>	

Swaps	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Nature				
Interest Rate Swaps	2023 - 2039	623,110	166,362	(209,143)
Inflation Swaps	2028 - 2033	94,737	18,320	-
Total Return Swaps	2023 - 2024	24,729	312	(3,043)
			<u>184,994</u>	<u>(212,186)</u>

Included in bonds is collateral of £34.5m (2022: £28.4m) which has been pledged to the counterparty. At the year-end the Scheme held £20.7m (2022: £35.6m) 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 £'000s	Liability £'000s
Call	2024	MXEF Index	2	682	(284)
Call	2023	NYK Index	4	5,181	(2,664)
Call	2023-2024	SPX Index	14	19,792	(9,809)
Call	2024	SX5E Index	10	9,294	(4,528)
Call	2024	UKX Index	2	1,276	(489)
Put	2024	MXEF Index	1	-	(156)
Put	2023	NYK Index	2	-	(146)
Put	2023-2024	SPX Index	7	-	(2,454)
Put	2023-2024	SX5E Index	5	-	(1,207)
Put	2024	UKX Index	1	-	(97)
				<u>36,225</u>	<u>(21,834)</u>

Forward Foreign Exchange

Contract	Settlement Date	Number of contracts	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	Under 1 month	3	€7,650,200	€6,77,505	-	(82)
Forward OTC	Under 1 month	3	£17,861	€20,299	99	-
Forward OTC	Under 1 month	1	£3,452	¥563,000	3	-
Forward OTC	Under 1 month	3	£100,130	\$123,870	651	-
Forward OTC	Under 1 month	5	\$39,266	£32,567	-	(1,034)
					<u>753</u>	<u>(1,116)</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

15. 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:

	2023 £'000s	2022 £'000s
Prudential	403	519
Mobius Life	11,086	11,616
	<u>11,489</u>	<u>12,135</u>

16. OTHER INVESTMENT BALANCES

	2023 £'000s	2022 £'000s
Amounts due from broker	8,452	13,546
Dividends and interest receivable	2,801	2,340
	<u>11,253</u>	<u>15,886</u>

17. 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.

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

	At 5 April 2023			
Defined Benefit Section	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	765,472	-	-	765,472
Pooled investment vehicles	22,083	320,447	110,829	453,359
Derivatives	-	(13,164)	-	(13,164)
AVC investments	-	11,489	-	11,489
Cash	18,273	-	-	18,273
Accrued income	2,801	-	-	2,801
	<u>808,629</u>	<u>318,772</u>	<u>110,829</u>	<u>1,238,230</u>

	At 5 April 2022			
Defined Benefit Section	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	968,869	-	-	968,869
Pooled investment vehicles	15,137	553,424	183,056	751,617
Derivatives	-	1,565	-	1,565
AVC investments	-	11,616	519	12,135
Cash	33,027	-	-	33,027
Accrued investment income	2,340	-	-	2,340
	<u>1,019,373</u>	<u>566,605</u>	<u>183,575</u>	<u>1,769,553</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

18. INVESTMENT RISK DISCLOSURES

Investment Risk

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 of 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.

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 £765.5m in directly held bonds (2022: £968.9m), -£13.2m in OTC derivatives (2022: £1.6m) and £18.3m in directly held cash balances (2022: £33.1m). The Scheme also holds £226.0m bonds and cash through underlying pooled fund investments (2022: £252.1m).

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 Schroders 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 Schroders Solutions choosing to only invest in government bonds, where the credit risk is minimal.

Directly held cash balances are at financial institutions which are at least investment grade credit rated. This is the position at the year-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 Schroders Solutions that the underlying investment in sub-investment grade debt may not exceed 30% of the GA.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

18. INVESTMENT RISK DISCLOSURES (continued)

Credit Risk (continued)

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 Schroders 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 Schroders Solutions on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

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 Schroders Solutions. Schroders 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, 5.7% of the Scheme's holdings were exposed to overseas currencies as at year-end (2022: 8.5%).

Interest rate risk

Some of the Scheme's Growth Assets will be subject to interest rate risk. The Scheme's Liability Hedging Assets will be affected by changes in interest rate in a way that largely offsets the impact of changing interest rates on the Scheme's liabilities, and therefore act as a liability hedge. 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 year-end, the assets held for liability hedging purposes comprised of:

	2023 £'000s	2022 £000s
Direct		
Bonds	765,472	969,869
Swaps	(27,193)	(3,445)
Indirect		
Bond PIVs	208,567	244,467
Cash PIVs	17,401	7,673

Please note clean values have been used where applicable.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

18. INVESTMENT RISK DISCLOSURES (continued)

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

	2023 £'000s	2022 £'000s
Direct		
Equity Options	10,886	6,368
S&P Options	3,505	2,907
Indirect		
Bond PIVs	208,567	244,467
Cash PIVs	17,401	7,673
Equity PIVs	117,417	291,541
Property PIVs	39,244	57,094
Alternatives PIVs	67,403	121,730
Private Equity PIVs	3,326	9,066
Commodities PIVs	-	20,046

19. CONCENTRATION OF INVESTMENTS

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

	2023		2022	
	£'000s	%	£'000s	%
BNY Mellon Global Equity Fund	78,826	6.4	275,583	15.6
Insight	145,518	11.8	162,744	9.2
Schroders Solutions 1.25% Treasury Gilt 22/10/2041	88,173	7.2	-	-
Schroders Solutions 1.125% Index-linked Treasury Gilt 2037	75,560	6.1	-	-
Schroders Solutions 0.625% Index-Linked Treasury Gilt 2042	70,425	5.7	-	-

20. CURRENT ASSETS

	2023 £'000s	2022 £'000s
Bank balance	3,416	1,416
VAT recoverable by the Employer	160	97
Life assurance paid in advance	235	240
	<u>3,811</u>	<u>1,753</u>

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

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

21. CURRENT LIABILITIES	2023	2022
	£'000s	£'000s
Accrued expenses	1,018	935
Unpaid benefits	1,210	546
Tax payable	548	452
Contributions prepaid	9,552	9,466
	<u>12,328</u>	<u>11,399</u>

Employer contributions are received annually in advance in January each year. Contributions have been prepaid in line with the Schedule of Contributions currently in force.

22. EMPLOYER RELATED INVESTMENTS

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

23. CONTINGENT LIABILITIES

There were no contingent liabilities as at 5 April 2023 (2022: Nil).

24. RELATED PARTIES

Six of the nine Trustee Directors in office during the year were contributing members of the Scheme during the Scheme Year. 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 UK Ltd which is the Principal Employer. Costs of the governance service are agreed with Leonardo UK Ltd and are met by the Scheme. For 2022/23 these costs amounted to £160,000 (2021/22: £160,000).

Trustee Directors who are pensioner members of a Leonardo Group Pension Scheme receive remuneration from Leonardo UK Ltd for governance services. Trustee remuneration for the 2022/23 Scheme Year totalled £31,150 (2021/22: £27,770).

£160,447 (2021/22: £97,226) was due to the Scheme from the Employer at the year-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.

25. CAPITAL COMMITMENTS

There were no outstanding capital commitments as at 5 April 2023 (2022: Nil).

26. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

27. 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 the 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 agreed with the Company a proposed method of equalisation and the project is well advanced and expected to be concluded during 2024. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on the known and likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined, with these financial statements incorporating the first tranche of backdated payments and the final tranches of backdated payments expected to be included within the 2024 financial statements.

On 20 November 2020, the High Court handed down a second judgment involving the Lloyds Banking Group's defined benefit pension schemes. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The Trustee is considering next steps as the Scheme has experienced historical transfers out which will be subject to adjustment as a result of this second ruling. Any adjustments necessary will be recognised in the year they are determined. It is not possible to estimate the value of any such adjustments at this time.

LEONARDO HELICOPTERS PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE LEONARDO HELICOPTERS PENSION SCHEME

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the Leonardo Helicopters Pension Scheme on page 38, in respect of the Scheme year ended 5 April 2023, to which this statement is attached.

In our opinion the contributions for the Scheme year ended 5 April 2023 as reported in the attached summary of contributions on page 38 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 8 December 2020.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 38 in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of the Trustee and the Auditor

As explained more fully on page 18 in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our Statement

This statement 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 statement 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 statement, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK Audit LLP

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

14 September 2023
Date:

LEONARDO HELICOPTERS PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions were as follows:

	£'000s
Employer normal contributions	11,780
Employer SMART contributions	6,843
Employer deficit funding contributions	4,300
Employer expense contributions	2,000
Employee normal contributions	<u>25</u>
Total contributions paid	<u>24,948</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedule of Contributions	24,948
Members' Additional Voluntary Contributions	<u>1,683</u>
Contributions receivable per the financial statements	<u><u>26,631</u></u>

This summary was approved by the Trustee on 14 September 2023.

Martin Flavell

Name: Martin Flavell
Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Rebecca Ward

Name: Rebecca Ward
Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

LEONARDO HELICOPTERS PENSION SCHEME

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the Leonardo Helicopters Pension Scheme (the "Scheme") in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was amended once during the year ending 5 April 2023, although the only material change was to reference the updated Schroders Conflicts of Interest policy. This SIP came into force from 15 September 2022.

A copy of the current SIP signed and dated 15 September 2022 can be found here:

www.lhpensions.co.uk/compliance

This Implementation Statement covers the Scheme year from 6 April 2022 to 5 April 2023 (the "Scheme Year"), although the information on engagement and voting statistics relates to the period from 1 April 2022 to 31 March 2023. It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A new set of guidance ("the Guidance") from the Department for Work and Pensions ("DWP") has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustee of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme's SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Scheme, with the help of the Scheme's Fiduciary Manager, has complied with the new statutory guidance set by DWP.

A copy of this Implementation Statement is available on the following website:

www.lhpensions.co.uk/compliance

2. How the Trustee's policies on exercising voting rights and engagements have been followed over the Scheme Year

The Trustee uses the Fiduciary Management service of **Schroders IS Limited** as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then. The Fiduciary Manager has the following credentials in ESG management:

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Engagement Blueprint awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021

The Fiduciary Manager can appoint other investment managers in respect of underlying investments (these are referred to as "**Underlying Investment Managers**"). The Scheme invests in some assets with voting rights attached (e.g. equities) and with engagement possible in relation to most asset classes. Whilst the Trustee has delegated responsibility to the Fiduciary Manager and Underlying Managers for voting and engaging on its behalf, the Trustee regularly reviews the approach and stewardship policies of the Fiduciary Manager to ensure they are aligned with the Trustee's beliefs and objectives.

LEONARDO HELICOPTERS PENSION SCHEME

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

A copy of the SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee's policies on corporate governance and other financially material considerations when providing Fiduciary Management services. However, given that the investments with the Underlying Investment Managers are generally made via pooled investment funds (where the Scheme's investments are pooled with those of other investors), the Fiduciary Manager does not have direct control over the voting or engaging with the companies that issue the underlying securities. This process lies with the Underlying Investment Manager, who may have different engagement priorities than the Trustee. Therefore, the Trustee requires the Fiduciary Manager to integrate stewardship activities such as voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, when choosing new or monitoring existing Underlying Investment Managers.

The Trustee believes it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement. Similarly, the Trustee has not sought to set their own voting policy, a position they do not intend to change at this time.

During the Scheme Year, the Trustee has received training on the latest DWP Guidance. To support the Trustee in meeting the new requirements, the Trustee also received training on Schroders' Engagement Blueprint, which sets out the six engagement themes the Scheme's Fiduciary Manager believes to be most financially material. These are the themes the Fiduciary Manager will align the majority of its own engagement of underlying managers with. To agree on which of these themes the Trustee prioritises in its own stewardship activities, the Trustee completed a survey selecting three engagement themes it will use for engagement and monitoring of the Fiduciary Manager's activities. As a result of the survey, the Trustee of the Scheme has determined their stewardship priorities to be Climate Change, Corporate Governance and Human Rights.

The Trustee believes these themes are issues material to the long-term value of the investments. These issues also reflect expectations and trends across a range of stakeholders, and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately should enhance the value added to the Scheme's investment and hence benefit the Scheme's members and beneficiaries. Therefore the Trustee believes that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Scheme.

On behalf of the Trustee, the Fiduciary Manager carried out regular investment and operational due diligence on the Underlying Investment Managers to monitor voting and engagement policies concerning the Scheme's investments. In addition, with the help of the Fiduciary Manager, the Trustee monitors the performance of the Underlying Investment Managers against the agreed performance objectives at quarterly ISC meetings held during the Scheme Year.

Over the Scheme Year, the Fiduciary Manager provided the Trustee with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Trustee is satisfied with the Fiduciary Manager's activity in this area.

In addition, the Trustee also received other training on topics such as Climate Risk and ESG updates within the Fiduciary Management solutions. As part of ongoing monitoring of how the Fiduciary Manager has exercised the Trustee's stewardship policy over the Scheme Year, the Trustee reviewed the Fiduciary Manager's Annual ESG report in early 2023 and ensured it was satisfied with the actions taken on its behalf concerning ESG integration within the investments and stewardship activities.

Given the activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the DWP Guidance over the Scheme Year.

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

3. Voting and Engagement Summary

On behalf of the Trustee the Fiduciary Manager exercises voting rights in relation to pooled funds managed by the Underlying Investment Managers, in line with its voting policy.

Most voting rights and engagement regarding the Scheme's investments relate to underlying securities within these pooled funds. At a general meeting of a company, the Underlying Investment Managers exercise voting rights and engage with the company issuing the security in line with their policies, which the Fiduciary Manager may have influenced. Nonetheless, the pooled funds themselves often confer certain rights around voting or policies, which the Fiduciary Manager exercises on behalf of the Trustee, and we cover these here.

Over the year to 31 March 2023, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients' pooled fund investments on 95 resolutions across 23 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 4.2% of total resolutions, and abstained on 4 resolutions (4.2% of the total resolutions). The engagement topics covered a range of areas, including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

Within the Scheme's portfolio, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking assets, with equity being the only asset class to hold voting rights. The Trustee reviewed the BNYM semi-annual proxy voting reports (links included in Appendix) and noted that BNYM prioritised stewardship with each of their underlying holdings on areas broadly in line with Schroders Solutions' engagement themes.

In relation to the liability hedging and structured equity mandate(s), the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by several factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustee has considered the voting statistics and behaviour set out in this Implementation Statement, along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio, Buy and Maintain credit portfolio and the liability hedging portfolio, and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers, and some good progress has been achieved such that many of the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activities over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- In this Implementation Statement the Trustee considered relevant examples in relation to its own stewardship priorities. Examples were provided in the appendix.
- As the Trustee has refined its stewardship priorities this year, it considers the most significant votes to be those that both relate to these priorities and are defined as significant by the Underlying Managers (of the most material holdings) based on their specific knowledge of the circumstances around each vote. The Trustee has communicated this with the Fiduciary Manager, and as per DWP guidance, all votes which meet these criteria have been reported below.

LEONARDO HELICOPTERS PENSION SCHEME

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Voting by the Underlying Investment Managers on securities held on behalf of the Trustee

Most Significant Votes

Over the scheme year, 34 votes defined as 'Significant' by the Underlying Investment Managers aligned with the Trustee's stewardship priority themes, based on the data provided to Trustee. One such vote was in relation to Human Rights, which was as follows:

At the annual Microsoft Corporation meeting on 13 Dec 2022, Morgan Stanley voted for a shareholder proposal regarding a report on government use of Microsoft technology. This vote was considered "most significant" by the Underlying Manager as it was against management and by the Trustee - given the exposure to reputational and human rights-related risks – as it relates to the Human Rights stewardship priority. The vote failed, and Morgan Stanley intend to continue engaging with Microsoft on the topic.

The other 33 votes defined as 'Significant' by the Underlying Investment Managers aligned with the Trustee's stewardship priority theme of Corporate Governance. Of those votes, 48% were in relation to the board and management; 33% on executive remuneration; 15% regarding relationship with shareholders and 3% of the votes were on the topic of capital allocation.

There are c. 30 Underlying Managers; however, the equity holdings are the only asset class with voting rights. Below are the voting statistics for the most material equity funds held on behalf of the Trustee that had voting rights during the period.

Summary of voting statistics

	BNYM Global Equity Fund	Vanguard FTSE Developed Markets ETF	Vanguard FTSE Emerging Markets ETF	Morgan Stanley Global Brands	Ninety One Global Strategy Fund	Morant Wright Fuji Yield Japanese Fund	Fundsmith Equity Fund
Total meetings eligible to vote	926	2,354	4,534	32	26	60	26
Total resolutions eligible to vote	11,723	30,205	38,708	490	331	808	429
% of resolutions did you vote on for which you were eligible?	93%	98%	97%	100%	100%	100%	100%
% did vote with management?	93%	96%	90%	89%	94%	89%	91%
% vote against management?	7%	3%	9%	11%	4%	11%	9%
% abstained	0%	0%	2%	0%	2%	0%	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%	0%	0%	8%	Data not provided	N/A	N/A

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Note:

- BNYM, NinetyOne and Morgan Stanley uses Institutional Shareholder Services, "ISS", for proxy voting services.
- Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM have included votes abstained (in order to be in line with the PLSA template which other managers have used), although there are differences between votes withheld and votes abstained.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of "Abstain" is also considered a vote against management.

The Trustee is satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers align with the stewardship priorities the Trustee has determined during the Scheme year.

LEONARDO HELICOPTERS PENSION SCHEME

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Appendix 1 – Engagement examples

Engagement by the Fiduciary Manager (Schroders IS) in relation to underlying pooled funds held on behalf of the Trustee

In addition to the voting and engagement outlined in section 3 above, over the Scheme Year, the Fiduciary Manager also:

- engaged with the core credit manager, Neuberger Berman, regarding some particularly high emitting companies within the fund that was leading to higher than benchmark carbon footprint metrics;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager is not satisfied with the quality of data previously provided;
- engaged with the five managers who were rated 'red-engagement' on Schroders' ESG scoring matrix.

The engagement activities and outcomes are outlined in the table below:

	Engagement	Progress over Scheme Year
Manager A – Equity	<ul style="list-style-type: none"> Engaged with the manager in Q4 following their decision to exit net zero asset manager initiative – engagement ongoing 	<ul style="list-style-type: none"> Overall rating and corporate pillar upgraded to green. Stewardship pillar upgraded to amber Introduction of staff ESG training programmes Evidenced a process to measure the success of their voting activities
Manager B – Alternatives	<ul style="list-style-type: none"> Calls and meetings through 2021/2022 to discuss what initial steps can be taken and where the manager sits relative to peers Provided guidance on institutional investors requirements of managers and the direction of travel Specific discussions on UN PRI and what other standards may be applicable to the manager 	<ul style="list-style-type: none"> Overall rating remains red engagement but in line with expectations Engagement with the manager has been positive and they are keen to understand where they rank relative to peers and what can be improved Formed an ESG committee which includes senior management
Manager C – Alternatives	<ul style="list-style-type: none"> Numerous meetings with senior management and ESG focused personnel to understand what changes the manager can implement Direct engagement on a number of current ESG issues including investment in Russian assets and exposures to cannabis Manager also specifically reached out to request discussion on expectations from institutional investors and best practices amongst peers 	<ul style="list-style-type: none"> Overall rating remains red engagement but corporate pillar upgraded to amber Improvements seen in both policies and procedures with a more formalised ESG committee with senior management/partner involvement New portfolio implementation mechanism designed with input from Schroders limiting exposures to specific assets.
Manager D – Alternatives	<ul style="list-style-type: none"> A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future Focus on D&I and how the manager has improved its processes and increased the effectiveness of its committee structure 	<ul style="list-style-type: none"> Improved scoring across all pillars and overall rating upgraded to amber The manager has become a signatory to UN PRI – the first mandatory reporting is due in May 2023 A formal ESG Investment Policy and a formalised approach to ESG across all portfolios
Manager E – Alternatives	<ul style="list-style-type: none"> A number of meetings with senior leaders in the business to understand what can be done to improve ESG integration at least within corporate functions 	<ul style="list-style-type: none"> Overall rating remains red engagement but in line with expectations given where the manager is in their ESG process Manager has launched an ESG statement (non-investment) with focus on DEI including an advisory council with senior business leaders involved to drive change Exploring the idea of having specific ESG resource at investment level

LEONARDO HELICOPTERS PENSION SCHEME

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Examples of voting and engagement carried out by the Underlying Managers

Engagement Theme	Manager	Examples
Climate change	T. Rowe Price	Health & Happiness
Human Rights	Morgan Stanley	Nike, Inc.
Corporate governance	Neuberger Berman	Boeing

Climate Change – Health & Happiness

T. Rowe Price, one of the credit managers, had three objectives for their engagement of Health and Happiness (H&H). One was to request more details on their decarbonisation journey, specifically a strategy for the firm to reduce the footprint of dairy cows in their supply chain. The Manager also wanted a timeline for full emission reporting, and lastly an update on progress towards achieving B-Corp Certification.

The following topics were discussed:

1. Continuous progress in decarbonisation – T. Rowe Price believes that H&H has made some good progress but still does not provide full disclosure on its group-wide scope 1-3 emissions and is still looking to set a net zero target.
2. B-Corp Certification – H&H is confident that they are on track to achieve Group-wide B-Corp Certification by the end of 2025 with clear plan and milestone set.
3. Annual investment to support farmers in France since 2013 – H&H has been doing this to ensure ongoing sustainable supply of dairy products and lower carbon impact.

As a result of the engagement, T. Rowe Price imparted their views on best practices and asked that within the next 2 years the company would disclose its group-wide scope 1-3 emissions data and set net zero targets; and continue to work towards achieving B-Corp Certification.

Human Rights – Nike, Inc.

This engagement example outlines Morgan Stanley's follow up to a shareholder proposal concerning supply chain issues that was tabled at Nike's 2021 AGM.

Morgan Stanley voted in favour of the shareholder proposal, against management and ISS recommendations. ISS (the Proxy Exchange platform used for the execution of Stanley's votes) suggested voting against the shareholder proposal as they felt the company provided sufficient disclosure related to its human rights policies and sustainable sourcing practices, and that the company was not lagging its peers in terms of human rights disclosure. However the Manager chose to support the proposal as they believed it was important to apply pressure on a subject that posed a large supply chain risk and where information was scarce. Morgan Stanley then engaged further on the subject with the company, pressing them for information on their cotton sourcing policy, and any progress they had made on the traceability of the cotton they used.

Nike stated their commitment to not sourcing from Xinjiang, and outlined the actions they had taken with their suppliers regarding sourcing. They shared that they were actively working on tools to verify suppliers' claims on sourcing, adding two senior positions within the firm. Morgan Stanley consider this evidence that the shareholder resolution on the social risks of cotton sourcing – despite not passing – has led to positive changes. The Manager strongly encouraged the company to look into working with a sustainable cotton NGO that offers traceability and a company providing a new technology helping verify the origin of raw materials. Since this engagement, Morgan Stanley have continued to follow up on the subject of supply chain management with the company.

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Corporate Governance – Boeing

Neuberger Berman, one of the credit managers, have spent 4 years engaging with Boeing following MSCI assigned Boeing a Very Severe Controversy Flag which put the company in the manager's engagement priority list. Neuberger Berman communicated with the issuer on concerns related to product safety of its 737 Max aircraft following two disasters that resulted in the deaths of passengers and crew and engaged with the company on their internal risk controls, oversight procedures, and governance structure given the revelation of design flaws with the 737 Max and inadequate attempts by the company to address the issue.

The engagement process was led by credit analyst within the team and included 13 discussions over a period of 4 years with the senior management including the CFO, Treasurer, and Investor Relations team. The issues raised included Boeing's risk controls, lack of oversight and inadequate governance structure. While the initial actions taken by Boeing were not always adequate, through manager's continued engagements, Boeing has addressed our concerns regarding its governance and risk controls.

Neuberger Berman consider this engagement was a successful example as Boeing made the following changes:

- Boeing Improved its safety oversight standards through the creation of the independently managed "Aerospace Safety Committee" with responsibility to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of aerospace products and services.
- Implemented an enterprise-wide Safety Management System "SMS" and established a Quality Management System "QMS" to fully embed safety and quality across total production process
- -Named a new chief aerospace safety officer with accountability to Boeing's Aerospace Safety Committee and created 4 operations councils overseeing all BA manufacturing, quality, supply chain and program management teams.
- Executive compensation changed with an increased focus on operational performance tied to product safety, employee safety, quality along with climate area.

Neuberger Berman will continue future engagements to address additional improvements that can and should strengthen BA's product safety and risk oversight systems. While the manager has and will continue to raise concerns regarding greater risk oversight procedures, ultimately the changes implemented by Boeing along with design improvements allowed the 737 Max to be recertified globally.

LEONARDO HELICOPTERS PENSION SCHEME

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	schroders-esg-policy.pdf https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html
Vanguard	https://corporate.vanguard.com/content/dam/corp/research/pdf/Globa%20investment%20stewardship%20principles_final_112021.pdf
Morant Wright	https://www.morantwright.co.uk/sites/default/files/policies/voting_policy_2023.pdf
Morgan Stanley	https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1615985960657
Ninety One	https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf
Fundsmith	https://www.fundsmith.co.uk/media/swxplrtk/responsible-investment-policy.pdf
Leadenhall	https://www.leadenhallcp.com/esg
Neuberger	https://www.nb.com/en/global/esg/engagement
CBRE	CBRE Global ESG policy: https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/cbreim-global-esg-policy.pdf
Insight	https://www.insightinvestment.com/investing-responsibly/