

QinetiQ Pension Scheme – Defined Contribution Section Implementation Statement for the year ending 30 June 2020

Welcome to the Trustee’s Statement of how they implemented the policies and practices in the Scheme’s Statement of Investment Principles (SIP) during the year ending 30 June 2020.

Why do the Scheme’s investments matter to me?

The Scheme provides you with benefits on a defined contribution (“DC”) basis (sometimes called money purchase benefits). This means that the size of the benefits paid to you when you retire will depend on how much the funds where your savings are invested grow over the years.

What is the Statement of Investment Principles (‘SIP’)?

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme’s investments. It describes the rationale for the investment options which you can choose (including the default arrangements if you don’t make a choice), explains the risks and expected returns of the funds used and the Trustee’s approach to responsible investing (including climate change).

This Implementation Statement is in respect of the Scheme’s SIP that was in place as at 30 June 2020. During the Scheme year, the SIP was reviewed and updated to capture the Trustee’s responsible investment (RI) beliefs in order to reflect new regulatory requirements. The changes documented:

- 1 How the Trustee takes account of ‘financially material considerations’ which includes, but is not limited to, environmental, social and governance (ESG) factors. This includes, for example, appointing or retaining fund managers who have clearly documented policies for managing financially material considerations, which extends to climate change;
- 2 The Trustee’s approach to stewardship activities for the assets held, including how they engage with investment managers. This recognises that integrating ESG and financially material factors into the investment process is one aspect and managing the assets once they have been bought is no less important, through effective voting and engagement with the investee companies, to deliver the necessary net risk-adjusted returns; and
- 3 The extent to which any non-financial matters are taken into account, for example factoring in any ethical views of the membership in the design of the investment options made available to members.

The changes to the SIP provided more details on each of the above points.

The SIP was further reviewed and updated in December 2019 to reflect two aspects:

- 1 Modest changes to the language used to describe the actions the Trustee will take in relation to applying its responsible investment beliefs.
- 2 Updating the details on the default and self-select options as a result of the planned investment strategy changes carried out in January 2020, namely the removal of an absolute return bond fund with Kames and the BlackRock corporate bond fund from the default glidepath and replacing these allocations with a new multi-credit fund managed by PIMCO.

The SIP was signed and included in the annual Chair’s Statement dated 16 December 2019. Unless stated otherwise, references to the SIP in this statement should be understood to be with respect to that version, as the most recent version of the SIP in force and applicable over the Scheme year.

If you want to find out more, you can find a copy of the Scheme’s latest SIP (and the Scheme’s Chair’s Statement) at <https://www.qinetiq.com/en-us/our-company/corporate-responsibility/responsibility-to-our-people>

What is this Implementation Statement for?

Each year from October 2020, the Trustee is required to prepare this Statement, which sets out how they have complied with the Scheme’s SIP relating to DC benefits during the last Scheme year.

Overall, the Trustee is satisfied that:

- **The Scheme’s DC investments have been managed in accordance with the SIP; and**
- **The provisions in the SIP remain suitable for the Scheme’s DC members.**

Details of the Scheme’s DB AVC arrangements in place and how they have been managed in accordance with the DB SIP are covered under the DB Implementation Statement of the QinetiQ Pension Scheme.

How the Scheme’s investments are governed

The Trustee has overall responsibility for how the Scheme’s investments are governed and managed in accordance with the Scheme’s Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

As the Scheme provides both defined benefit and defined contribution benefits, the Trustee has established a DC sub-committee which focuses on DC related issues for the Trustee Board.

There have been no changes to the Trustee or the governance processes during the last year.

The Trustee has delegated day-to-day investment decisions, such as which investments to buy and sell, to the fund managers, via the Scottish Widows platform.

The Trustee undertook the following during the last year to ensure that their knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
January 2020	Member Communication	Training to address the importance of member engagement.	Hymans Robertson
May 2020	Covid-19 and Business Continuity	Covering the importance of appropriate trustee monitoring and contingency planning in light of the tPR’s statement.	Hymans Robertson
June 2020	ESG benchmarking	Highlighting the availability of different specialist ESG benchmarks for tracking and performance comparison purposes.	Hymans Robertson

The Trustee monitors how well their investment advisers meet the objectives agreed with them, which are designed to align with the Trustee’s objective and investment strategy set out in the SIP. During the last year the investment adviser agreed DC objectives with the Trustee, as outlined in Appendix 1.

The Trustee is satisfied that during the last year:

- **The Scheme's DC governance structure was appropriate;**
- **The Trustee has maintained their understanding of investment matters.**

The Trustee will review their investment adviser against their agreed objectives in Q1 2021.

How the primary default arrangement and other investment options are managed

The objectives and rationale for the primary default arrangement and for the other investment options are set out in the Scheme's current SIP.

The Trustee last carried out a high-level review of the primary default arrangement and other investment options in July 2019 and agreed to make changes to ensure the investment strategy remains suitable for most members. This involved:

- Considering market conditions and developments in investment thinking;
- Considering the time over which members will be invested in the investment options;
- Deciding whether any changes to the default arrangements and other investment options' objectives are necessary;
- Considering whether the design of the default arrangement and other investment options, as well as the funds they use, still meet their investment objectives; and
- Obtaining investment advice on any changes to the default arrangement and other investment options.

Following the review the Trustee made the following changes to refine the investment strategy:

- Replaced the Kames Absolute Return Bond, and Aquila Corporate Bond All Stocks funds with the PIMCO GIS Income Fund for the drawdown lifestyle strategy.
- Replaced the Kames Absolute Return Bond Fund with the existing BlackRock Sterling Liquidity Fund for the cash lifestyle strategy.
- Replaced the Kames Absolute Return Bond Fund with the PIMCO GIS Income Fund within the self-select range.

The review and the subsequent changes were made in order to achieve the outcomes within the SIP. The Trustee believes this decision will make a difference to member outcomes, as the changes focussed on the default glidepath in which the majority of assets are invested. In line with the objectives for the primary default arrangement, as set out in the SIP, the Trustee believes the PIMCO fund will provide better risk and return characteristics during the "pre-retirement" phase of saving by reducing the level of volatility experienced by members approaching retirement, whilst delivering above-inflation returns.

Other default arrangements

The Scheme introduced two other default arrangements for certain members over the year:

- SW BlackRock Sterling Liquidity CSW Fund
- SW PIMCO GIS Income CS1 Fund

This occurred when the Trustee, acting in the best interests of the members, redirected member contributions and/or accrued assets without obtaining the member's explicit consent.

The Trustee is satisfied that the primary default arrangement and other default arrangements remain suitable for most members and meets the Trustee's objectives. The changes to the primary default arrangement were implemented in January 2020.

The Trustee's investment beliefs

The Trustee has developed a set of investment beliefs which are set out on page 8 of the SIP which they use as a guide when making investment decisions.

During the last year the Trustee, with the help of their investment adviser, developed a set of investment beliefs with respect to responsible investment, and devised a corresponding list of Recommended Trustee Actions alongside each belief. This is documented on page 10 of the SIP.

The Trustee expanded their investment beliefs on responsible investing, including climate change during the last year.

The expected risks and returns on your savings in the DC Scheme

The investment risks relating to members' DC benefits are described in the SIP on pages 6 to 7 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 7.

The Trustee believes that the main investment risks members face described in the SIP have not changed materially over the last year.

The Trustee is satisfied that, taking into account the different categories and ages of members, the current expected rates of investment return for the types of funds described in the SIP are still reasonable relative to the risks that members face, and that the investment options available are appropriate for managing those risks and meet the objectives set out in the SIP.

The Trustee's view on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) for the Scheme's lifestyle options (which gradually change the funds in which your savings are invested as you approach retirement).

The Trustee's view on the long-term mix of investments for the Scheme's lifestyle options including the primary default arrangement and their underlying risk and return profiles did not change during the last year.

Platform providers and fund managers

Choice of platform providers and funds

The Trustee monitors the service of the platform provider, Scottish Widows, by:

- Scheduling periodic presentations from the platform provider at DC sub-committee meetings, which also includes the coverage of administrative issues.
- Delivering a Value for Members review every year, relative to the platform fee which members pay to the provider for the funds they operate and administer.

The Trustee monitors the performance of the funds used by the Scheme, with the help of their investment adviser, who produces a quarterly fund performance monitoring report, using data provided by Scottish Widows.

There have been no changes to the platform provider last year, with changes made to the fund range as outlined on page 3 of this Statement.

The Trustee is satisfied that the platform provider used by the Scheme remains appropriate.

Ability to invest / disinvest promptly

It is important that your contributions can be invested promptly in the default arrangements or the investment options you have chosen and that your investments can be sold promptly when you want to change where they are invested, transfer your pension pot to another scheme or your benefits are due to be paid out when you retire.

The Trustee is satisfied that money can be invested in and taken out of the Scheme's funds without delay as set out in the SIP.

There has been an issue during the last year affecting the Scottish Widows Property Fund, managed by Threadneedle. In common with many funds which invest directly in commercial property (offices, shops, factories and warehouses), it was temporarily not possible to take money in or out of this fund. If you were investing regular ongoing contributions in the Scottish Widows Property Fund, during this period your contributions were instead invested in the BlackRock Sterling Liquidity Fund.

The Trustee believes that these are temporary issues which have not materially affected members' interests over the longer term.

Security of your savings in the Scheme

In addition to the normal investment risks faced investing in the funds used by the Scheme, the security of your savings in the Scheme depends upon:

- The financial strength of the investment platform provider used by the Scheme;
- The financial strength of the fund managers used by the investment platform; and
- The legal structure of the funds the Scheme invests in.

The financial strength of the platform provider and the fund managers has a bearing on the risk of losses to the Scheme's DC members caused by the remote chance of one of these institutions getting into financial difficulties. The legal structure of the funds used has a bearing on the degree to which the funds' assets are "ring-fenced" from the rest of the provider's or fund managers' business in the unlikely event that the provider or manager becomes insolvent.

There have been no changes to the structure of the funds used by the Scheme during the last year. The Trustee is not aware of any material changes in the financial strength of the investment platform provider or the fund managers used by the platform in the last year.

Conflicts of interest

The Trustee expects the fund managers to invest the Scheme's assets in the members' best interests. During the last year the Trustee considered the fund objectives when selecting the PIMCO GIS Income Fund as a new fund for the primary default lifestyle.

A formal conflicts of interest policy could apply:

- When choosing fund managers;
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

Whilst the Trustee is yet to establish a formal policy in place for the DC SIP (it does for the DB SIP), in future DC Implementation Statements (2021 onwards), the Trustee will report any material conflicts of interest which occurred during the year and which might affect members' benefit expectations.

Responsible Investment

The Trustee believes that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

The Trustee's approach to responsible investing has not changed during the last year.

Sustainable Investment

The Trustee believes that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (called "ESG" factors) can have on the value of the Scheme's investments and in turn the size of your retirement benefits.

The Trustee invests in pooled funds and does not have discretion on the parameters and terms in which the funds are managed, including from an ESG angle.

Therefore, the Trustee has an expectation the fund managers will take into account financially material factors into their investment process at the pooled fund level to improve or protect the value of the underlying investments.

Most of the Scheme's regional equity funds with BlackRock (invested in the UK, US, Europe and globally) are passively managed and aim to track an index. Therefore there is a limit on the extent to which material ESG considerations can be incorporated into the investment strategy. This extends to active multi-asset funds, such as the L&G Diversified Fund, which have equity exposure but accessed in a passive way.

For active equity funds (such as the Schroders emerging markets equity fund or Threadneedle UK Smaller Companies Fund), the Trustee expects the managers to incorporate ESG considerations in the assessment of financial risk/return in selecting the underlying securities.

There is a similar limitation for the Scheme's passive fixed income funds (invested in gilts and corporate bonds).

Nonetheless, for passive mandates (both equity and bonds), stewardship can play an important role and the Trustee expects its passive managers to engage with the underlying companies in their portfolios.

In addition, the platform provider (Scottish Widows) has well established responsible investment policies and offers an additional layer of scrutiny on the funds provided on their platform. The intention is the Trustee will receive regular reporting from Scottish Widows on their stewardship activities as an additional monitoring tool.

The Trustee has considered the length of time members' contributions are invested in the Scheme when choosing and reviewing the funds used in the investment options.

The Trustee periodically reviews the platform provider's and fund managers' approaches to sustainable investing. The Trustee receives annual reports from Scottish Widows or the fund managers on how the fund managers have handled these risks.

The Trustee is satisfied that during the last year the Scheme's investments were invested in accordance with the policies on sustainable investing set out in the SIP.

Investment stewardship

As described on page 10 of the SIP, the Trustee believes it is important that the fund managers as shareholders or bond holders take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and / or engaging with the management on major issues which affect a company's financial performance (and in turn the value of the Scheme's investments).

As the Scheme's investments are held at arms-length from the Trustee and members through an investment platform operated by Scottish Widows, the Trustee is not able to instruct the fund managers how they should vote on shareholder issues. The Trustee nevertheless:

- Delegates voting on shareholder issues to the underlying fund managers in accordance with the managers' house policies;
- Expects fund managers to vote in a way which enhances the value of the funds in which the Scheme invests; and
- Monitors (with support from its investment consultant) how the fund managers exercise their voting rights.

To provide more details on the actions the Trustee has taken relative to the policies stated in the SIP:

- The review of the default glidepath and introduction of PIMCO considered, amongst other factors, the manager's experience of managing ESG risks within credit portfolios – this is line with the Trustee's policy for fund selection exercises;
- Reviewing the benchmarks for the existing passive funds compared to specialist ESG indices within the same asset class, both for availability and quality of the benchmark construction. No changes were made following the review as it was considered the impact of any changes would be small and the product suite is still developing;
- Reviewing the voting and engagement policies at the Scheme's managers and receiving updates from Scottish Widows (more details below).

Voting activity

The Trustee seeks to ensure that their manager is exercising voting rights and where appropriate, to monitor managers' voting patterns. The Trustee also monitors their investment manager's voting on particular companies or issues that affect more than one company.

The Trustee is aware that their investment managers have used proxy voting services such as Institutional Shareholder Services (“ISS”), with some of the significant votes below highlighting instances where managers have voted against the recommendation from the proxy adviser.

A summary of each of the funds for which the Trustee was able to retrieve voting activity in the 12 months to 30 June 2020 is given below.

Table 1: Voting summary for the LGIM passive equity funds

	Legal & General Global Equity Market Weight (30:70) Index Fund	Legal & General Diversified Fund	Legal & General Ethical Global Equity Index Fund
Proportion of total DC Scheme assets	0.4%	59.8%	0.2%
No. of meetings eligible to vote at during the year	4,360	7,819	1,054
No. of resolutions eligible to vote on during the year	50,425	82,870	15,417
% of resolutions voted	99.8%	99.2%	99.3%
% of resolutions voted with management	83.1%	80.4%	83.4%
% of resolutions voted against management	16.6%	19.3%	16.4%
% of resolutions abstained	0.4%	0.3%	0.1%
% of meetings with at least one vote against management	64.7%	70.3%	72.5%

Table 2: Voting summary for the Schroders, Threadneedle, and HSBC funds

	Schroder Global Emerging Markets Fund	Threadneedle UK Smaller Companies Fund	HSBC Islamic Global Equity Index Fund
Proportion of total DC Scheme assets	0.2%	0.3%	0.1%
No. of meetings eligible to vote at during the year	143	74	100
No. of resolutions eligible to vote on during the year	1,462	932	1,547
% of resolutions voted	97.2%	100%	96.8%

% of resolutions voted with management	89.5%	94.6%	87.2%
% of resolutions voted against management	6.6%	5.4%	12.8%
% of resolutions abstained	1.2%	0%	0%
% of meetings with at least one vote against management	34.3%	68.9%	57.4%

Significant votes

The managers have reported on the most significant votes cast within the funds they manage on behalf of the Trustee. The managers were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. From the managers' reports, the Trustee has identified the following votes as being of greater relevance to the Scheme:

Table 3: Significant votes for the Legal & General Diversified Fund

Date	Company	Subject (theme and summary)	Manager's vote and rationale
7 May 2020	Barclays ^{[1],[2]}	Two resolutions: 1. To approve Barclays' own resolution on its net-zero commitment in tackling climate change; 2. To approve ShareAction's resolution, which called for Barclays to phase out financing for fossil fuels and utility companies that are not aligned with the Paris Agreement goals.	The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. The manager was grateful to the Investor Forum for the significant role it played in coordinating this outcome.
27 May 2020	Amazon ^[1]	Manager voted on 12 shareholder proposals	Manager voted for on 10 of the 12 shareholder proposals. Rationale was driven by increased disclosure to encourage a better understanding of Amazon's process and performance of material issues (work practices, response to pandemic, etc.), and governance structures that benefit long-term shareholders.
27 May 2020	Exxon Mobil ^[1]	Elect Darren W. Woods as Director	Manager voted against. Rationale was tied to the fact that in June 2019, the manager removed ExxonMobil from their Future World fund range and

			stated their intent to support shareholder proposals for an independent chair, and report on the company's political lobbying.
5 May 2020	Lagardere	Activist Amber Capital (which owned 16% of the share capital at the time of engagement), proposed 8 new directors to the Supervisory Board (SB), as well as to remove the incumbent directors.	<p>Manager voted in favour of five of the Amber-proposed candidates and voted off five of the incumbent Lagardere SB directors.</p> <p>Rationale was that the company strategy had not been value-enhancing, and the governance structure of the company was not allowing the SB to challenge management on this.</p>

[1] Legal & General Global Equity Market Weight (30:70) Index Fund

[2] Legal & General Ethical Global Equity Index Fund

Table 4: Significant votes for the Schroder Global Emerging Markets Fund

Date	Company	Subject (theme and summary)	Manager's vote and rationale
13 Sept 2020	NetEase Inc.	Re-elect Joseph Tong and Michael Leung as Directors.	Manager voted against. Rationale concerned the length of tenure of each, which would compromise the independence of the committee. Manager also voted against the ISS recommendation.
25 March 2020	Nexon Co	Elect Owen Mahoney as Director	Manager voted against. Rationale concerned the lack of board gender diversity. Manager also voted against the ISS recommendation.

Table 5: Significant votes for the Threadneedle UK Smaller Companies Fund

Date	Company	Subject (theme and summary)	Manager's vote and rationale
25 July 2019	Discover IE Group	Approve Remuneration Report	Manager voted against. Rationale was due to the potential adverse impact of the vote of the company, and high level of shareholder dissent.
14 Nov 2019	Ricardo plc	Elect Russell King as Director	Manager voted against. Rationale was due to the potential adverse impact of the vote of the company, and high level of shareholder dissent.

Table 6: Significant votes for the HSBC Islamic Global Equity Index Fund

Date	Company	Subject (theme and summary)	Manager's vote and rationale
3 June 2020	Alphabet Inc.	Approve the recapitalisation plan for all stock to have one-vote per share.	Manager voted for. Rationale was that Class B stock has ten times the voting rights of Class A, which concentrates the control of the company to that of its two co-founders.
26 Feb 2020	Apple Inc	Remuneration for Senior Executives linked to Sustainability	Manager voted for. Rationale was that sustainability should be integrated into senior executive pay.
27 May 2020	Chevron Corp	Report on Climate Change lobbying aligned with Paris Agreement goals.	Manager voted for. Rationale was that the company should become more transparent about its lobbying activities. This was a significant vote, in that the company's board was defied on the proposal.
27 May 2020	Exxon Mobil	Appointment of an independent board chair	Manager voted for. Rationale was that a separation of the roles of CEO and Chairman is an important governance principle. It has particular relevance at ExxonMobil as the manager is concerned that the company has not yet sufficiently addressed the strategic challenge of transition to a low carbon economy and believe that increased independent board representation could help with this.

The Trustee is satisfied that the fund managers' voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.

Ethical Investing

The Trustee's responsible investment beliefs include non-financial factors as it recognises some members may have strong views on where their pension savings should be invested based on a set of personal ethics and 'values' (which can differ to ESG investing which is about preserving 'financial value').

The Trustee has made an ethical investment option available for members in the Legal & General Ethical Global Equity Index Fund, which is part of the self-select range. The Trustee has taken a proportionate approach and considers it is less relevant to offer many more options in this space given the amount of assets in self-select funds (and added monitoring requirements) and feedback from members in a previous survey conducted.

The Trustee is aware it is not possible to cater for everyone's views on non-financial/ethical matters.

Communication and member engagement

The Trustee's approach to communicating the Scheme's investment options and investment governance has not changed during the last year.

Member engagement is actively encouraged through a variety of means. During the last year the Trustee undertook the following to support member engagement:

- Publishing the SIP online;
- Producing an annual DC benefit statement, including statutory money purchase illustrations;
- Ad-hoc investment correspondence, for example a letter letting members know about the suspension in trading of the Scottish Widows Property Fund.

During the last year the Trustee followed all of the policies and practices described in the SIP.

Limitations and missing information

The Trustee has been unable to obtain full information on:

- Voting data from BlackRock, who were only able to provide fund level information on the Scottish Widows' governed 'defaults'. They have confirmed that other fund level data will be available in the future (which includes the funds QinetiQ use).

The Trustee believes this is a temporary issue while platform providers and fund managers put these new reporting requirements in place. The Trustee and their investment adviser will work with the platform provider, fund managers (and voting service agencies) to compile this information in readiness for next year's Implementation Statement.

More information

We hope this Statement helps you understand how the Scheme's investment of your savings for retirement has been managed in the last year. If you have any questions or feedback, please contact workplacesavings@scottishwidows.co.uk.

Appendix 1 – Objectives for the Defined Contribution Section

A summary of the investment objectives proposed by the Scheme's investment adviser, and approved by the Trustee in December 2019, are outlined below:

- Deliver an investment approach for the primary default arrangement that maximises long term risk-adjusted real returns for members when they are far from retirement and delivers protection against market falls when members are closer to retirement. Monitor and track performance against these objectives over time.
- Deliver a cost-efficient investment strategy that optimises the value of retirement benefits for members whilst taking into consideration DC regulatory and market constraints.
- Deliver cost efficiency within the existing strategy and in relation to implementation of new strategies as required.
- Monitor track record of selecting active managers or changing investment strategy (relative to benchmark or the previous strategy).
- Monitor and present DC investment innovation and new DC products to the Trustee where appropriate.
- Review this strategy at least once every three years in accordance with regulatory requirements.
- Provide advice in relation to the self-select range that incorporates sufficient choice for members to meet their own needs in terms of investment return, investment risk and retirement choices, reflecting member feedback and product developments / innovation (e.g. ESG) where relevant.
- Ensure fund range remains appropriate for members over time and propose changes on a timely basis where appropriate in relation to the addition or deletion of funds.
- Ensure adherence to regulatory requirements related to Responsible Investment.
- Ensure investment advice reflects the Trustee's own policies and beliefs, including those in relation to Responsible Investment.
- Ensure that the Trustee receives periodic and relevant training in relation to areas connected with their investment beliefs, including those related to Responsible Investment.