

QinetiQ Pension Scheme – Defined Contribution Section

Annual statement by the Chair of the Trustee for the year to 30 June 2019

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Summary

The Trustee is responsible for looking after the money invested in our Scheme. This Statement confirms for the last year:

The Scheme's default arrangement remained suitable for most members

The Trustee undertook a high-level annual review of the default arrangement during the year and agreed to change the bond funds used in the pre-retirement phase to give an improved balance between risk and return.

The charges and costs borne by members

The charges paid by members for the Scheme's default investment arrangement were in a range from 0.205% to 0.5% p.a. of the amount invested (or £2.05 to £5 per £1,000 fund value).

The charges paid by members for the QinetiQ DC Cash Focussed lifestyle option were in a range from 0.205% to 0.5% p.a. of the amount invested (or £2.05 to £5.00 per £1,000 fund value)

The charges for the self-select funds were in a range from 0.213% to 1.30% p.a. of the amount invested (or £2.13 to £13.00 per £1,000 fund value).

The charges for the AVC funds were in a range from 0.100% to 1.043% p.a. of the amount invested (or £1.00 to £10.43 per £1,000 fund value)

The Scheme gave Good value for members

With the help of their advisers, the Trustee carried out its annual assessment of how the Scheme's services that members pay for compare to other similar schemes. The Trustee Directors look at both the quality of these services as well as the costs and charges members pay.

The action being taken by the Trustee to improve value for members

During the last year the Trustee sought to improve the Scheme's value for members by taking the following actions:

- Reviewed the pre-retirement phase with a view to introducing a multi-credit mandate to improve risk-adjusted returns;
- Reviewed and rationalised the range of self-select funds to ensure they were still appropriate for the membership;
- Updated the DC Statement of Investment Principles to take into account the new range of investment options;
- Reviewed the risk register and identified a set of objectives for the DC section including timescales to achieve these;
- Developed and started to use a new, more appropriate benchmark to monitor the performance of the LGIM Diversified Fund;
- Gathered more information from Buck in relation to the processing of core financial transactions related to the AVC arrangement.

In the coming year (which will be covered by the next Statement), the Trustee intends to carry out the following:

- Establish a DC Sub-committee to focus on matters related to the DC Section and provide recommendations to the Trustee Board;
- Work with its advisors to undertake a review of Scottish Widows as provider of the DC section to ensure their service remains competitive and meets the Trustee's and member's needs;
- Undertake a review of the support provided to members at retirement with a view to identifying gaps;
- Revise the Scheme's DC investment beliefs;
- Complete the transition to introduce the multi-credit mandate in the pre-retirement phase;
- Create a communications strategy to engage members and increase their understanding of the options available to them and the associated risks;
- Update the Statement of Investment Principles to reflect the September 2018 Regulations on Responsible Investment which come into force on 1 October 2019;
- Arrange for the publication of this Statement in a publicly searchable location on the internet with a note of this location in the annual benefit statements;
- Continue to assess the suitability of the default arrangement (for example taking into account developments in Environmental, Social and Corporate Governance considerations where they affect investment risks);
- Work with Scottish Widows to refresh member guides and booklets.

Financial transactions were carried out promptly and efficiently

The Trustee monitors the performance of the Scheme's administration against the agreed service levels. There were some issues with the Scheme's day to day administration in the last year – please see section “(d) Processing financial transactions and administration” for more information.

How the Trustees have kept their knowledge of pension matters up-to-date

The Trustee has a programme of training and an annual assessment to help maintain the Trustee Directors' knowledge of pension matters. In particular, they received training on ESG issues, which should benefit members by ensuring ESG factors are properly taken into consideration when selecting investment funds.

We hope this Statement helps you understand how your pension scheme is run. If you have any questions on its contents, please contact the Chair of Trustees.

The rest of this Statement describes in more detail the Trustee's management of the Scheme's defined contribution and additional voluntary contribution sections during the last year.

For the record

This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

Signed on behalf of the Trustee by:



Chair of the Trustee of the QinetiQ Pension Scheme

Date:

16 December 2019

a) The default arrangement

The main investment principles governing the default arrangement are in outline:

- Managing the main investment risks members face during their membership of the Scheme;
- Giving good member outcomes at retirement by maximising investment returns relative to inflation while taking an appropriate level of risk for the majority of members who do not make investment choices; and
- Reflecting members' likely benefit choices at retirement.

The Statement of Investment Principles is appended to this Statement.

The Trustee believes that the default arrangement remains appropriate for the majority of the Scheme's members because it takes into account the Scheme's membership profile, including:

- The age and salary profile;
- The likely sizes of pension accounts at retirement;
- Previous sources of retirement income from the Employer; and
- Members' likely benefit choices at and into retirement.

The Trustee carried out a high-level annual review of the Scheme's default investment arrangement on 12 December 2018 in particular with a view to replacing a bond fund in the pre-retirement phase with a mix of bond assets ("multi-credit") to deliver improved risk-adjusted returns. The Trustee takes into account the membership's profile and how members use their pension pot at retirement as appropriate in reviewing and amending its strategy. The Trustee does not believe there have been any significant change in the Scheme's membership or members' benefit choices at retirement over the scheme year and the investment options had performed in line with expectations. The Trustee also consolidated the self-select fund range over the scheme year.

The last full review of the default arrangement was completed on 9 August 2017 and the next full review will be carried out in 2020.

(b) Charges and transaction costs

The charges and transaction costs borne by members and the Employer for the Scheme's services are:

Service	By members		Shared		By the Employer	
	DC section	AVC arrangement	DC section	AVC arrangement	DC section	AVC arrangement
Investment management	✓	✓				
Administration			✓			✓
Communication			✓			✓
Governance			✓			✓
Investment transactions	✓	✓				

The presentation of the charges and transaction costs, together with the projections of the impact of charges and costs, have taken into account the statutory guidance issued by the Department for Work and Pensions.

Charges

The charges quoted in this statement are the funds' Total Expense Ratios ("TERs"). The TER consists of a fund's Annual Management Charge ("AMC") and Operating Costs and Expenses ("OCE"). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

The Employer pays a small fixed amount each year to the DC section provider (approximately £3,000 incl. VAT) towards the costs of administration which reduces the charges borne by members. The Employer meets all costs except investment charges for the AVC arrangement. Therefore, all charges quoted for the AVC arrangement are member-borne.

Transaction costs

The funds' transaction costs are in addition to the funds' TERs and can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

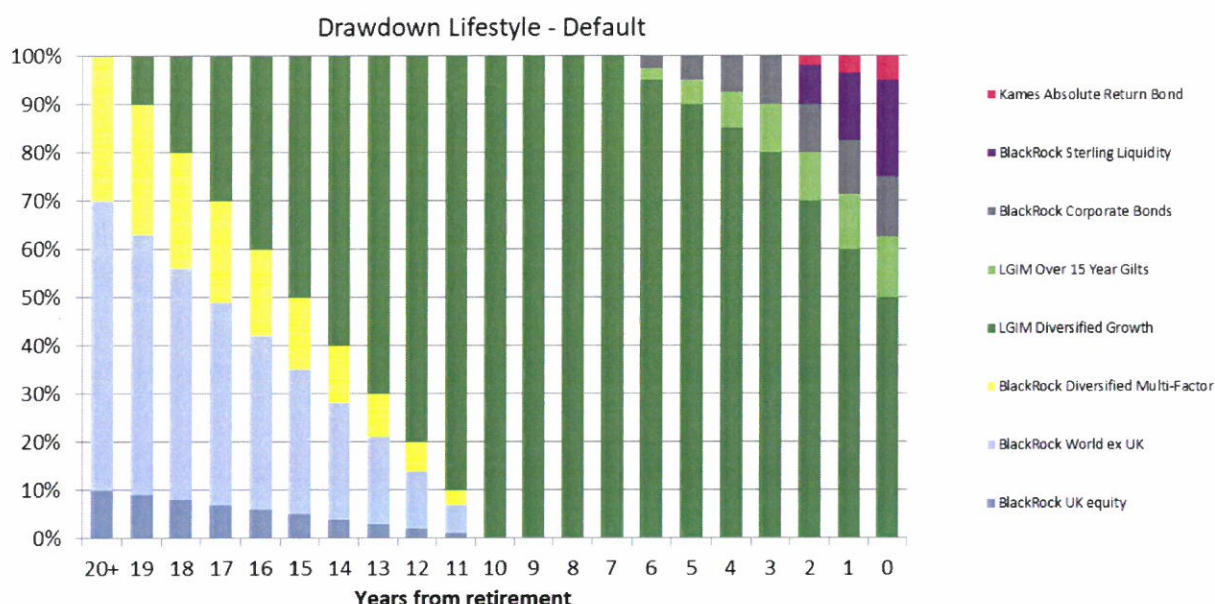
Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

Transaction costs are taken into account when the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

The FCA requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission) giving a net saving.

Charges for the default arrangement

The default arrangement is a “lifestyle strategy” which invests contributions in funds according to how far each member is from retirement. As a result, charges borne by each member can vary from one year to the next.



During the year covered by this Statement the member-borne charges for the default arrangement were in a range from 0.205% to 0.500% of the amount invested or, put another way, in a range from £2.05 to £5.00 per £1,000 invested:

Period to retirement	Charge	
	% p.a.	£ per £1,000
More than 20 years	0.243	2.43
Between 20 and 10 years	0.384	3.84
Between 10 and 7 years	0.500	5.00
Between 7 years and retirement	0.479	4.79
At retirement	0.430	4.30

Source: Scottish Widows

The table in Appendix 2a gives the charges for each fund used by the default arrangement.

The Scheme is a qualifying scheme for auto-enrolment purposes and the member borne charges for the default arrangement complied with the 0.75% p.a. charge cap during the year covered by this Statement.

Transaction costs for the default arrangement

The transaction costs borne by members in the default arrangement during the year were in a range from - 0.049% to 0.161% of the amount invested or, put another way, ranging from a saving of £0.49 to a cost of £1.61 per £1,000 invested.

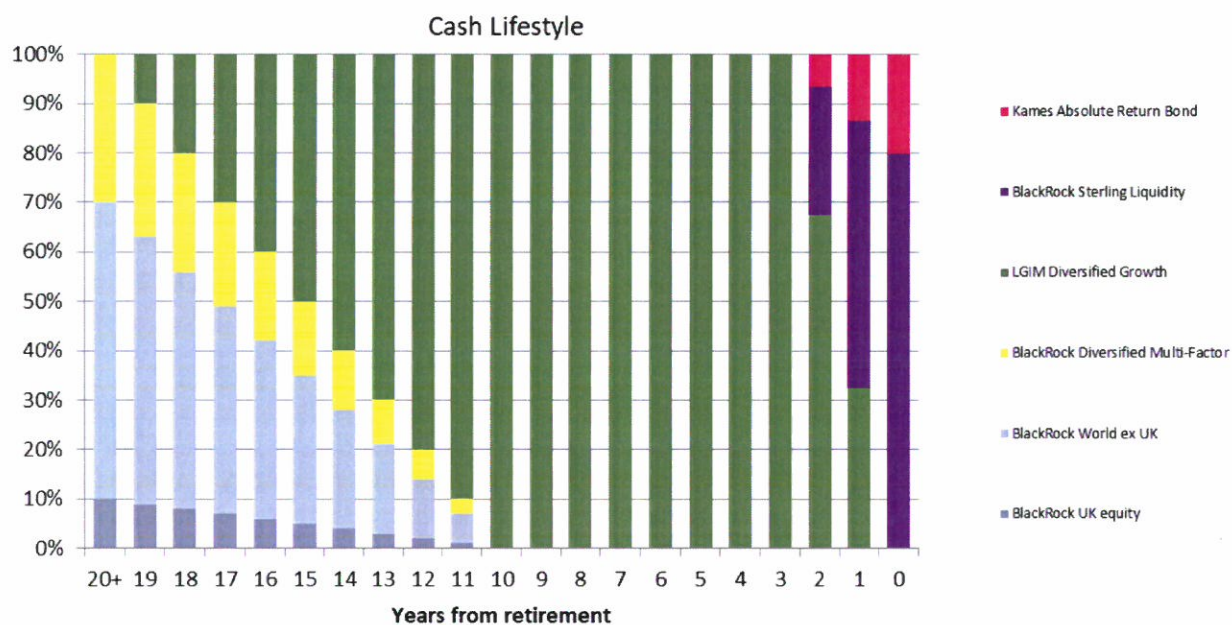
The table in Appendix 2a gives the transaction costs for each fund used in the default arrangement.

Charges for the investment options outside the default arrangement

Lifestyle option

The lifestyle option outside the default arrangement also invests contributions in different funds according to how far each member is from retirement. The charges borne by each member can also vary from one year to the next.

QinetiQ DC Cash Focussed Lifestyle



During the year covered by this Statement the member-borne charges for the QinetiQ DC Cash Focussed lifestyle option were in a range from 0.205% to 0.500% p.a. of the amount invested or, put another way, in a range from £2.05 to £5.00 per £1,000 invested:

Period to retirement	Charge	
	% p.a.	£ per £1,000
More than 20 years	0.243	2.43
Between 20 and 10 years	0.384	3.84
Between 10 and 7 years	0.500	5.00
Between 7 years and retirement	0.467	4.67
At retirement	0.300	3.00

Source: Scottish Widows

The tables in Appendix 2b gives the charges for each fund used by the non-default lifestyle option.

Self-select funds

The Scheme offers members a choice of 17 self-select funds.

During the year the charges for the self-select funds were in a range from 0.213% to 1.30% of the amount invested or, put another way, in a range from £2.13 to £13.00 per £1,000 invested.

The table in Appendix 2c gives the charges for each self-select fund.

Transaction costs for the investment options outside the default arrangement

Lifestyle option

The transaction costs borne by members in the QinetiQ DC Cash Focussed lifestyle option during the year were in a range from -0.049% to 0.161% of the amount invested or, put another way, ranging from a saving of £0.49 to a cost of £1.61 per £1,000 invested.

The table in Appendix 2b gives the transaction costs for each fund used in the lifestyle options.

Self-select funds

The transaction costs borne by members in the self-select funds during the year were in a range from -0.022% to 0.328% of the amount invested or ranging from a saving of £0.22 to a cost of £3.28 per £1,000 invested.

The table in Appendix 2c gives the transaction costs for each self-select fund.

Additional Voluntary Contributions (“AVCs”)

The Scheme offers members in the defined benefit section a choice of 12 funds for their AVCs with Legal and General Investment Management (LGIM).

Charges for AVCs

During the year the charges for the AVC funds were in a range from 0.100% to 1.043% of the amount invested or, put another way, in a range from £1.00 to £10.43 per £1,000 invested.

The table in Appendix 2d gives the charges for each AVC fund.

Transaction costs for AVCs

The transaction costs borne by members in the AVC funds during the year were in a range from -0.06% to 0.05% of the amount invested or, put another way, in a range from a saving of £0.60 to a cost of £0.50 per £1,000 invested.

The table in Appendix 2d gives the transaction costs for each AVC fund.

AVCs invested in With Profits

Some members' AVCs are invested in the Equitable Life Assurance Society Limited With Profits Fund or the Zurich plc With Profits Fund.

The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, the charges and costs are effectively averaged across all policyholders and it is not possible to determine the exact charges and costs borne by the members of our Scheme.

The Principles and Practices of Financial Management for the Equitable Life Assurance Society Limited With Profits Fund state that the administration and investment charges should average 1.0% p.a. There is an additional charge for guarantees of 0.5% p.a. (as at 30 June 2019). The Equitable Life Assurance Society Limited With Profits Fund average transaction costs across all policyholders for the year to 31 March 2019 were 0.04%.

The charges and transaction costs for the Zurich plc With Profits Fund are not disclosed, but some members' AVCs are subject to the limits on charges set in the Court "Scheme of Demutualisation".

On the 4th December, the High Court approved the transfer of Equitable Life's business to Utmost with the transfer taking place on 1 January 2020. In particular all AVC funds invested in Equitable With Profits will be transferred to Utmost unit-linked funds. The Trustees are considering whether to move those AVCs after the transfer to the L&G arrangement that currently contains all other AVC assets held within the QinetiQ Pension Scheme.

Missing information, regulatory information, reliance and limitations

The trustee has been unable to obtain information on:

- Transaction costs for the Equitable Life With Profits Fund for the year to 30 June 2019. Transaction costs are currently only available for the year to 31 March 2019, but the costs for the year to 30 June 2019 should be published in the next few months.

The Trustee also notes the following limitations:

- The Trustee acknowledges that at this point, limited data is available on industry-wide comparisons and has relied heavily on the market knowledge of its advisers; and
- There is limited transaction costs data available to provide industry-wide comparisons.

The Trustee understands that these issues currently affect many pension schemes and pension providers and that the amount of comparative information available should improve over the next few years.

The missing information above has had no impact on the information contained within this Statement.

Impact of costs and charges

The Trustee has asked the Scheme's administrator to illustrate the impact over time of the costs and charges borne by members.

These illustrations show projected fund values in today's money before and after costs and charges for a typical member at stages from joining the Scheme up to retirement.

The tables in Appendix 3 to this Statement show these figures for the default arrangement, the fund with the lowest return and the fund with the highest return, together with a note of the assumptions used in calculating these illustrations.

As an example, a member in the default fund who is aged 35 now, is projected to have a pot at retirement (in 30 years' time) of £436,000 in today's money before costs and charges. This reduces to £402,000 after costs and charges.

Please note that these illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow.

(c) Value for Members

Each year the Trustee carries out an assessment of whether the charges and transaction costs for the default arrangement and other investment options, which are borne in full or in part by members, represent good value for members.

Value is not simply about low cost – the Trustee also considers the quality of the services that members pay for. With the help of its advisers the Trustee compares the charges and costs as well as the quality of the services against other similar schemes.

The Trustee adopted the following approach to assessing Value for Members during the last year:

Services – considered the investment, administration and communication services where members bear or share the costs;

Outcomes – weighted each service according to its likely impact on outcomes for members at retirement;

Comparison – the cost and quality of each service were compared against similar schemes and available external comparisons.

Rating – each service was rated on the following basis:

Value for member rating	Definition
Excellent	The Trustee considers the scheme offers excellent value for members; providing services within a top 20% quality/cost range compared with other options or similar schemes.
Good	The Trustee considers the scheme offers good value for members providing services at better quality/cost compared with other typical options or similar schemes.
Average	The Trustee considers the scheme offers average value for members providing similar services at similar quality/cost compared with other typical options or similar schemes.
Below average	The Trustee considers the scheme offers below average value for members; providing similar services at higher cost for similar quality compared with other typical options or similar schemes.
Poor	The Trustee consider the scheme offers poor value for members providing services within the bottom 20% quality/cost range compared with other options or similar schemes.

Category & Weighting %	Overall category rating	Key rationale
Investment 60%	GOOD	<p>The Trustee notes that 95% of members in the DC section are in the default Drawdown Lifestyle arrangement. The Trustee carried out a high-level annual review of the Scheme's default investment arrangement on 12 December 2018, in particular with a view to replacing a bond fund in the pre-retirement phase with a mix of bond assets ("multi-credit") to deliver improved risk-adjusted returns. The Trustee takes into account the membership's profile and how members use their pension pot at retirement as appropriate in reviewing and amending its strategy. The Trustee does not believe there have been any significant change in the Scheme's membership or members' benefit choices at retirement over the scheme year and the investment options had performed in line with expectations. The Trustee also consolidated the self-select fund range over the scheme year.</p> <p>The default investment arrangement is under the 0.75% p.a. charge cap requirement and ranges between 0.243% during the growth phase, to 0.5% during the consolidation phase to 0.430% at the end of the pre-retirement phase. The Trustee notes that the average charge per the DWP 2016 pensions charge survey is 0.37% p.a. for a trust based qualifying scheme with more than 1,000 members. The transaction costs for the Scheme funds range from -0.049% to 0.161%. The Trustee acknowledges that at this point, there is limited consistent transaction costs data available to provide industry wide comparisons.</p> <p>The Trustee also provides a cash lifestyle strategy (an annuity lifestyle strategy was withdrawn during the previous Scheme year due to lack of take-up, the likely sustained reduction in members buying an annuity and the availability of suitable funds in the self-select range to facilitate members' wishing to target annuity purchase) and also provides 17 funds for the DC section membership to self-select. The Trustee has sought members' views on ESG matters and has found that there is no explicit demand for an ESG option at present. The Trustee and its DC investment advisor continue to monitor charges and receive quarterly detailed investment reports. This includes, where appropriate, a more detailed assessment of any actively managed funds to understand the drivers for performance and how it has compared against the peer group.</p>

Category & Weighting %	Overall category rating	Key rationale
Communications 20%	GOOD	Scottish Widows, as platform provider to the DC section of the Scheme, offers a website (including modellers) to members and provides a range of appropriate guides and other relevant information for those building their pension or those nearing retirement. Relevant communications are sent to members at appropriate points in their pension's lifecycle. 'Online' engagement has been monitored over the year using a number of metrics. In the first three months there were 116 unique visitors on average each month. Since then the website sees on average around 130 unique visitors each month.
Administration 20%	AVERAGE	<p>There is efficient processing of core financial transactions, good record keeping, and the Scheme provides suitable quality administration support at an appropriate cost. This ensures members are informed about the Scheme and their instructions are carried out within appropriate timeframes. The Trustee receives regular reports on performance against their service level agreements ("SLAs"). Zurich/Scottish Widows, the administrator of the DC section, met 96% of Time Critical Processing (non-claims and claims) SLAs and 67% of Manual Administration (non-time critical processes) SLAs. The Trustee is comfortable that the provider has taken steps to rectify the shortfall. Member complaints are low, only 6 FCA reportable member complaints in the last Scheme year. Administration systems capabilities and controls are in place to ensure regulatory compliance are effective.</p> <p>In October 2017, Lloyds Banking Group announced it had acquired Zurich's UK workplace pension business and intended to merge it with Scottish Widows. This merger has now taken place.</p> <p>In Q4 of 2018, an upgrade to the server of Zurich/Scottish Widows resulted in outages impacting their ability to continuously access workflow systems for a period of 18 hours over 7 days within the quarter. 24 complaints were received from the members relating to service delays. The Trustee is comfortable with the steps taken by the provider to mitigate this risk in future.</p>

The Trustee has agreed an action plan for the coming year to improve value where necessary which is outlined in Section f of this Statement.

(d) Processing financial transactions and administration

The Trustee has appointed Scottish Widows as the administrator of the DC section of the Scheme on its behalf. On 3 April 2018, Lloyds Banking Group completed the acquisition of Zurich's UK workplace pension business which it has merged with Scottish Widows. The transfer of Zurich's workplace pensions business to Scottish Widows was carried out seamlessly so members of the DC Section did not face any investment risks or incur any transaction costs.

This section considers the performance of the merged Zurich/Scottish Widows, referred to as “Scottish Widows”.

The Trustee has appointed Buck as the administrator of the AVCs for members of the DB section on its behalf.

The Trustee monitored core financial transactions during the year including:

- The receipt and investment of contributions (including inward transfers of funds);
- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

Scottish Widows

The Trustee has a Service Level Agreement (“SLA”) in place with Scottish Widows covering accuracy and timeliness of core financial transactions, split by:

- Time Critical Processes (non claims) e.g. investment of contributions, investment switches and redirections, transfers in;
- Time Critical Processes (claims) e.g. retirement, transfer, short service and death claims;
- Manual Administration (non-time critical processes) e.g. member enquires, fund value and illustrations, ‘wake up’ letters, tax free cash calculations, retirement claim payments; and
- Call handling.

A brief summary of the SLAs are as follows:

- 1 Time Critical Processes (non claims) – act on instruction by the end of the following Business Day;
- 2 Time Critical Processes (claims) - act on instruction within 2 Business Days;
- 3 Manual Administration (non-time critical processes) – completion of task within 3 to 5 (10 for more complex cases) Business Days (dependent on task) or within the statutory deadlines permitted; and
- 4 Call handling – to answer calls within 1 minute (after which members’ are offered the option to leave a message and receive a call back).

The Trustee understands that Scottish Widows monitors its performance against these service levels by:

- Having two individuals, check all Time Critical Processes (a percentage of those tasks are then quality checked by a third individual in the control team); and
- Having a Work Flow System in place, which both allocates a task to an SLA and time stamps the process as started. The system then determines whether a task has met its SLA following completion by the relevant team (which is also time stamped).

The Trustee monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members’ earnings had been paid promptly to the Scheme by the employer – all contributions were received within the required legal timescales;

- Receiving quarterly reports from Scottish Widows on the processing of financial transactions against agreed service levels – Time Critical Processing (non-claims and claims) reporting shows that 96% of processes were within the SLA time. Manual Administration (non-time critical processes) reporting shows that 67% were processed within SLA. In Q4 of 2018, an upgrade to the server of Zurich resulted in outages impacting their ability to continuously access workflow systems for a period of 18 hours over 7 days within the quarter. The Trustee is comfortable with the steps taken by the provider to mitigate this risk in future;
- Considering the reasons for and resolution of any breaches of service standards, as provided by Scottish Widows; and
- Considering member feedback including any complaints and member surveys.

Buck

The Trustee has SLAs in place with Buck covering accuracy and timeliness of core financial transactions:

- Post and email logging onto workflow system on the date of receipt
- Responding to general enquiries from members within 10 working days
- Enquiries relating to AVCs within 10 working days
- Death in service processing within 5 working days
- Death in deferment of retirement processing within 5 working days
- Issue of early leaver statements within 10 working days
- Issue of retirement quotations within 5 working days
- Set up and payment of retirement benefits within 5 working days
- Transfer in/out processing within 10 working days
- Issue of Actuarial Valuation extract within 50 working days
- Issue of draft Annual Accounts within 60 working days

The Defined Benefit Section's administrator, Buck, aim to ensure that 95% of all these processes are completed within these service levels.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Receiving quarterly reports from Buck on the processing of financial transactions against agreed service levels. Reporting shows that 95% of processes were within the SLA time.
- Considering the reasons for and resolution of any breaches of service standards, as provided by Buck; and
- Considering member feedback including any complaints and member surveys.

Overall, the Trustee is satisfied that during the year, the wider administration of the Scheme broadly achieved the agreed service standards and can conclude that, with the exception of the Scottish Widows non-time critical processes, that the core financial transactions have been completed promptly and accurately. The trustees are comfortable with the steps taken to rectify the promptness of the Scottish Widows non-time critical processes.

(e) Trustee knowledge and understanding

The Trustee has a plan to put a formal training programme in place. At the moment, training is provided as and when required and is determined by each individual Trustee Directors self-evaluation. Advisors provide training when revisiting or introducing new topics. In addition, the Trustee receives training as part of their continuing professional development, for example, through attendance at Pensions Management Institute events.

Any newly appointed Trustee is asked to complete the Pensions Regulator's "Trustee Toolkit" (an online training programme to support newly appointed trustees) within 6 months of becoming a Trustee. A trustee training log is kept to monitor the completion of each unit by the Trustee Directors which, going forward, will be reviewed on a quarterly basis by the scheme secretary to assess knowledge gaps. All Trustee Directors, both existing and new, are expected to have a working knowledge of:

- the Scheme's Trust Deed and Rules;
- the Scheme's Statement of Investment Principles as well as the investment concepts relevant to the Scheme; and
- the current policies relating to the administration of the Scheme;
- the law and legislation relating to pension schemes; and
- Trustee Directors are encouraged to undertake further study and qualifications which support their work as Trustees.

The Trustee receives various training throughout the year and on a regular basis in order to aid their day-to-day activities in line with specific requirements. This is provided by a variety of different parties, including the Trustee's advisors.

In addition, the Chair of Trustees is representative of BESTrustees, a firm of professional trustees. As a result, the Chair is expected to maintain a higher level of knowledge and understanding than non-professional trustees as well as receiving the training provided to the board as a whole and being conversant with the scheme's own documents and policies.

The Trustee has appointed suitably qualified and experienced legal advisers, investment consultants and benefit consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

Advisers and service providers are reviewed periodically with light touch reviews as required given performance or other Trustee concerns about the adviser/provider.

The Trustee received the following training during the last year:

Date	Title
5th July 2018	Covenant – enhanced financing and surety
25th September 2018	Consolidator vehicles
3rd September 2018	ESG
11th October 2018	New FCA rules on transfers
11th October 2018	Risk transfer and other market developments

The Trustee proposes the following actions to be completed during the next Scheme year:

- Put in place a process to review knowledge gaps and create a programme to address these;
- Perform an evaluation of the performance and effectiveness of the board as a whole against their objectives by issuing a questionnaire to each of the Trustee Directors. This will allow the Trustee to evidence that the combination of the Trustee Directors knowledge and understanding together with access to suitable advice enables it to properly exercise its duties;
- Add to the business plan an action to review, annually, the performance of advisers and service providers; and
- Update and maintain a more detailed trustee training log.

Undertaking the above actions will enable the Trustee to evidence it is satisfied that it has:

- a) Taken effective steps to maintain and develop the Trustee Directors knowledge and understanding; and
- b) Ensured that it has received suitable advice.

The Trustee is satisfied that the combination of Trustee Directors knowledge and understanding together with access to suitable advice enabled it to properly exercise its duties during the period covered by this Statement.

(f) Action plan

During the last year the Trustee undertook the following (over and above "business as usual"):

- Reviewed the pre-retirement phase with a view to introducing a multi-credit mandate to improve risk-adjusted returns;
- Reviewed and rationalised the range of self-select funds to ensure they were still appropriate for the membership;
- Updated the DC Statement of Investment Principles to take into account the new range of investment options;
- Reviewed the risk register and identified a set of objectives for the DC section including timescales to achieve these;
- Developed and started to use a new, more appropriate benchmark to monitor the performance of the LGIM Diversified Fund;
- Gathered more information from Buck in relation to the processing of core financial transactions related to the AVC arrangement.

In the coming year (which will be covered by the next Statement), the Trustee intends to carry out the following:

- Establishing a DC Sub-committee to focus on matters related to the DC Section and provide recommendations to the Trustee Board;
- Work with its advisors to undertake a review of Scottish Widows as provider of the DC section to ensure their service remains competitive and meets the Trustee's and member's needs;
- Undertake a review of the support provided to members at retirement with a view to identifying gaps;

- Revise the Scheme's DC investment beliefs;
- Complete the transition to introduce the multi-credit mandate in the pre-retirement phase;
- Create a communications strategy to engage members and increase their understanding of the options available to them and the associated risks;
- Update the Statement of Investment Principles to reflect the September 2018 Regulations on Responsible Investment which come into force on 1 October 2019;
- Arrange for the publication of this Statement in a publicly searchable location on the internet with a note of this location in the annual benefit statements;
- Continue to assess the suitability of the default arrangement (for example taking into account developments in Environmental, Social and Corporate Governance considerations where they affect investment risks);
- Work with Scottish Widows to refresh member guides and booklets.

Appendix 1

QinetiQ Pension Scheme – DC Section Statements of Investment Principles

December 2019

Contents

Introduction

The law requires the Trustee to produce a formal "Statement of Investment Principles" for the Scheme's default option and its other investment options. These Statements set out what the Trustee aims to achieve with the investment options and their investment policies which guide how members' money is invested.

This document is a compendium of the Statements of Investment Principles for the DC Section of the QinetiQ Pension Scheme (the "Scheme."). These Statements must cover a number of technical points in order to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme's Auditors, which we have as far as possible shown separately in "for the record" boxes.

Statements of Investment Principles

The Statement of Investment Principles contained in this document includes the following:

Statement of the aims and objectives for the default arrangement*;

Statement of the aims and objectives for investment options outside the default arrangement*; and

Statement of investment beliefs, risks and policies**.

The Statement of Investment Principles for the Scheme ** comprises items 1, 2 and 3.

The Statement of Investment Principles for the Scheme's default arrangement *** comprises items 1 and 3.

Appendices

A. Investment implementation for the default arrangement; and

B. Investment implementation for the investment options outside the default arrangement.

For the record

* In accordance with Regulation 2A(1)(a) and 2A(1)(c) of the Occupational Pension Schemes (Investment) Regulations 2005

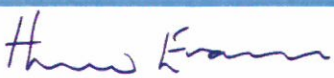
** In accordance with Regulation 2A(1)(b) of the Occupational Pension Schemes (Investment) Regulations 2005

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

The Trustee has taken proper written advice and consulted the Employer in the preparation of these Statements of investment Principles.

The Statement of Investment Principles will be reviewed at least every three years or more frequently as required by the Regulations.

For and on behalf of the Trustee of the Scheme

Name	Signed	Date
Huw Evans		12 December 2019

1 Statement of the aims and objectives for the default arrangement

Reasons for the Default arrangement

The Trustee has decided that the Scheme should have a default investment arrangement because:

While the Scheme is closed to new entrants, it is a qualifying scheme for auto-enrolment purposes for the existing membership and so must have a default option;

It should be made easy for members of the Scheme to build their retirement benefits without the need to make any investment decisions; and

A majority of the Scheme's members are expected to have broadly similar investment needs.

Choosing the Default arrangement

The Trustee believes that understanding the Scheme's membership is essential to designing and maintaining a default arrangement which meets the needs of the majority of members.

The Trustee has taken into account a number of aspects of the Scheme's membership including:

The age and salary profile;

The likely sizes of pension accounts at retirement;

Previous sources of retirement income from the Employer; and

Members' likely benefit choices at and into retirement.

Objectives for the Default arrangement

The main objective of the Default arrangement is to provide good member outcomes at retirement.

The Trustee believes that it is in the best interests of the majority of members to offer a default arrangement which:

Manages the main investment risks members face during their membership of the Scheme;

Gives good member outcomes at retirement by maximising investment returns relative to inflation while taking an appropriate level of risk for the majority of members who do not make investment choices; and

Reflects members' likely benefit choices at retirement.

The default arrangement

The default arrangement is:

A lifestyle strategy which is designed for members who are expected to use Flexible Access Income Drawdown during their retirement.

The default lifestyle strategy gradually moves investments between different funds to manage the levels of expected investment risks and returns at each stage of membership of the Scheme.

Full details of the current default arrangement are provided in the document "Investment implementation for the default arrangement".

2 Statement of the aims and objectives for investment options outside the default arrangement

Reasons for the investment options

In addition to the default arrangement, the Scheme offers members a choice of investment options because:

While the default arrangement is intended to meet the needs of a majority of the Scheme's members, it may not meet the needs of a wider cross-section of members;

Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;

Members have differing investment needs and these needs change during their working lives; and

Some members will want to be more closely involved in choosing where their contributions are invested.

Choosing the investment options

Membership analysis

The Trustee believes that understanding the Scheme's membership is important to maintaining an appropriate range of investment options and have taken into account a number of aspects including:

The members' age and salary profile;

The likely sizes of members' pension accounts at retirement;

Previous sources of retirement income from the Employer;

Members' likely range of benefit choices at retirement;

The levels of investment risk and return members may be willing to take;

The degree to which members are likely to take an interest in where their contributions are invested; and

The number of members who are likely to want a specialist range of funds that take into account non-financial factors e.g. ethical views, religious views etc.

Member behaviour

The Trustee has also considered the results of academic research and market surveys into how members choose where to invest their pension account which in summary shows:

Too little choice is viewed negatively by members;

Too much choice can prove confusing and deter members from taking action; and

Some members will not regularly review their choices.

Costs of investment options

The investment and administration costs are borne by members and so a balance needs to be struck between choice and costs.

Objectives for the investment options

The Scheme offers members the following choices of investment options as an alternative to the default arrangement:

Alternative lifestyle option

The alternative lifestyle option has similar objectives to the default arrangement but is designed for members who are expected to take cash at retirement.

Self-select funds

The main objectives of the self-select fund range are to:

Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension accounts is invested;

Complement the objectives of the Default arrangement and the alternative lifestyle option;

Provide a broader choice of levels of investment risk and return;

Provide a broader choice of investment approaches including ethical based funds; and

Help members more closely tailor how their pension accounts is invested to their personal needs and attitude to risk.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

Full details of the current investment options are provided in the documents “Investment implementation for investment options outside the default arrangement” and “Investment implementation for the default arrangement”.

3 Statement of investment beliefs, risks and policies

Introduction

This Statement sets out the general investment beliefs and policies which guides the Trustee's decision making.

For the record

This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both the default arrangement and the investment options outside the default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

Investment Risks

Principal risks

The Trustee believes that the three main investment risks most members will face are:

1) Inflation risk – investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

Further from retirement, this risk should be countered by investing in funds which are expected to produce returns well in excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

2) Benefit conversion risk – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.

For members taking cash at retirement, funds investing in cash deposits and other short-term interest bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.

3) Volatility/Market risk – falls in fund values prior to retirement lead to a reduction in retirement benefits.

Funds investing in bonds or a mix of defensive assets and hedging techniques may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold true.

Other investment risks

The Trustee believes that other potential investment risks members may face include:

Active management risk – a fund manager's selection of holdings may not lead to investment returns in line with the fund's objectives and investment markets generally.

Currency risk – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

Interest rate risk – the value of funds which invest in bonds will be affected by changes in interest rates.

Default risk – for bond funds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

ESG risk – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making, leading to underperformance relative to expectations.

Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

Liquidity risk – funds which invest in assets which cannot be easily bought or sold (such as property) may at times not be able to accept new investments or disinvestments of existing holdings.

Counterparty risk – the financial institutions holding a fund's assets may get into financial difficulties leading to a reduction in a fund's value.

Managing investment risks

The lifestyle options manage the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement. The self-select fund range provides members with a choice of funds with differing risk and return characteristics.

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Scheme. The funds used give a good spread of investments which will help manage risks associated with market conditions. The Trustee believes that the Scheme's investment options are appropriate for managing the risks typically faced by members.

Expected returns on investments

The Trustee believes that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' charges into account):

Asset class	Expected long-term investment returns relative to inflation	Expected shorter-term volatility in fund values
Equities (i.e. company shares)	Strong return relative to inflation	Most volatile in the short-term
Property (e.g. offices, shops and warehouses)	Positive, but lower than equities	Lower than equities
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities and property	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Positive, but lower than equities, property or corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts)	In line with inflation	Lower than equities, property or corporate bonds
Cash (and other short-term interest bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

Long-dated Bonds (e.g. UK Gilts and Corporate Bonds with a duration of 15 years or more) – should give fund values which move broadly in line with the financial factors influencing annuity rates.

Multi-asset funds - invest in a varying mix of asset classes which should deliver positive returns relative to inflation over the longer-term, with shorter-term volatility lower than equities.

Derivatives (e.g. currency hedging) - typically to reduce shorter-term investment risks or to facilitate changing where funds are invested, should help achieve a fund's expected levels of risk and return.

Factor-based (i.e. funds investing in assets with certain characteristics and return drivers) – the strategy of these funds is intended to give a better return over the long-term than the broader market for the type of assets involved (e.g. equities).

Investment beliefs

The Trustee's investment decisions are made in the context of their investment beliefs that:

Managing the main investment risks is the most important driver of good long-term member outcomes;

Investment markets may not always behave in line with long-term expectations during the shorter-term;

Taking investment risk is usually rewarded in the long term;

Investment risks can be reduced by spreading investments both within and across asset classes;

Actively managed funds, where the manager chooses where to invest, may not always deliver the expected investment returns in the shorter-term;

Passively managed funds, whose returns are intended to track a market index, may produce investment returns more efficiently than actively managed funds in some markets; and

As the Scheme invests for the long-term, environmental, social and governance factors will have a bearing on the funds' expected levels of risk and return.

Types of funds used

The Scheme uses funds provided through an investment platform. This investment platform in turn invests its funds in funds provided by a selection of fund managers where investments are pooled with other investors. This enables the Scheme to invest in a range of funds giving a good spread of investments in a cost-effective manner. It does mean that the Trustee has delegated day to day investment decisions to the fund managers.

Realisation of investments

The Trustee expects that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

Members' financial interests

The Trustee expects that the investment platform provider and fund managers will have the members' financial interests as their first priority when choosing investments.

ESG

The Trustee believes that environmental, social and governance ("ESG") considerations have a bearing on the funds' risks and returns.

The Scheme uses off-the-shelf funds offered by investment platform providers and fund managers. This gives access to a range of funds while keeping down costs to members, but means that the Trustee is reliant on the stewardship and ESG philosophies and processes of those underlying funds. Nevertheless, the Trustee seeks to manage long-term financially material considerations (including ESG and climate risk considerations) in a way that is consistent with their overall beliefs as per the table below:

Belief	Action
Choosing fund managers who have clearly articulated policies for managing long-term financially material considerations including ESG and climate change considerations;	For fund selection exercises (either within the default or self-select fund range), ESG and stewardship of assets will be two of the criteria used in the decision-making process.
Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes and benchmark indices as appropriate and are satisfied that the fund managers follow an approach which takes account of financially material factors;	The Trustee will review the responsible investment and stewardship policies of underlying fund managers within the default and self-select fund range on a periodic basis. For newly-appointed funds, the Trustee will have reviewed the managers' responsible investment and stewardship policies as part of the selection exercise prior to the appointment.
For passively managed funds, the Trustee recognises that the funds' objectives are to deliver returns in line with its benchmark (which may or may not take into account ESG factors), which the Trustee believes will deliver appropriate risk-adjusted returns.	The Trustee will periodically review the index benchmarks employed for the Scheme and compare these to a specialist ESG index within the same asset class to assess the impact of any differences.
For all funds, the Trustee expects underlying fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments (this would also apply for passive managers but there is an understanding that it could be a lesser form of engagement).	The Trustee will periodically review the voting and engagement policies of the underlying fund managers as well as the approach to governance of the investment platform provider and assess whether these policies are appropriate. On an annual basis, the Trustee will review information on actual voting records across the Scheme's fund managers and assess whether they have been consistent with the stewardship and engagement policies being followed.
Prefer fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations principles for responsible investment.	The Trustee should include this as part of the criteria and decision-making process for a fund / manager selection exercise.

Fund managers are only expected to take non-financial considerations (such as ethical or values-based considerations) into account when these do not conflict with a fund's investment objectives and financially material considerations. .

Voting Rights

The Scheme invests via an investment platform provider, who in turn invest in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider and determined that these policies are appropriate.

The Trustee does not engage directly with companies but believe it is appropriate for the fund managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee has delegated the review of this engagement activity undertaken by the fund managers to its investment advisers.

The Trustee expects the investment platform provider to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The Trustee also expects the platform provider to be able to evidence their own governance practices on request.

For the record

The Trustee obtains and considers proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the Trustee to give an expected level of return with an appropriate level of investment risk which meets the objectives of each investment option.

The funds used at each stage of the default arrangement and the alternative lifestyle option is intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

The investment platform uses a life insurance company based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

Equities (company shares); Fixed interest and index-linked bonds issued by governments and companies; Cash and other short-term interest bearing deposits; Commercial and residential property; Infrastructure and commodities through collective investment vehicles and Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority ("FCA") "Permitted Links" rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European "UCITS IV" and the FCA's "Non-UCITS" regulations have to meet requirements on the security and concentrations of assets.

Subject to the funds' benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The Trustee considers that these types of investments are suitable for the Scheme. The Trustee is satisfied that the funds used by the Scheme provide adequate diversification both within and across different asset classes.

Appendix A

Investment implementation for the default arrangement

Platform provider

The Scheme's DC Section uses the investment platform operated by Scottish Widows Limited.

Default arrangement

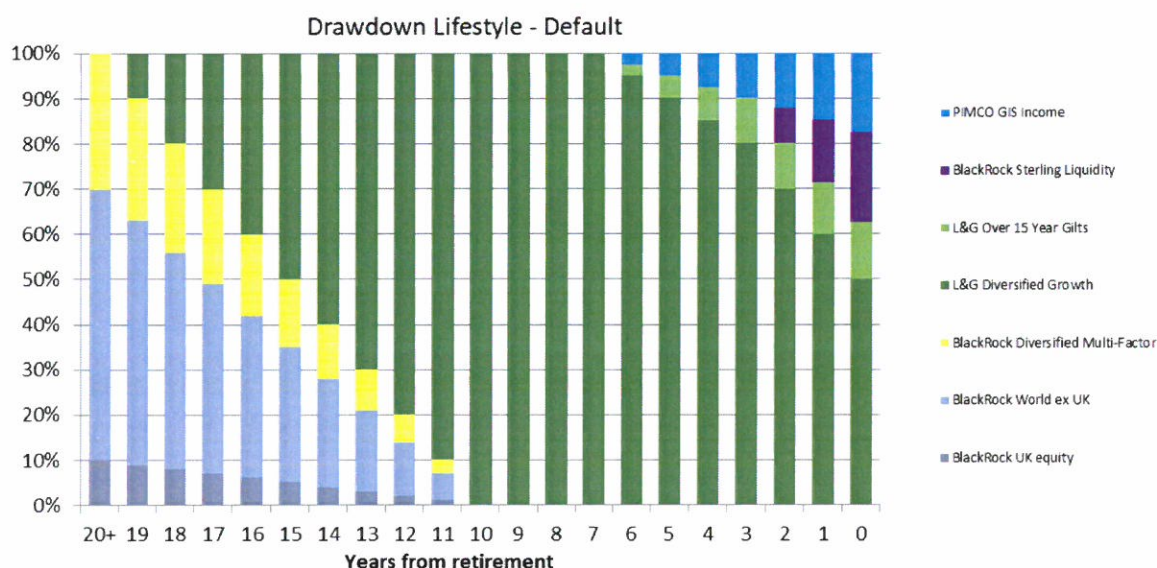
The default arrangement is a lifestyle strategy which is designed for members who are expected to use Flexible Access Income Drawdown during their retirement.

Members are invested in funds expected to give higher returns relative to inflation up to 20 years before their selected retirement date.

Between 20 and 10 years to their selected retirement date, members are gradually switched into a fund which provides asset class diversification with the objective of protecting accrued benefits from large equity market downturns whilst also providing good returns relative to inflation.

Finally, during the last 7 years up to their selected retirement date, members are automatically switched into funds which are expected to be broadly suitable for members planning to use income drawdown in retirement.

The chart below shows the revised investment strategy (asset allocation) for the default arrangement:



Fund allocation

The allocation to each fund in the default arrangement at yearly intervals up to a member's selected retirement date is given in the table below.

Years to retirement	BlackRock World ex UK Equity %	BlackRock UK Equity %	BlackRock Diversified Multifactor %	LGIM Diversified %	LGIM Over 15 Year Gilts %	BlackRock Sterling Liquidity %	PIMCO GIS Income %
20 or more	60.00	10.00	30.00	0.00	0.00	0.00	0.00
19	54.00	9.00	27.00	10.00	0.00	0.00	0.00
18	48.00	8.00	24.00	20.00	0.00	0.00	0.00
17	42.00	7.00	21.00	30.00	0.00	0.00	0.00
16	36.00	6.00	18.00	40.00	0.00	0.00	0.00
15	30.00	5.00	15.00	50.00	0.00	0.00	0.00
14	24.00	4.00	12.00	60.00	0.00	0.00	0.00
13	18.00	3.00	9.00	70.00	0.00	0.00	0.00
12	12.00	2.00	6.00	80.00	0.00	0.00	0.00
11	6.00	1.00	3.00	90.00	0.00	0.00	0.00
10	0.00	0.00	0.00	100.00	0.00	0.00	0.00
9	0.00	0.00	0.00	100.00	0.00	0.00	0.00
8	0.00	0.00	0.00	100.00	0.00	0.00	0.00
7	0.00	0.00	0.00	100.00	0.00	0.00	0.00
6	0.00	0.00	0.00	95.00	2.50	0.00	2.50
5	0.00	0.00	0.00	90.00	5.00	0.00	5.00
4	0.00	0.00	0.00	85.00	7.50	0.00	7.50
3	0.00	0.00	0.00	80.00	10.00	0.00	10.00
2	0.00	0.00	0.00	70.00	10.00	8.00	12.00
1	0.00	0.00	0.00	60.00	11.25	14.00	14.75
0	0.00	0.00	0.00	50.00	12.50	20.00	17.50

Rebalancing between these funds takes place on a monthly basis according to the day in the month of each members' birthday. "Reverse switching" in the event of marked relative movements between funds causing an overshoot of the target asset allocation is undertaken.

Funds and charges

The funds used by the default arrangement and their charges (given by the Total Expense Ratio ("TER") as at 30 November 2019) are given overleaf.

SW Aquila World ex UK Equity Index CS1	BlackRock Aquila Connect World (ex UK) Equity S2 Fund	0.205
SW Aquila UK Equity Index CSW	BlackRock Aquila Connect UK Equity S2 Fund	0.213
SW BlackRock ACS World Multifactor Equity Tracker CS1	Blackrock ACS World Multifactor Equity Tracker Fund	0.330
SW LGIM Diversified CS1	LGIM Diversified Fund	0.500
SW LGIM Over 15 Year Gilts Index CS1	LGIM Over 15 Year Gilts Index Fund	0.220
SW BlackRock Sterling Liquidity CSW	BlackRock Institutional Sterling Liquidity Fund	0.220
SW PIMCO GIS Income CS1	PIMCO GIS Income Fund	0.720

Investment costs

Fund charges

The investment platform provider's and fund managers' charges for the investment options are borne solely by the members.

While the Scheme is closed to new entrants, it is a "qualifying scheme" for auto-enrolment purposes in respect of the existing members, which means that the Default arrangement is subject to the charge cap introduced by the government from April 2015.

Transaction costs

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds' unit prices and members' fund values.

Review

The default lifestyle option was introduced in July 2015. The last significant review was carried out in 2019 and the Trustee will continue to monitor the investment options (including the default arrangement) to ensure it remains appropriate.

Appendix B

Investment implementation for investment options outside the default arrangement

Platform provider

The Scheme's DC Section uses the investment platform operated by Scottish Widows Limited.

Lifestyle option

The Scheme offers members an alternative lifestyle option to the default arrangement.

Objective

While the default arrangement's lifestyle strategy targets income drawdown at retirement, the alternative lifestyle option is designed for members who are expected to take cash at retirement.

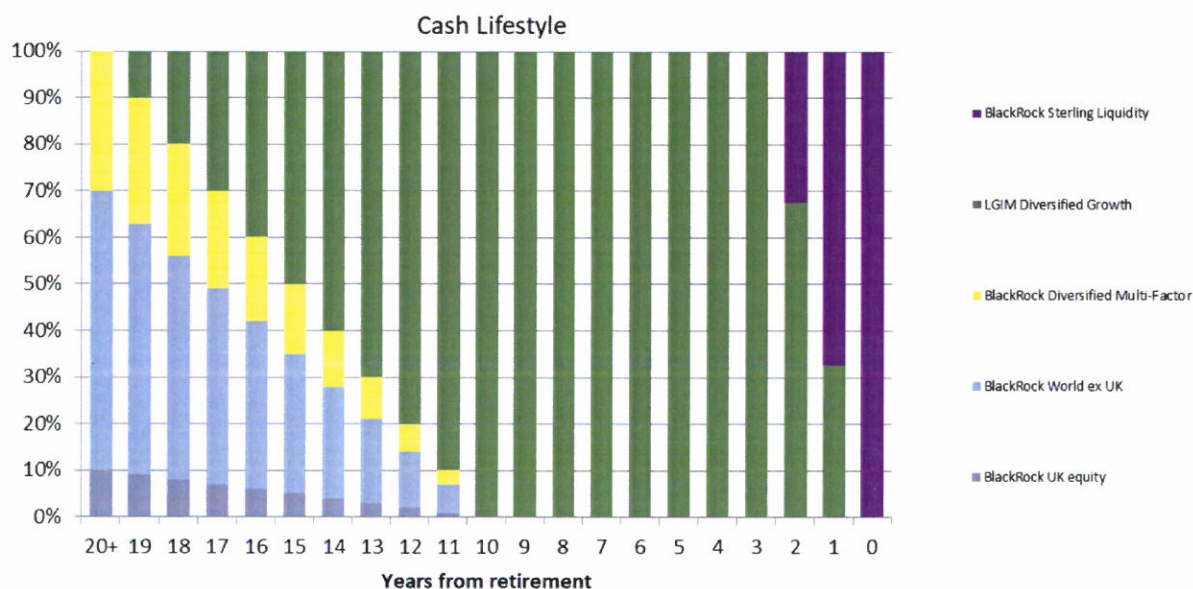
Approach

Members are invested in funds expected to give higher returns relative to inflation up to 20 years before their selected retirement date.

Between 20 and 10 years to their selected retirement date, members are gradually switched into a fund which provides asset class diversification with the objective of protecting accrued benefits from large equity market downturns whilst also providing good returns relative to inflation.

Finally, members are automatically switched into funds that align to their expected retirement choices during the last 3 years up to their selected retirement date.

The chart below shows the lifestyle strategy:



Fund allocation

The allocation to each fund in the alternative lifestyle option at yearly intervals up to a member's selected retirement date is given in the table below (note that the same naming convention for the funds has been adopted as for the default arrangement):

Years to retirement	BlackRock World ex UK Equity %	BlackRock UK Equity %	BlackRock Diversified Multifactor %	LGIM Diversified %	BlackRock Sterling Liquidity %
20 or more	60.00	10.00	30.00	0.00	0.00
19	54.00	9.00	27.00	10.00	0.00
18	48.00	8.00	24.00	20.00	0.00
17	42.00	7.00	21.00	30.00	0.00
16	36.00	6.00	18.00	40.00	0.00
15	30.00	5.00	15.00	50.00	0.00
14	24.00	4.00	12.00	60.00	0.00
13	18.00	3.00	9.00	70.00	0.00
12	12.00	2.00	6.00	80.00	0.00
11	6.00	1.00	3.00	90.00	0.00
10	0.00	0.00	0.00	100.00	0.00
9	0.00	0.00	0.00	100.00	0.00
8	0.00	0.00	0.00	100.00	0.00
7	0.00	0.00	0.00	100.00	0.00
6	0.00	0.00	0.00	100.00	0.00
5	0.00	0.00	0.00	100.00	0.00
4	0.00	0.00	0.00	100.00	0.00
3	0.00	0.00	0.00	100.00	0.00
2	0.00	0.00	0.00	67.50	32.50
1	0.00	0.00	0.00	32.50	67.50
0	0.00	0.00	0.00	0.00	100.00

As for the default arrangement, rebalancing between these funds takes place on a monthly basis according to the day in the month of each members' birthday. "Reverse switching" in the event of marked relative movements between funds causing an overshoot of the target asset allocation is undertaken.

Funds and charges

The funds used by the alternative lifestyle option are a subset of those for the default arrangement; as such the charges are identical and the TER for the funds (as at 30 November 2019) are contained in the previous section.

Self-select fund range

The Scheme offers members a choice of self-select funds options as an alternative to the default and alternative lifestyle arrangements.

Fund range

The choice of self-select funds and their Total Expense Ratios as at 30 November 2019 are:

Platform Fund	Underlying Fund	TER %
SW LGIM 30/70 Global Equity Index Currency Hedged CS1	LGIM 30/70 Global Equity Index Currency Hedge	0.253
SW BlackRock ACS World Multifactor Equity Tracker CS1	Blackrock ACS World Multifactor Equity Tracker	0.330
SW Aquila UK Equity Index CSW	BlackRock Aquila Connect UK Equity S2	0.213
SW Aquila World ex UK Equity Index CS1	BlackRock Aquila Connect World (ex UK) Equity S2	0.205
SW Threadneedle UK Smaller Companies 1CSW	Threadneedle UK Smaller Companies *	0.650
SW Schroders Global Emerging Markets CS1	Schroders Global Emerging Markets	1.300
SW Aquila European Equity Index CS1	BlackRock Aquila European Equity Index	0.220
SW Aquila US Equity Index CS1	BlackRock Aquila US Equity Index	0.213
SW LGIM Diversified CS1	LGIM Diversified	0.500
SW Property CSW	SW Property *	0.738
SW Aquila IL Over 5 Year Gilt Index CSW	BlackRock Aquila Connect Over 5 year Index Linked Gilt	0.214
SW LGIM Over 15 Year Gilts Index CS1	LGIM Over 15 Year Gilts Index	0.220
SW Aquila Corporate Bond All Stocks CS1	BlackRock Aquila Connect Corporate Bond All Stocks S2	0.211
SW PIMCO GIS Income CS1	PIMCO GIS Income	0.720
SW BlackRock Sterling Liquidity CSW	BlackRock Institutional Sterling Liquidity	0.220
SW L&G Ethical Global Equity Index CS1	LGIM Ethical Global Equity Index	0.370
SW HSBC Islamic CS1	HSBC Islamic Global Equity **	0.550

* Managed for Scottish Widows by Threadneedle.

** Previously HSBC Amanah.

Use of options

Members can contribute to the default arrangement or alternative lifestyle option and to self-select funds at the same time. Members can also have investments from previous contributions in the alternative lifestyle option and self-select funds at the same time.

Investment costs

Fund charges

The investment platform provider's and fund managers' charges for the investment options are borne solely by the members.

Transaction costs

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds' unit prices and members' fund values and are borne by members.

Review

The alternative lifestyle option and self-select fund range were last reviewed in 2019.

Appendix 2

Table of funds and charges

2a Default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the default arrangement were:

Fund	Charges **			Transaction costs		
	ISIN *	% p.a. of the amount invested	£ p.a. per £1,000 invested	Underlying Fund***	ISIN *	% p.a. of the amount invested £ p.a. per £1,000 invested
Zurich Aquila World ex UK Equity Index CS1	GB00B4KTZY32	0.205	2.05	BlackRock Aquila Connect World (ex UK) Equity S2	GB00B00C3Y02	-0.015 -0.15
Zurich Aquila UK Equity Index CSW	GB00BYMMV6T90	0.213	2.13	BlackRock Aquila Connect UK Equity S2	GB00B00C3Z19	-0.032 0.32
Zurich Blackrock ACS World Multifactor Eq Trkr CS1	GB00BD3FW626	0.33	3.30	Blackrock ACS World Multifactor Equity Tracker	GB00BF1KF532	0.161 1.61
Zurich Legal & General Diversified CS1	GB00BYQDZT49	0.5	5.00	LGIM Diversified	GB00B6V6GS85	-0.049 -0.49
Zurich L&G Over 15 Year Gilts Index CS1	GB00B7439060	0.22	2.20	LGIM Over 15 Year Gilts Index	GB00B6V5R041	-0.008 0.08
Zurich Aquila Corporate Bond All Stocks Index CS1	GB00B425BY12	0.211	2.11	BlackRock Aquila Connect Corporate Bond All Stocks S2	GB00B00C3733	-0.024 -0.24
Zurich Kames Absolute Return Bond Global CS1	GB00BG06W147	0.62	6.20	Kames Absolute Return Bond Global	IE00BVVQ0700	0.044 0.44
Zurich BlackRock Sterling Liquidity CSW	GB00BYMMV6Q69	0.22	2.20	BlackRock Institutional Sterling Liquidity	IE00B3X1KB16	0.016 0.16

Source: Scottish Widows

2b Lifestyle option outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the Cash Focused lifestyle option were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
Zurich Aquila World ex UK Equity Index CS1	GB00B4KTZY32	0.205	2.05	BlackRock Aquila Connect World (ex UK) Equity S2	GB00B00C3Y02	-0.015	-0.15
Zurich Aquila UK Equity Index CSW	GB00BYMV6T90	0.213	2.13	BlackRock Aquila Connect UK Equity S2	GB00B00C3Z19	-0.032	0.32
Zurich Legal & General Diversified CS1	GB00BYQDZT49	0.5	5.00	LGIM Diversified	GB00B6V6GS85	-0.049	-0.49
Zurich BlackRock Sterling Liquidity CSW	GB00BYMV6Q69	0.22	2.20	BlackRock Institutional Sterling Liquidity	IE00B3X1KB16	0.016	0.16
Zurich Blackrock ACS World Multifactor Eq Trkr CS1	GB00BD3FW626	0.33	3.30	Blackrock ACS World Multifactor Equity Tracker	GB00BF1KF532	0.161	1.61
Zurich Kames Absolute Return Bond Global CS1	GB00BG06W147	0.62	6.20	Kames Absolute Return Bond Global	IE00BWWQ0700	0.044	0.44

Source: Scottish Widows

2c Self-select funds outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the self-select funds were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
Zurich Aquila European Equity Index CS1	GB00B5053M21	0.22	2.20	BlackRock Aquila Connect European Equity	GB00B00C3N96	-0.003	-0.03
Zurich Aquila IL Over 5 Year Gilt Index CSW	GB00BYMV6S83	0.214	2.14	BlackRock Aquila Connect Over 5 year Index Linked Gilt	GB00B00C3J50	0.031	0.31
Zurich Aquila US Equity Index CS1	GB00B4THC147	0.213	2.13	BlackRock Aquila Connect US Equity	GB00B00C3X94	-0.022	-0.22
Zurich HSBC Islamic (was Amanah) CS1	GB00B5ST8540	0.55	5.50	HSBC Islamic Global Equity	LU1092475968	0.061	0.61
Zurich L&G 30/70 Gbl Equity Ind Currency Hdg CS1	GB00B86QWH89	0.253	2.53	LGIM Global Equity FW (30:70) Index	GB00B6V66N35	0.044	0.44
Zurich L&G Ethical Gbl Equity Ind CS1	GB00B4JVK340	0.37	3.70	LGIM Ethical Global Equity Index	GB00B6V5VR96	0.010	0.10
Zurich Property CSW^	GB00BDCD0K72	0.738	7.38	Zurich Property	GB00BDCD0K72	0.170	1.70
Zurich Schroder Global Emerging Markets CS1	GB00B5M17C63	1.3	13.00	Schroder Life Global Emerging Markets S2	GB00B0XX8R82	-0.041	-0.41
Zurich Threadneedle UK Smaller Companies 1CSW	GB00BYTZZB99	0.65	6.50	Threadneedle UK Smaller Companies	GB0001444479	0.328	3.28

Source: Scottish Widows

^ This fund invests directly in property. As a result, in addition to the fund's Total Expense Ratio, members also bear the cost of items such as property management and maintenance

2d Additional Voluntary Contributions for members in the defined benefit section

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the AVC funds were:

Fund	ISIN *	Charges **		Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
LGIM Multi-Asset (formerly Consensus) Index Fund	n/a	0.260	2.60	0.01	0.10
LGIM Global Equity Fixed Weights 50:50 Index Fund	n/a	0.183	1.83	-0.01	-0.10
LGIM Equity Index Fund	n/a	0.134	1.34	-0.02	-0.20
LGIM UK Smaller Companies Index	n/a	0.602	6.02	0.05	0.50
LGIM Ethical UK Equity Index Fund	n/a	0.201	2.01	0.01	0.10
LGIM World (ex UK) Equity Index Fund	n/a	0.220	2.20	-0.01	-0.10
LGIM Global Emerging Markets Equity Index	n/a	0.456	4.56	0.02	0.20
LGIM Over 15yr Gilts Index Fund	n/a	0.100	1.00	-0.01	-0.10
LGIM AAA-AA-A Bonds All Stocks Index Fund	n/a	0.150	1.50	-0.02	-0.20
LGIM Over 5yr Index-Linked Gilts Index Fund	n/a	0.100	1.00	0.03	0.30
LGIM Managed Property Index Fund [^]	n/a	1.043	10.43	-0.06	-0.60
LGIM Cash Fund	n/a	0.125	1.25	0.00	0.00

Source: LGIM

* ISIN = the International Securities Identification Number unique to each fund. The ISIN does not exist for funds with "n/a"

LGIM's policy is not to apply for ISINs for its funds provided under a policy of insurance.

** Charge = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Costs and Expenses.

[^] This fund invests directly in property. As a result, in addition to the fund's Total Expense Ratio, members also bear the cost of items such as property management and maintenance

*** Underlying Fund = the fund in which the Scheme's top level Fund invests.

Appendix 3

Tables illustrating the impact of charges and costs

The following tables show the potential impact over time of the costs and charges borne by members on projected values at retirement in today's money for typical members over a range of ages. They do not need to be reduced further for the effect of future inflation.

Two scenarios are presented:

Scenario 1 represents an active member with total contributions of £700 per month being paid into the Scheme. This represents the average gross total contribution (i.e. employee and employer contributions including tax relief) currently paid to members of the DC section of the Scheme. Your total contribution may be more or less than this. These contributions are assumed to increase in line with inflation.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	67,900	67,600	68,100	67,800	69,200	69,000	69,300	69,100
3	85,800	84,900	86,800	85,700	90,300	89,600	91,000	90,300
5	103,000	101,000	105,000	103,000	111,000	110,000	114,000	112,000
10			151,000	146,000	165,000	160,000	179,000	175,000
15					219,000	209,000	249,000	241,000
20					269,000	254,000	316,000	301,000
25							380,000	355,000
30							436,000	402,000

Source: Scottish Widows

Scenario 2 represents a member who has left the Scheme with no contributions being paid.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	59,600	59,300	59,800	59,500	60,800	60,600	60,900	60,700
3	60,700	59,800	61,400	60,500	64,400	63,800	64,900	64,400
5	61,100	59,800	63,000	61,400	67,600	66,500	69,200	68,200
10			65,200	62,300	74,100	71,200	81,300	79,000
15					79,100	74,200	93,300	89,100
20					82,000	75,200	102,000	95,400
25							109,000	99,400
30							113,000	100,000

Source: Scottish Widows

Both scenarios assume:

- The individual is invested in the Default Lifestyle strategy.
- The starting DC pot size is £59,000 – please note this represents the current median (i.e. the middle number in a data set which is ordered from lowest to highest) pot size for a member of the Scheme. Your pot may be higher or lower than this;
- Retirement is at age 65; and
- The rate of inflation is assumed to be 2.5% each year.

The transaction costs and charges assumed for each fund are the current charges as shown in Appendix 2. The same methodology and assumptions as used in the Statutory Money Purchase Illustrations included with members' annual benefit statements have otherwise been used.

Please note that these illustrated values:

- Are estimates using assumed rates of future investment returns and inflation;
- Are not guaranteed;
- The assumptions used may be differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and as yet unknown, changes to the Scheme's investment options;
- Depend upon how far members in the default lifestyle option are from retirement as the funds used change over time; and
- May not prove to be a good indication of how your own savings might grow.

The average projected growth rates allowing for inflation for each of the years prior to retirement was:

Years to Retirement	Scenario 1 Projected Growth Rate (Average)	Scenario 2 Projected Growth Rate (Average)
1	2.70%	2.70%
3	2.90%	2.90%
5	3.10%	3.20%
10	3.40%	3.50%
15	3.60%	3.70%
20	3.90%	4.10%
25	4.10%	4.40%
30	4.30%	4.60%
35		
40		

Source: Scottish Widows

The following tables show the impact of costs and charges for both scenarios for the lowest expected return fund, and the highest expected return fund:

The “lowest expected return” fund

SW BlackRock Sterling Liquidity CSW				
Years	Scenario 1		Scenario 2	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	66,100	65,900	57,900	57,700
3	80,000	79,500	55,800	55,400
5	93,300	92,500	53,700	53,100
10	124,000	122,000	49,000	47,800
15	153,000	149,000	44,600	43,100
20	179,000	174,000	40,700	38,800
25	203,000	196,000	37,100	35,000
30	224,000	216,000	33,800	31,500
35	-	-	-	-
40	-	-	-	-

Source: Scottish Widows

The “highest expected return” fund:

SW Threadneedle UK Smaller Companies 1CSW				
Years	Scenario 1		Scenario 2	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	69,500	68,800	61,000	60,400
3	91,600	89,300	65,400	63,500
5	115,000	110,000	70,200	66,800
10	182,000	169,000	83,500	75,700
15	262,000	236,000	99,400	85,800
20	357,000	312,000	118,000	97,300
25	470,000	397,000	140,000	110,000
30	605,000	495,000	167,000	124,000
35	-	-	-	-
40	-	-	-	-

Source: Scottish Widows

The investment return allowing for inflation for each fund above was:

Fund	Projected Growth Rate (Average)
SW BlackRock Sterling Liquidity CSW	0.60%
SW Threadneedle UK Smaller Companies 1CSW	6.00%

Source: Scottish Widows