

QinetiQ Pension Scheme – Defined Contribution Section Implementation Statement for the year ending 30 June 2021

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 2021.

On 11 May 2021, the DC Section was transferred to the Mercer Master Trust. The information within this Statement in respect of the DC Section therefore covers only the period up to the date of transfer. By contrast the AVC arrangements continue to be part of the Scheme and are covered within the Defined Benefit SIP.

Why do the Scheme’s investments matter to me?

The Scheme provided 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 set out the investment principles and practices the Trustee followed when governing the Scheme’s investments. It described the rationale for the investment options which you could choose (including the default arrangement if you didn’t make a choice), explained the risks and expected returns of the funds used and the Trustee’s approach to responsible investing (including climate change).

The last review of the Scheme’s SIP was completed on 15 January 2021. It was updated to distinguish the primary default arrangement from other default arrangements, and set out the circumstances when other default arrangements may be created and what their objectives are. No further review is due to take place given the DC Section has moved to the Mercer Master Trust.

You can find a copy of the Scheme’s latest SIP (and the Scheme’s Chairs Statement) at <https://www.qinetiq.com/en/our-company/sustainability/health-safety-and-wellbeing>

What is this Implementation Statement for?

Each year, the Trustee is required to prepare this Statement, which sets out how it has complied with the SIP relating to DC Section during the last Scheme year. The Trustee has worked with its advisers to ensure that the work and actions over the year have complied with the SIP and to produce this Implementation Statement.

Overall, the Trustee is satisfied that the Scheme’s DC investments have been managed in accordance with the SIP, to the extent necessary given the transfer of the DC Section to the Mercer Master Trust in May 2021.

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 established a DC sub-committee which focused on DC related issues for the Trustee Board.

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

The DC sub-committee was disbanded following the transfer of the DC Section to the Mercer Master Trust. There were no other changes to the Trustee or the governance processes during the last year.

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

Date	Topic	Aim	Trainer
1 July 2020	Responsible Investment	To refresh the Trustee's knowledge on Responsible Investment and Environment, Social and Governance aspects of pension schemes.	Hymans Robertson
8 July 2020	Investment Strategy	Session on optimising resources, specifically on <i>Credit Markets and Opportunities</i> , and learning more on DC investing in the UK	Hymans Robertson

The Trustee monitored how well its investment advisers met 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 maintained its understanding of investment matters.**

On 11 May 2021, the DC Section was transferred to the Mercer Master Trust. The Trustee carried out due diligence regarding the Mercer Master Trust prior to agreeing to transfer assets from the Scheme and was confident in the governance arrangements.

How the default arrangements and other investment options are managed

The objectives and rationale for the primary default arrangement, other default arrangements and for the other investment options are set out in the SIP. The Trustee monitored the performance of the funds used by the Scheme, with the help of its investment adviser, who produced a quarterly fund performance monitoring report, using data provided by Scottish Widows.

No review of the Scheme's default arrangements and other investment options was carried out during the year as the Trustee directed its attention to the decision of whether to transfer the DC Section to the Mercer Master Trust.

The Trustee is satisfied that the primary and other default arrangements met their objectives.

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 and 7 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 7 and 8.

The Trustee believes that the main investment risks members faced described in the SIP did not change 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 were reasonable relative to the risks that members face, and that the investment options available were appropriate for managing those risks and met the objectives set out in the SIP.

The Trustee's view on the expected levels of investment risks and returns informed decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invested in over the longer-term) for the Scheme's lifestyle options (which gradually change the funds in which your savings were invested as you approach retirement). The Trustee put a lot of emphasis on reviewing the risk / return characteristics of the new investments in the Mercer Master Trust before deciding on the bulk transfer.

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.

The Trustee's investment beliefs

The Trustee had a set of investment beliefs (as well as a corresponding list of Recommended Trustee Actions alongside each belief), set out on page 10 and 11 of the SIP, which were used as a guide when making investment decisions. These beliefs helped to inform the Trustee's decision making regarding the transfer of assets from the Scheme to the Mercer Master Trust.

Types of funds used

The DC Section uses funds provided through an investment platform. The investment platform in turn invests into funds provided by a selection of fund managers where investments are pooled with other investors. Whilst this enables a cost effective approach to investing, it does mean 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 monitored the service of Scottish Widows, by:

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

Manager incentives

As described on page 8 of the SIP, the Trustee sought to ensure that the fund managers were suitably incentivised to deliver investment performance in keeping with the funds' objectives.

Whilst the funds used by the Scheme were held at arms-length from the Trustee via Scottish Widows, the Trustee believed it was in Scottish Widow's best commercial interests to ensure that the fund managers were suitably incentivised to meet their funds' investment objectives.

The value for member assessment confirmed that the fund managers appeared to be suitably incentivised to deliver good outcomes for the Scheme's members.

Portfolio Turnover

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover might indicate a shift in the amount of risk the fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

Whilst the Trustee did not monitor the level of portfolio turnover explicitly during the year, the level of transaction costs of each fund were monitored. The Trustee is not aware of any issues regarding changes to where funds were invested.

Portfolio duration

The Trustee recognises the long-term nature of DC pension investments and had a policy of choosing funds which were expected to deliver sustainable returns over the Scheme members' investment horizon. This consideration was included in the investment decision making regarding the transfer of assets to the Mercer Master Trust.

Realisation of investments

It is important that your contributions can be invested promptly in the default arrangement 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.

Whilst there can be a delay in redemption requests for certain types of funds, the Trustee believes that this is a temporary issue which has not materially affected members' interests over the longer term.

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

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.

Member funds in the Scheme were transferred to the Mercer Master Trust during the year. As part of its due diligence, the Trustee considered the financial strength of the investment platform provider and fund managers used by the Mercer Master Trust ahead of the transfer and were satisfied with the level of security.

Conflicts of interest

The Trustee expects the fund managers to invest the Scheme's assets in the members' best interests.

The Trustee did not create a formal policy given the move of the DC Section to the Mercer Master Trust (a policy is in place in the DB SIP). However the Trustee is not aware of any material conflicts of interest which occurred during the year which might have affected members' benefit expectations.

Responsible Investment

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

The Trustee's approach to responsible investing did not change 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 invested in pooled funds and had no discretion on the parameters and terms in which the funds were managed, including from an ESG angle.

Therefore, the Trustee had an expectation the fund managers would 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) were passively managed and aimed to track the performance of an index. Therefore there is a limit on the extent to which material ESG considerations could be incorporated into the investment strategy. This extends to active multi-asset funds, such as the L&G Diversified Fund, which had 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 expected the managers to incorporate ESG considerations in the assessment of financial risk/return in selecting the underlying securities.

There was 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 expected 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 Trustee considered the length of time members' contributions would be invested in the Scheme when choosing and reviewing the funds used when mapping members assets across to the Mercer Master Trust.

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

- Delegated voting on shareholder issues to the underlying fund managers in accordance with the managers' house policies;
- Expected fund managers to vote in a way which would enhance the value of the funds in which the Scheme invested; and
- Monitored (with support from its investment adviser) how the fund managers exercised their voting rights.

Funds with voting rights attaching to them

The funds with voting rights attached that were available to members as part of the primary and other default arrangements or the self-select fund range are listed below along with summary voting statistics for each fund.

Default Funds

- SW Legal & General Diversified CS1
- SW Aquila World ex UK Equity Index CS1
- SW Blackrock ACS World Multifactor Eq Trkr CS1
- SW Aquila UK Equity Index CSW

Self-Select Funds

- SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1
- SW Aquila US Equity Index CS1
- SW Threadneedle UK Smaller Companies 1CSW
- SW L&G Ethical Gbl Equity Ind CS1
- SW Schroder Global Emerging Markets CS1

- SW Aquila European Equity Index CS1
- SW HSBC Islamic (was Amanah) CS1
- SW Baillie Gifford Managed CS1

Default Funds				
	SW Legal & General Diversified CS1	SW Aquila World ex UK Equity Index CS1	SW Blackrock ACS World Multifactor Eq Trkr CS1	SW Aquila UK Equity Index CSW
No. of resolutions eligible to vote	90,870	23,551	2,778	11,089
% resolutions voted	98.7%	90.3%	85.8%	100%
Of the resolutions voted, the % voted for management	80.5%	89.9%	89.3%	94.2%
Of the resolutions voted, the % against management	18.8%	9.3%	9.7%	5.5%
Of the resolutions voted, the % abstained	0.7%	0.8%	1%	0.2%

Self-Select Funds								
	SW L&G 30/70 Gbl Equity Ind Currency Hdg C S1	SW Aquila US Equity Index CS1	SW Threadneedle UK Smaller Companies 1CSW	SW L&G Ethical Gbl Equit y Ind CS1	SW Schroder Global Emerging Markets CS1	SW Aquila European Equity Index CS1	SW HSBC Islamic (was Amanah) CS1	SW Baillie Gifford Managed CS1
No. of resolutions eligible to vote	72,992	7,428	1,084	15,451	2,273	9,656	1,720	2,954
% resolutions voted	99.9%	99.7%	100%	100%	75.6%	72.8%	93.4%	100%
Of the resolutions voted, the % voted for management	83.7%	92.2%	93.4%	84%	61.5%	84.7%	89.1%	97%
Of the resolutions voted, the % against management	15.3%	6.4%	4.1%%	15.8%	6.2%	14.3%	10.9%	1.6%
Of the resolutions voted, the % abstained	1%	1.4%	2.5%	0.2%	32.3%	1%	0%	1.4%

The Trustee also considers how the fund managers voted on specific issues. The Trustee considers 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that members are expected to have an interest. The most significant shareholder votes and how the fund managers voted during the last year were:

	Apple Inc	Microsoft Corporation	Alphabet Inc	Amazon.com Inc	Facebook Inc
Resolution	23 February 2021 Improve Principles of Executive Compensation Program	2 December 2020 Advisory Vote to Ratify Named Executive Officers' Compensation	2 June 2021 Require Independent Director Nominee with Human and/or Civil Rights Experience	26 May 2021 Report on the Impacts of Plastic Packaging	26 May 2021 Amend Non-Employee Director Compensation Policy
LGIM	Against	For	For	For	Against
BlackRock	Against	For	Against	Against	For
Columbia Threadneedle	Against	For	For	For	Against
Schroders	Against	For	For	Against	Against
HSBC	-	For	-	-	-
Baillie Gifford	Against	For	Against	Split	For
Comments	All managers opposed the resolution – 94.4% of votes were against the proposal.	All managers supported the resolution – 94.7% of votes were for the proposal.	Some managers felt existing policies addressed the issue raised whilst others felt these were not enough – 89.7% votes were against the proposal.	Whilst Amazon have a Shipment Zero Pledge, others felt greater transparency was required - 64.5% were against the proposal.	A lack of disclosure was cited as the primary reason against this resolution – 78.8% of votes were for the proposal.

Source: Proxy Insight

How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
Legal & General	<p>LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.</p>
BlackRock	<p>BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines. While BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into their vote analysis process, and do not blindly follow their recommendations on how to vote. They primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that the investment stewardship analysts can readily identify and prioritise those companies where their own additional research and engagement would be beneficial. Other sources of information BlackRock use include the company's own reporting (such as the proxy statement and the website), engagement and voting history with the company, and the views of their active investors, public information and ESG research.</p>
Columbia Threadneedle Investments	<p>Columbia Threadneedle Investments final vote decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations such as ISS, IVIS and Glass Lewis as well as MSCI ESG Research. Proxy voting is effected via ISS.</p>
Schroders	<p>Schroders receive research from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings, however this is only one component that feeds into their voting decisions. In addition to relying on Schroders policies they will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts. It is important to stress that Schroders' own research is also integral to their final voting decision; this will be conducted by both the financial and ESG analysts. For contentious issues, Schroders Corporate Governance specialists will be in deep dialogue with the relevant analysts and portfolio managers to seek their view and better understand the corporate context. They continue to review voting practices and</p>

	policies during ongoing dialogue with their portfolio managers. This has led to a raising of the bar on what Schroders consider 'good governance practice.'
HSBC Global Asset Management Ltd.	HSBC use the leading voting research and platform provider Institutional Shareholder Services (ISS) to assist with the global application of our voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene their guidelines. HSBC review voting policy recommendations according to the scale of overall holdings. The bulk of holdings are voted in line with the recommendation based on their guidelines.
Baillie Gifford & Company	Whilst Baillie Gifford are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource any of stewardship activities or follow or rely upon their recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers' policies. They have specialist proxy advisers in the Chinese and Indian markets to provide them with more nuanced market specific information.

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 included non-financial factors as it recognised 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 made an ethical investment option available for members in the Legal & General Ethical Global Equity Index Fund, which was part of the self-select range. The Trustee took a proportionate approach and considered 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 was aware it was 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 did not change during the last year.

Member engagement was 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;
- Communicating with members regarding the transfer of their savings from the DC Section to the Mercer Master Trust.

Limitations and missing information

The Trustee are satisfied that they were able to obtain all the information required. Some information was not requested (for example the portfolio turnover rates) given funds were to be moved to the Mercer Master Trust.

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 on 12 December 2019, are outlined below:

- Deliver an investment approach for the 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.