QinetiQ Pension Scheme - Defined Benefit Section Implementation Statement for the year ending 30 June 2020

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

Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy during the period from 1 July 2019 to 30 June 2020 and other policies and practices within the Statement of Investment Principles.

What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the funds used and the Trustee's approach to responsible investing (including climate change).

This Implementation Statement is in respect of the Scheme's SIP that was in place as at 30 June 2020. In order to reflect new regulatory requirements, the SIP was reviewed and signed by the Chair during the last Scheme year on 25 September 2019. The main changes to the SIP were as follows:

- How the Trustee takes account of 'financially material considerations' from a strategic, structural and investment manager selection perspective. 'Financially material considerations' includes, but is not limited, to ESG factors. Climate change is an issue singled out for attention;
- The extent to which any non-financial matters are considered;
- The Trustee's approach to stewardship activities for the assets held, including how they engage with investment managers, delegation of voting rights and the monitoring process carried out by the Trustee; and
- How the Trustee managers and reduces funding risk. This included an explanation on the introduction of a bulk annuity insurance contract in respect of a proportion of pensioner liabilities.

Apart from the inclusion of the topics referenced in the above bullet points, the Scheme's SIP between 30 June 2019 and 25 September 2019 was fundamentally the same as the SIP signed on 25 September 2019 from an investment policy, objective and risk management perspective.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at https://www.qinetiq.com/-/media/3792a472ddf4418f8b5c7a0a01536191.ashx

What is the Implementation Statement for?

Each year from 2020, the Trustee is required to prepare an Implementation Statement, which sets out how they have complied with the Scheme's SIP relating to DB benefits during the last Scheme year and other related matters. This report covers the SIP that was signed on 25 September 2019 as well as the SIP in place between 30 June 2019 and 25 September 2019.

Overall, the Trustee is satisfied that:

- **Throughout the last Scheme year, the Scheme's DB investments have been managed in accordance with the SIP at that time; and**
- **The provisions in the current SIP remain suitable for the Scheme's DB members.**

How the Scheme's investments are governed

The primary objective of the DB Section of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee's overriding funding principles for the Scheme are to set the employer contribution at a level which is sufficient:

- To recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- To ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustee monitors how well their investment adviser meets the objectives agreed with them, which are designed to align with the Trustee objectives and investment strategy set out in the SIP. During the last year the investment adviser agreed the following DB objectives:

- Advise on a suitable investment strategy framework, in terms of required risk and returns within the Scheme's investments, to progress towards the long-term funding objective;
- Implement a strategy, and amendments to the strategy, that reduces risk within the Scheme when it is affordable to do so in line with the strategic framework;
- Advise on potential amendments to the investment strategy if funding plan is not on track;
- Assist the Scheme in achieving a second buy-in;
- Deliver an investment approach that takes into account the Scheme's cashflow position and minimises the risk of forced disinvestment;
- Provide advice on cost efficient implementation of the Scheme's investment strategy, including but not limited to advice on the use of suitable benchmarks, active or passive management, selection of managers and transition of assets;
- Provide relevant and timely advice;
- Ensure the strategic framework facilitates good and timely investment decision making;
- Develop Trustee knowledge and understanding of the Scheme's investment strategy, its implementation and investment matters;
- Provide suitable reporting for the Trustee to understand the Scheme's progress towards its investment objectives;
- Assist the Trustee in developing policies and beliefs, including those in relation to Responsible Investment
- Ensure investment advice reflects the Trustee's own policies and beliefs, including those in relation to Responsible Investment
- Develop the Trustee's policies and beliefs, including those in relation to Responsible Investment.
- Ensure advice reflects the Trustee's own policies and beliefs, including those in relation to Responsible Investment.
- Ensure investment advice complies with relevant pensions regulations, legislation and supporting guidance; and
- Ensure the Trustee is aware of relevant pensions regulations and legislation relating to investment, including the Scheme's Statement of Investment Principles and approach to Responsible Investment, and assist the Trustee in meeting the requirements.

The Trustee is satisfied that the objectives outlined in the SIP have been followed during the last Scheme year, in particular:

- **To facilitate meeting those objectives, the Trustee's undertook the following activities during the last year to ensure that their knowledge and understanding of investment matters remains up to date:**

Date	Topic	Aim	Trainer
September 2019	Responsible investment	Training on the latest industry developments within responsible investment	Hymans Robertson
September 2019	CPI hedging	Training on the instruments available to hedge the Scheme's CPI linked liabilities and minimise this basis risk	Hymans Robertson
September 2019	CRE Debt	Training on the benefits of this asset class and how it complements the existing investment strategy	Hymans Robertson
December 2019	Topical issues – buy-in monitoring service	An update on the buy-in market and what this means for the Scheme and their long-term objectives	Hymans Robertson
March 2020	Strategy and risk report	Introduction of a new regular risk report to monitor the key risks for the Scheme and determine appropriate actions	Hymans Robertson
June 2020	COVID-19	Analyse the impact of the global pandemic on the investment strategy and discuss appropriate next steps	Hymans Robertson
June 2020	Responsible investment	Training on the implications of the new SIP requirements	Hymans Robertson

- **The Trustee has liaised with their investment adviser in relation to their objectives and will review their investment adviser against their agreed objectives in early 2021.**

How the investment strategy is managed

The objectives and rationale for the investment strategy is set out in the Scheme's current SIP.

The Trustee has reviewed certain segments of the investment strategy and structure over the last year. This included the Scheme's growth portfolio (equities and private equities) and Scheme's income portfolio (property and credit). The benchmark was also reviewed and is in-line with the Trustee's current views on the appropriate balance between seeking an enhanced long-term return, accepting greater short-term volatility and risk and matching the underlying liabilities not already covered by the buy-in policy.

The Trustee has not carried out a formal investment strategy review over the last Scheme year, but in line with the SIP, expect to review the strategy in the 2020/21 scheme year following the triennial actuarial valuation.

How investments are chosen

The Trustee's approach to the selection of new investments is set out in the SIP.

The Trustee reviews the performance of their manager and mandates on a regular basis against a series of metrics, including, but not limited to, financial performance against the benchmark and objectives of the mandate and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Over the last Scheme year, the Trustee appointed two new Commercial Real Estate Debt managers. The manager selection process involved analysis by the Scheme's investment advisers on the expected return, risk and liquidity characteristics of the proposed mandates. The Trustee reviewed how investing in these mandates would impact their long-term objectives, time horizon, risk appetite and return aspirations. The Trustee assessed the remuneration of the managers as part of the decision-making process as well as reviewing the managers policy to responsible investment.

In addition, the Trustee expanded the purpose of their existing segregated mandate with Insight. The Trustee introduced a collateral waterfall framework to more efficiently manage the Scheme's hedging portfolio. When implementing this change, the Trustee reviewed the impact this would have on the expected risk and return of the investment strategy. The Trustee also implemented a CPI Hedge sub portfolio to help minimise one of the key risks facing the Scheme. The flexibility offered by the segregated mandate proved beneficial for the Scheme and reiterated the advantages of a segregated mandate versus a pooled mandate for the Scheme's hedging portfolio.

For any future manager appointments, the Trustee will continue to consider the policies set out in the SIP, especially around the remuneration of managers.

Over the last Scheme year, the Trustee monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. The deviations away from long-term targets for some of the funds was caused by the global pandemic. The Trustee subsequently undertook a deep-dive into the impact that COVID-19 had on all of the Scheme's mandates and were satisfied with the actions taken by the managers to navigate this environment and the composition of the Scheme's investment strategy.

The expected risks and returns in the DB Scheme

The investment risks relating to the DB Scheme are described in the SIP on pages 2 to 4, and the expected return is described in the SIP on page 4.

The Trustee believes that the main investment risks the Scheme faces as described in the SIP have not changed materially over the last year.

The Trustee is satisfied that through a diversified portfolio, systemic risk can be mitigated, and accept that it is not possible to make specific provision for all possible eventualities which arise under this heading.

The Trustee's views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) and the style of management adopted by the Scheme.

Over the last Scheme year, the Trustee updated its strategic asset allocation to incorporate an allocation to Commercial Real Estate Debt. When determining the long-term mix of investments for the Scheme, the Trustee monitored and managed risks as described in the SIP.

Ability to invest / disinvest promptly

It is important that member benefits can be received promptly, and that the Scheme's investments can be realised quickly if required. The emergence of the COVID-19 pandemic in March did bring with it concerns over a lack of liquidity, mainly in credit markets, however with central bank support, these concerns were abated.

No issues of liquidity were reported over the last Scheme year.

Portfolio turnover within funds

Although the Trustee does not currently monitor portfolio turnover, going forward, the Trustee will monitor the volume of buying and selling of underlying assets in each fund.

Short-term changes in the level of turnover may be expected when a 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 manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

In future DB Implementation Statements (2021 onwards), the Trustee will report the level of trading of the Scheme's assets carried out by the fund managers, and whether this has been consistent with the Scheme's objectives.

Additional Voluntary Contributions (AVCs)

The Trustee offers members the opportunity to pay additional contributions and invest in a range of vehicles at the members' discretion. The Trustee holds these assets separately from the Defined Benefit Section to secure benefits on a money purchase basis for those Defined Benefit members electing to pay Additional Voluntary Contributions.

The Trustee periodically monitors the investment suitability of the underlying AVC fund range. Over the last Scheme year, Equitable Life (one of the Scheme's AVC providers) announced that their With Profits Fund would close. In late 2019, High Court approval was received for the Part VII transfer of Equitable Life's business to Utmost Life. The Trustee reviewed the offerings with Utmost and concluded that a transfer to the Scheme's existing AVC arrangement with Legal & General would provide better value for members relative to the unit-linked offerings provided by Utmost. This transfer was completed towards the end of the Scheme year.

In June 2020, the Trustee conducted a triennial review of the Scheme's AVC arrangement and concluded that the arrangement remained suitable and no further action was currently required.

The Trustee has thought about the policies specified in the DB SIP and have consistently applied them to the Scheme's AVCs. Therefore, the reporting summarised elsewhere in the DB implementation statement also holds true for the Scheme's AVC investments.

Conflicts of interest

Over the last Scheme year, the Trustee considered any conflicts of interest arising in the management of the Scheme and its investments and have ensured that the appropriate conflicts of interest policies are in place.

Limitations and missing information

The Trustee has been unable to obtain full information on voting data and engagement activity for the Scheme's AVC investments. The Trustee believes that this is a temporary issue while platform providers and fund managers put these new reporting requirements in place. The Trustee and their investment adviser will work with the AVC managers (and voting service agencies) to compile this information in readiness for next year's Implementation Statement.

Responsible Investment

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

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

Sustainable Investment

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

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

Policy implementation

In line with the SIP, no specific actions over the past year have been considered with respect to non-financially material factors in the development and implementation of the Scheme's investment strategy. As outlined on page 5 of the SIP, the Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on their dialogue with the investment managers which is undertaken in conjunction with the investment adviser. The Trustee meets regularly with its managers and the Trustee considers managers' exercise of their stewardship both during these meetings and through reporting provided by the investment adviser.

The Trustee also monitors their compliance with its Stewardship Policy on a regular basis and is satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on a periodic basis in line with the Scheme's SIP review.

Voting activity

The Trustee seeks to ensure that its managers are excising voting rights and where appropriate, to monitor manager voting patterns. As the Trustee has exposure to only one manager and mandate with voting rights, the Trustee cannot monitor investment managers voting on particular companies or issues that affect more than one company. As outlined within Table 1, Legal and General made use of a proxy voting service (Institutional Shareholder Services) during the last Scheme year.

Over the period from 1 July 2019 to 22 May 2020, the date of disinvestment, the Trustee invested in equity assets through the Legal & General FTSE RAFI All World 3000 Equity Index Fund. The investment manager has reported on how votes were cast for this mandate as set out in Table 1.

Table 1: Legal & General voting data

Legal & General FTSE RAFI All World 3000 Equity Index	
Proportion of Scheme assets as at 30 June 2020	0% (the Scheme disinvested from the mandate on 22 May 2020)
Did the manager employ the house voting policy in managing the fund?	Yes
Was use made of any proxy voting service during the year?	Yes – Institutional Shareholder Services (ISS)
No. of meetings eligible to vote at during the year	3,254
No. of resolutions eligible to vote on during the year	39,360
% of resolutions voted	98.7%
% of resolutions voted with management	81.8%
% of resolutions voted against management	17.9%
% of resolutions abstained	0.3%
% of meetings with at least one vote against management	72.4%

Significant votes

The Trustee has asked LGIM to report on the most significant votes cast within the portfolio they manage on behalf of the Trustee. LGIM was asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. The majority of public companies hold their Annual General Meeting (AGM) during the second quarter of each year, with most meetings taking place in April and May. We note that two significant votes referenced by LGIM took place following the Scheme's disinvestment, both dated 27 May 2020. However, the manager will have been engaging on the topics of these votes prior to the Scheme's disinvestment. Details of the significant votes are outlined in Table 2 below.

Table 2: Legal & General significant votes

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Why considered significant
5 May 2020	Lagardère	Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).	LGIM voted in favour of five of the Amber-proposed candidates and voted off five of the incumbent Lagardère SB directors. Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. LGIM engaged with both Amber Capital, where they were able to speak to the proposed new SB Chair, and also Lagardère, where they spoke to the incumbent SB Chair.	LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board.
7 May 2020	Barclays	To Approve Barclays' Commitment in Tackling Climate Change and ShareAction's Requisitioned resolutions	LGIM voted for the resolutions. The resolution proposed by Barclays set out its long-term plan to tackle climate change and had the backing of ShareAction and co-filers.	Since the beginning of the year, there has been significant client interest in our voting intentions and engagement activities in relation to the 2020 Barclays AGM. LGIM view the outcome of this AGM to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as their clients.
27 May 2020	Amazon	12 shareholder proposals which focused on two main areas: disclosure to encourage a better understanding of process	Of the 12 proposals, LGIM voted to support 10 of them. In addition to facing a full slate of proxy proposals,	The market attention was significant leading up to the AGM, with: • 12 shareholder proposals on the

		and performance of material issues; and governance structures that benefit long-term shareholders.	Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal article in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the proxy vote. The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of $2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear.	table – the largest number of any major US company this proxy season; • Diverse investor coalitions submitting and rallying behind the proposals, including global, different types of investors and first time co-filers/engagers; • Substantial press coverage – with largely negative sentiment related to the company's governance profile and its initial management of COVID-19; • Multiple state treasurers speaking out and even holding an online targeted pre-annual meeting investor forum entitled 'Workplace & Investor Risks in Amazon.com, Inc.'s COVID-19 Response' Anecdotally, LGIM's Stewardship team received more inquires related to Amazon than any other company this season.
27 May 2020	ExxonMobil	To elect Director Darren W. Woods	LGIM voted against this resolution.	LGIM voted against the chair of the board as part of LGIM's 'Climate

			In June 2019, under LIM's annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, they announced that ExxonMobil would be removed from their Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, LGIM also announced they will support shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, their voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.	Impact Pledge' escalation sanction.

Engagement activity

The Trustee holds meetings with their investment managers on a regular basis where stewardship issues are discussed in further detail. Over the last 12 months, the Trustee has met with 6 of their 10 managers, discussing the following issues over the course of the year.

Table 3: The Trustee's engagement activity with its investment managers over the year to 30 June 2020

Date	Fund manager	Subject discussed	Outcome
9 September 2019	Barings	• Barings team and business update • Portfolio performance update and fund breakdown • Credit market outlook • ESG	Content with portfolio update. Barings were asked to provide the latest updates around their ESG policies during the meeting. They provided this in writing following the meeting.
4 November 2019	M&G DRC Capital ICG-Longbow	• Manager selection exercise	Satisfied with the attractiveness of the Commercial Real Estate debt asset class, and unanimously agreed that they should select more than one manager. IFSC noted each manager were credible contenders to undertake the role of the proposed CRE mandate. The IFSC undertook a manager scoring assessment based on: People, Philosophy, Process, Corporate Capability, Access and fees, and ESG factors. Following an in-depth discussion, both M&G and DRC were selected as the CRE debt managers with an equal split of the target allocation (3.5% of AuM each).

			The decision was ratified at the following Trustee meeting.
9 December 2019	Partners Group	• Partners Group team and business update • Portfolio performance update and fund breakdown • Private debt market outlook • Maintaining exposure to MAC • ESG approach to investing	The IFSC was pleased that Partners had addressed a topical and potentially difficult example of the process around due diligence in establishing and monitoring a loan under distress.
12 March 2020	Insight	• Market update including the RPI reform • Restructuring the liability benchmark • Introduction of the CPI hedging sub-portfolio • Collateral Waterfall framework	All intended objectives of the session were discussed. The IFSC was satisfied with the manager presentation and had no further actions for Insight following the meeting.
6 June 2020	HPS	• HPS team and business update • Fund performance update and breakdown • Current market environment • ESG investment policy	The IFSC requested that HPS provided monthly RAG analysis of their underlying loans, especially those that are significantly affected by the pandemic. Following the meeting, an additional manager meeting was set-up to discuss the most affected loans. The IFSC was interested to learn about HPS' stance on ESG. HPS confirmed that they are working on enhanced reporting and anticipate

			rolling this out in the near future.

Summary of manager engagement activity

The following table summarises the key engagement activity for the 12-month period ending 30 June 2020.

Table 4 – Summary of management activity

Manager: Fund	Number of engagements	Topic engaged on
Legal & General: FTSE RAFI AW 3000 Equity Index	3254 eligible meetings to vote at. 39,360 eligible resolutions to vote on (voted 98.7%).	Climate change, integrating ESG into index construction, shareholder resolutions, non-salary related compensation and directors related issues.
Goldman Sachs Private Equity	The manager had not provided the number of engagements over the year to 30 June 2020 at the time of writing.	-
Adam Street Private Equity	No voting rights. Engagements per Vintage year: 2007: 510 2008: 862 2009: 856 2010: 900	Adams Street have at least one interaction per year with each GP in their portfolio. Topics include: portfolio updates, organizations updates, ESG, industry trends, recent exits, outlook for the underlying companies, Covid-19 considerations, financial reporting, IT/Cybersecurity, Compliance, ESG and Governance.
Aegon (formerly Kames) Property	There were 71 engagements with the underlying funds in which the Scheme invests in. There were also 3 corporate actions (I.e. actions that require a vote) over the year.	Routine update meetings, investor meetings, property tours, material valuation uncertainty clause, redemption requests, pricing clarification. The corporate actions were in relation to financial statements, remuneration, auditor appointment, Trust fund structure, and board elections.
Partners Group: Multi Asset Credit 2017	No voting rights for the fund. The manager has not provided the number of engagements over the year to 30 June 2020. Instead, the	Financing, Refinancing and Acquisition Financing, Governance and financial performance update, Waste & Hazardous Materials,

	manager has provided examples of some key engagements and the topics discussed.	Materials Management, Add-on financing
HPS: Specialty Loan Fund 2016	No voting rights for the fund. The manager has quarterly interactions with their underlying portfolio companies and in some cases this can be more frequent. In some cases, these can be more frequent, especially given the pandemic. The manager estimates that they had around 350 engagements over the year to 30 June 2020.	Preview performance, company issues, financial results and any information impacting them. No engagements are specifically driven by ESG factors.
M&G: Real Estate Debt Finance VI	No voting rights for the fund. The manager has been unable to provide the specific engagement activity for the fund. However, the M&G fixed income team undertook 91 ESG-specific engagements over the year to 1 January 2020. The M&G Corporate Finance and Stewardship team had 242 additional meetings with company chairman and/or directors and executives.	Leadership and governance, environment, business model and innovation, social capital, human capital.
Barings: Global Higher Yield Credit Strategies	No voting rights. 112 firmwide engagements (between 1 Jan 2020 and 25 Sep 2020)	Human rights, Labour, Environment, Anti-corruption in line with their commitment to the UNPRI.
Insight LDI	No voting rights for the fund.	Insight promoted engagement on the RPI reform consultation throughout the year.
Insight Asset-backed Securities	No voting rights for the fund. 1,152 engagements on a manager level.	Broad ESG matters (82% of engagements in 2019 included some reference to ESG), climate change, environmental issues, governance, social issues, risk management, strategy.

Review of policies

The Trustee has committed to reviewing the managers' RI policies on an annual basis. The first review was undertaken by the Trustee following accounting year-end on 9 September 2020. The review considered managers broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustee also considered changes to its managers' voting policies.

The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme.