# QinetiQ Pension Scheme – Defined Contribution Arrangements ("The Scheme")

### Annual statement by the Chair of the Trustee for the year to 30 June 2020

## Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement describing how these governance requirements have been met in relation to:

- the investment options in which members' funds are invested, including the default investment arrangements (page 2);
- the costs and charges paid by members and how these impact members' funds (page 5);
- whether the Scheme represents good Value for Members (page 11);
- the administration requirements for processing core financial transactions (page 15); and
- how the Trustee maintains appropriate levels of knowledge and understanding to run the Scheme effectively (page 18).

This Statement sets out how the Trustee has managed the Defined Contribution (DC) Section, and the Additional Voluntary Contributions (AVCs) arrangement of the Defined Benefit (DB) Section, of the Scheme in the last year.

This Statement covers the period from 1 July 2019 to 30 June 2020. A copy of this annual Chair's Statement, together with the following documents which provide a full picture of how the Scheme is managed, are posted on line at https://www.qinetiq.com/en-us/our-company/corporate-responsibility/responsibility-to-our-people

- The latest Statement of Investment Principles as at 15 January 2021, which sets out the Trustee's investment policies (this is also appended to this Statement at Appendix 1).
- An implementation statement setting out how the Trustee complied with the Statement of Investment Principles during the year to 30 June 2020.

A copy of the annual report and accounts for the year to 30 June 2020 are available on request.

# 1 Investment options

### Default arrangements

### Primary default arrangement

The Scheme's primary default arrangement, the Drawdown Lifestyle Fund, is designed for members who join the Scheme and do not choose an investment option. The Trustee is responsible for the governance of the primary default arrangement which includes setting and monitoring its investment strategy.

The Trustee decided that the primary default arrangement should be a lifestyle strategy, which means that members' contributions are automatically moved between different funds as they approach their selected retirement date.

The main investment objectives for the primary default arrangement are to:

- Manage the main investment risks members face during their membership of the Scheme;
- Give 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
- Reflect members' likely benefit choices at retirement.

The Statement of Investment Principles ("SIP"), which is appended at Appendix 1, covers all the Scheme's DC investments – the principles guiding the design of the primary default arrangement are set out on pages 2-3 and pages 6-11 of the SIP.

### Monitoring the Primary default arrangement

The Trustee monitors the performance of the primary default arrangement on a quarterly basis and will formally review both the investment performance against the default arrangement's objectives and the suitability of the investment strategy at least every three years, or immediately following any significant change in investment policy of the Scheme's membership profile. The last such review was completed on 17 August 2017.

A full review of the overall suitability of the primary default arrangement did not take place during the year ending 30 June 2020 as the next review was intended to take place by 16 August 2020. However, as the Company has proposed to replace the Defined Contribution Section of the Scheme with a master trust arrangement, a review of the primary default arrangement will take place within the context of this proposal, which, at the time of writing, is subject to the outcome of an employee consultation and agreement being reached on the terms of any transfer. If a transfer does not proceed, the Trustee will then complete a review of the primary default arrangement.

However, the Trustee continues to believe that the primary 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.

### What changed during the year

During the year, the Trustee did agree to a fundamental review of the **pre-retirement phase** of the primary default arrangement, following investment advice received on 12 December 2018 which recommended the removal of the Kames Absolute Return Bond fund (the "Kames fund"). In March 2019, the Trustee agreed to replace both the Kames fund and the BlackRock Aquila Corporate Bond All Stocks Fund (the "Corporate bond fund"), with a multi-asset credit mandate. On 4 July 2019, following advice on the selection of a multi-asset credit manager (including consideration of the value for members), the Trustee agreed that they would invest in the PIMCO GIS Income Fund to replace the entire allocation previously invested in both the Kames fund and the Corporate bond fund.

These changes were made because:

- The Scheme's DC Investment Advisor rated the Kames fund negatively, following significant senior personnel turnover at the manager. Subsequently, and unrelated to this negative rating, the manager decided to close the fund on 30 October 2019 for commercial reasons, as they believed the fund was too small to manage efficiently.;
- The Trustee concluded that the PIMCO GIS Income Fund would meet the objectives set by the Trustee more effectively than the Kames fund and Corporate bond fund;

These changes were implemented in December 2019 and January 2020 (further details on transition costs can be found on page 7 of this Statement).

### Other default arrangements

The following funds are also considered to be a "default arrangement" for some members:

- SW BlackRock Sterling Liquidity fund (the "Liquidity fund")
- PIMCO GIS Income Fund (the "PIMCO" fund)

These funds would not typically be considered default arrangements for the Scheme. However, when members' contributions are redirected without the member's explicit consent, this automatically makes the new fund a default arrangement. This happened to members not invested in the primary default arrangement on two occasions this year:

- Firstly, as mentioned in the previous section, the Kames fund was closed with effect from 30 October 2019. This decision was subsequent, and independent, to the Trustees decision to remove the fund. As a temporary measure members' savings in the Kames fund had to be transferred to the Liquidity Fund before they could be reinvested in the PIMCO fund which had not yet been added to the Scottish Widows investment platform.
- Secondly, the unexpected suspension of the SW Property fund in March 2020 (due to the COVID-19 pandemic limiting the ability to accurately value the underlying properties held by the fund) led to the Trustee diverting all future contributions from the SW Property fund into the Liquidity fund.

The main investment objectives for these other default arrangements are to either:

- Preserve the value of member contributions to enable these contributions to be easily reinvested by the member into a different fund, with minimal transaction costs, should they choose to do so; or
- Replicate as far as possible the risk and return characteristics of a fund that has closed or is no longer rated positively by the Trustee's investment adviser.

The Liquidity fund has significant liquidity and provides a low volatility in terms of the fluctuation of underlying asset prices, so meets the first of the above objectives.

The PIMCO fund replicates as far as possible the risk and return characteristics of the Kames Absolute Return Bond Fund, and therefore meets the second objective above.

During the Scheme year the Trustee reviewed the performance of the other default arrangements on a quarterly basis and concluded that these were performing broadly as expected and were consistent with their objectives. The objectives of these other default arrangements are set out on pages 2-3 and pages 6-11 of the SIP (which is attached at appendix 1 of this Statement).

## Other investment options

### Cash lifestyle and self-select funds

The Trustee recognises that the primary default arrangement will not be suitable for the needs of every member and so the DC Section of the Scheme also offers members a choice of other investment options including an alternative Cash lifestyle option and self-select funds. The main objectives of these investment options are:

- To cater for the likely needs of a wider range of members;
- To cater for members looking to take different benefits at retirement than those targeted by the primary default arrangement;
- To offer a wider range of asset classes with different levels of risk and return, and different investment approaches including ethical investment; and
- To support members who want to take a more active part in how their savings are invested.

As noted previously, the Trustee removed the Kames fund following the recommendation from their Investment Advisor. Within the Cash Lifestyle arrangement, the allocation to the Kames fund was removed by increasing the existing allocation to the Liquidity fund. Any members with holdings in the Kames fund on a self-select basis were transferred to the PIMCO fund.

### Additional Voluntary Contributions

The Defined Benefit (DB) Section of the Scheme also has an Additional Voluntary Contribution (AVC) arrangement where DB members were able to make additional contributions which are invested on a money purchase basis either with Legal & General (L&G) or Scottish Widows. A full review of the AVC arrangement was carried out in May 2020. The review concluded that both the range of funds and the funds themselves available from L&G were appropriate, with the exception of the L&G Managed Property Fund due to the Covid19 impact mentioned previously. The Scottish Widows With Profits Fund was also found to remain appropriate.

# 2 Costs and charges

When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance.

The table below sets out whether the charges and transaction costs for each of the Scheme's services are borne by members or the Employer (there are no shared costs).

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

### Explanation of 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 charges are deducted before the funds' unit prices are calculated.

### 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).

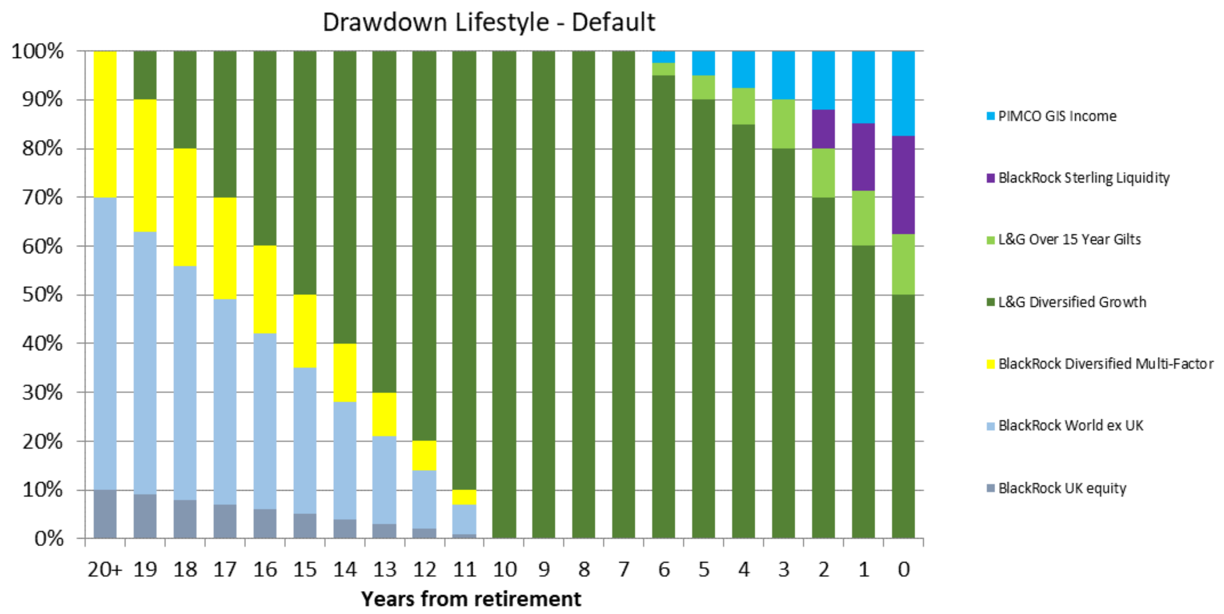
Transaction costs are deducted before the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

### Member-borne charges and transaction costs

The charges and transaction costs set out in this Statement have been supplied by the Scheme's investment provider Scottish Widows.

### Primary default arrangement - charges and transaction costs

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




During the year, the member-borne charges for the primary default arrangement were in a range from 0.234% to 0.500% p.a. of the amount invested or, put another way, in a range from £2.34 to £5.00 per £1,000 invested. The transaction costs borne by members in the primary default arrangement during the year were in a range from -0.074% to 0.012% p.a. of the amount invested or, put another way, ranging from a saving of £0.74 to a cost of £0.12 per £1,000 invested.

For the period covered by this Statement, the annualised charges (TERs) and transaction costs were:

| **Period to retirement** | **Charges** | | **Transaction costs*** | |
|---|---|---|---|---|
| | **% p.a.** | **£ per £1,000** | **% p.a.** | **£ per £1,000** |
| More than 20 years | 0.234 | 2.34 | 0.012 | 0.12 |
| Between 20 and 10 years | 0.367 | 3.67 | 0.006 | 0.06 |
| Between 10 and 7 years | 0.500 | 5.00 | 0.000 | 0.00 |
| Between 7 years and retirement | 0.487 | 4.87 | -0.036 | -0.36 |
| At retirement | 0.448 | 4.48 | -0.074 | -0.74 |

Source: Scottish Widows

*The Financial Conduct Authority ("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.

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

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

## Other default arrangements - charges and transaction costs

As explained earlier, the Liquidity fund and PIMCO fund are also considered to be "default arrangements" for some members. During the year, the member-borne charges for the Liquidity fund and PIMCO fund were 0.22% p.a. and 0.72% p.a. of the amount invested or, put another way, £2.20 and £7.20 per £1,000 invested respectively. The Scheme is a qualifying scheme for auto-enrolment purposes and the member borne charges for these other default arrangements complied with the 0.75% p.a. charge cap during the year covered by this Statement.

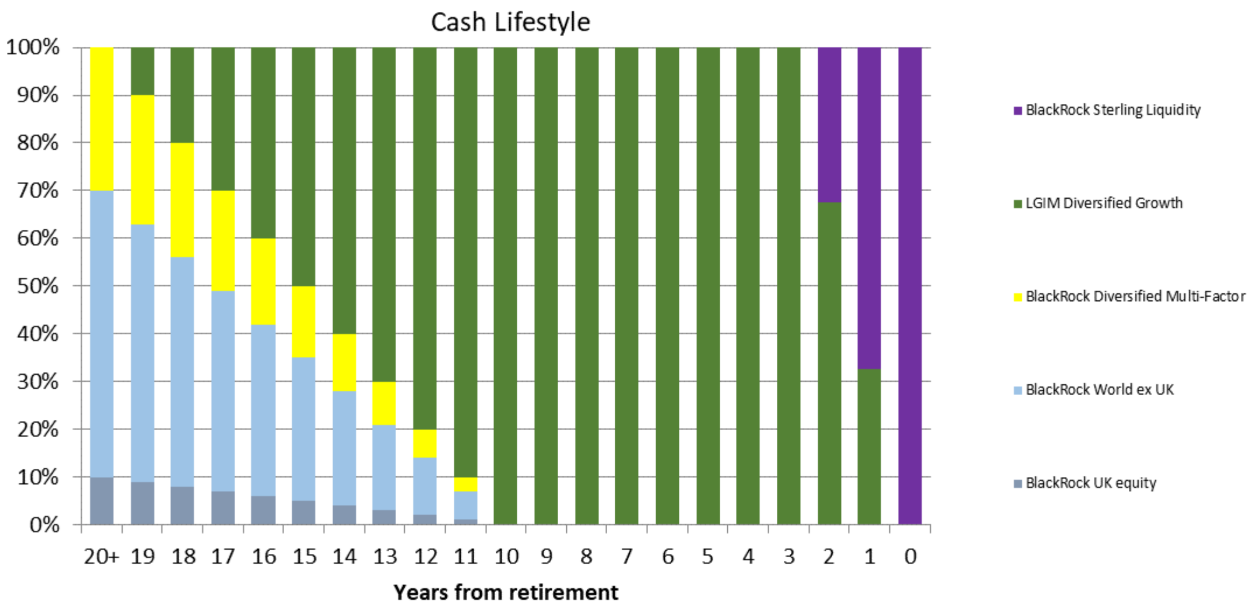
The transaction costs borne by members in the Liquidity fund and the PIMCO fund during the year were 0.011% p.a. and -0.47% p.a. of the amount invested or, put another way, a cost of £0.11 and a saving of £4.70 per £1,000 invested respectively.

## Charges and transaction costs for the investment options outside the default arrangements

In addition to the primary default arrangement, members also have the option to invest in one other lifestyle option, targeting cash withdrawal, and 17 self-select funds.

**Lifestyle option (QinetiQ DC Cash Focussed Lifestyle)**

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




During the year, the member-borne charges for the QinetiQ DC Cash Focussed lifestyle option were in a range from 0.220% to 0.500% p.a. of the amount invested or, put another way, in a range from £2.20 to £5.00 per £1,000 invested. The transaction costs borne by members in the QinetiQ DC Cash Focussed lifestyle option during the year were in a range from 0.000% to 0.011% p.a. of the amount invested or, put another way, ranging from a cost of £0.00 to £0.11 per £1,000 invested.

For the period covered by this Statement, the annualised charges (TERs) and transaction costs were:

| Period to retirement | Charges | | Transaction costs | |
|---|---|---|---|---|
| | % p.a. | £ per £1,000 | % p.a. | £ per £1,000 |
| More than 20 years | 0.234 | 2.34 | 0.012 | 0.12 |

| | | | | |
|---|---|---|---|---|
| Between 20 and 10 years | 0.367 | 3.67 | 0.006 | 0.06 |
| Between 10 and 7 years | 0.500 | 5.00 | 0.000 | 0.00 |
| Between 7 years and retirement | 0.453 | 4.53 | 0.002 | 0.02 |
| At retirement | 0.220 | 2.20 | 0.011 | 0.11 |

Source: Scottish Widows

The tables in Appendix 2b gives the charges and transaction costs 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 1.300% p.a. of the amount invested or, put another way, in a range from £2.13 to £13.00 per £1,000 invested. The transaction costs borne by members in the self-select funds during the year were in a range from -0.0002% to 0.1620% p.a. of the amount invested or ranging from a saving of £0.002 to a cost of £1.62 per £1,000 invested.

The table in Appendix 2c gives the charges and transaction costs for the remaining self-select funds outside the default arrangements.

**Additional Voluntary Contributions ("AVCs")**

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

During the year the charges for the AVC funds were in a range from 0.100% to 0.913% p.a. of the amount invested or, put another way, in a range from £1.00 to £9.13 per £1,000 invested.

The transaction costs borne by members in the AVC funds during the year were in a range from -0.332% to 0.132% p.a. of the amount invested or, put another way, ranging from a saving of £3.32 to a cost of £1.32 per £1,000 invested.

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

**AVCs invested in With Profits**

Some members' AVCs were invested in the **Equitable Life Assurance Society Limited With Profits Fund.**

These funds were moved to Utmost Life on 1 January 2020, following the approval of the policyholders and the High Court. The Equitable Life With Profits Fund closed and its guarantees were lost in return for a windfall 60-70% increase in the transfer from the With Profits Fund.

Utmost Life temporarily held these funds in the Utmost Secure Cash fund (a temporary fund set up to give ex-Equitable Life policyholders time to make an alternative investment choice). The charge for this fund was 0.5% p.a. and transaction costs were unavailable as at 30 June 2020. The Trustee agreed to transfer these funds from Utmost Life to Legal and General (the Scheme's main AVC provider) as they believe members will have greater choice of funds, better charges and online access to their savings with Legal and General. The transfer was completed on 24 June 2020. No transition costs were incurred.

Prior to the move to Utmost, the charges and transaction costs for the Equitable Life With Profits Fund were deducted from the overall fund before bonus rates were set for all policyholders. As a result, the charges and costs were effectively averaged across all policyholders. Members met the charges and transaction costs applied to the Equitable Life With Profits fund. The Principles and Practices of Financial Management for the

Equitable Life With Profits Fund state that the administration and investment charges should average 1%. There is an additional charge for guarantees of 0.5%. Equitable Life were not able to provide full details of charges that applied from 1July – 31 December 2019, but the charges detailed applied across the calendar year to December 2019.

Some members also have AVCs currently invested in the **Scottish Widows With Profits Fund.**

The charges and transaction costs for this With Profits Fund are not disclosed, but some members' AVCs are subject to the limits on charges set in the Court "Scheme of Demutualisation". This was a document approved by the High Court when Scottish Widows converted from a mutual life office to a proprietary life company in March 2000. It sets out how the rights of policyholders up to the point of demutualisation are protected so that there is no cross-subsidy to subsequent policyholders (for example, on operating expenses).

It should be noted that the implicit costs and charges for both the With Profits Funds mentioned above cover the cost of guarantees and reserving as well as investment management and administration services.

### Impact of costs and charges - illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has therefore asked the Scheme's administrator, Scottish Widows, to illustrate the impact over time of the charges and transaction costs borne by members in the different investment options of the Scheme.

These illustrations (as set out in the tables in Appendix 3) 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. These illustrations have been given for the primary default arrangement where members are automatically enrolled as well as four other self-select funds which comprise:

- The Liquidity fund (a default arrangement for some members as explained earlier);
- The fund with the highest charges;
- The fund with the lowest return; and
- The fund with the lowest charges.

As an example, a member in the primary default arrangement who is aged 35 now with total contributions of £725 per month, is projected to have a pot at retirement (in 30 years' time) of £375,000 in today's money before costs and charges. This reduces to £347,000 after costs and charges.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, these illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow.

### Notes on the illustrations in Appendix 3

- The illustrations have been prepared in accordance with the DWP's statutory guidance.
- The "before charges" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after all costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers since 1 July 2019, when Scottish Widows acquired Zurich workplace savings, rather than those over the past five years; and

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

### Missing information and limitations

The Trustee is satisfied that it obtained full information on charges and transaction costs with the exception of the Scottish Widows With Profits fund and transaction costs for the Utmost Secure Cash fund. As funds are no longer invested in the Utmost Secure Cash fund the Trustee will not take steps to request the missing information. The Trustee will continue to request charges and transaction cost information from Scottish Widows for the With Profits fund on an annual basis.

The Trustee requested a full breakdown of the charges between the different services provided (i.e. between administration, communications and investment) however Scottish Widows were unable to provide this. The Trustee has therefore not been able to comment on the competitiveness of these services in isolation and has compared themselves against other schemes with bundled charges like the Scheme. The Trustee will continue to request this information from Scottish Widows, but this may not be necessary if the proposed move to a master trust goes ahead.

The Trustee also notes the availability of industry-wide comparisons of pension schemes has started to develop now that Chairs' Statements must be published on-line, which is being supplemented by the market knowledge of its advisers.

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

# 3 Value for Members

Each year, with the help of their advisers, the Trustee carries out an assessment of whether the charges and transaction costs for the default arrangements 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 considers that Value for Members is the combination of costs and the quality of the services received by the Scheme membership as a whole, when compared to other options available in the market.

**Approach**

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

- Services – they considered the investment, administration and communication service for DC members as they bear these costs, and investment services only for AVC members as they bear those costs (all other costs are born by the Employer – there are no shared costs);

- Outcomes – they 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:

| Definition | Rating |
|---|---|
| The Trustee considers the Scheme offers excellent value for members, providing services within a top 20% quality/cost range compared with typical options for similar schemes. | Excellent |
| The Trustee considers the Scheme offers good value for members, providing services at better quality/cost compared with typical options for similar schemes. | Good |
| The Trustee considers the Scheme offers average value for members, providing similar services at similar quality/cost compared with typical options for similar schemes. | Average |
| The Trustee considers the Scheme offers below average value for members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes. | Below average |
| The Trustee considers the Scheme offers poor value for members, providing services within the bottom 20% quality/cost range compared with typical options for similar schemes. | Poor |

**Results**

Overall, the Trustee believes that members of the Scheme are receiving "Good" value for the charges and cost that they incur, and the rationale for the rating of each service is outlined in the table below:

| Service and weighting | Rating | Rationale |
|---|---|---|
| Investment<br>60% (100% for AVC arrangement) | GOOD | The Trustee continues to monitor the primary default arrangement and implemented a review of the pre-retirement phase of the default option during the Scheme |

| | | |
|---|---|---|
| | | year. The Trustee is satisfied that the investment options are suitable for the Scheme's membership.<br><br>The Scheme's primary default arrangement charges range from between 0.234% p.a. to 0.50% p.a. depending on where the member currently sits in the investment glidepath (i.e. how far away they are from retirement). Over a 30-year saving period the average charge is 0.37% p.a. These charges include costs for investment, administration and communications. While above average across a wide range of similar schemes' charges, the Scheme has a more sophisticated investment strategy than the average scheme (including the use of a factor-based equity approach, a diversified growth fund that maintains a high allocation to alternative asset classes and an actively managed multi-asset credit fund). The transaction costs for the primary default funds range from a saving of 0.074% p.a. to a cost of 0.012% p.a. Whilst little comparative information is currently available, the Trustee believes this range is reasonable for the type of funds offered to members.<br><br>The Trustee also provides 17 funds for members to self-select. A wide range of self-select funds are provided including Ethical and Shariah compliant funds. The suitability and range of the self-select funds was last reviewed during March 2018. The Trustee considers that this is a suitable range of self-select funds given the membership characteristics.<br><br>The Additional Voluntary Contribution (AVC) arrangement was reviewed in June 2020 (which included looking at the Value for Members for the Scottish Widows With Profits fund – this was found to be appropriate given the nature of the fund). The Trustee was satisfied that the range of funds and performance of those funds remained "good". AVCs that were invested in Equitable Life's With Profit Fund were transferred to Utmost Life in Q2 2020. The Trustee, on reviewing the existing options with Utmost Life, decided that a transfer of the AVC policy to L&G, the main AVC provider, would give members better value in terms of greater choice and improved charges.<br><br>Performance of the passive funds used in the primary default arrangement have performed in line with their objectives . The actively managed funds have underperformed relative to long-term DC objectives over the past year due to the COVID-19 crisis. The Trustee, guided by their DC Investment Consultants, undertook a discussion on protocols for reviewing fund underperformance relative to benchmarks. They concluded that they were happy to continue monitoring the funds on an exceptions basis. The |

| | | |
|---|---|---|
| | | Trustee and their DC investment advisor continues to monitor performance on a quarterly basis. |
| Administration<br>20% | AVERAGE | The Trustee receives quarterly administration reports on service level agreements (SLAs) and member activity. In the year to 30 June 2020 core financial transactions were generally processed promptly and efficiently with on average 92% of time critical processes completed in 2 working days and 95% of manual administration processes carried out within 3-5days. The Trustee monitors material breaches of service standards. Manual financial transactions accuracy was reported as 100% for the year. Scottish Widows acknowledge that further improvements to SLAs are needed and steps have been taken to achieve this. A new workflow system has recently been introduced, PEGA, which will enable the Trustee to monitor a member's 'end to end journey' as a metric of administration performance.<br><br>Data quality is good, with 99.1% of common data (data identifying an individual) for the membership.<br><br>There were 9 formal complaints in the year to 30 June 2020. The Trustee considers this to be acceptable considering the size of the membership.<br><br>Two issues were identified as part of the closure of the Kames fund by the manager at short notice (and before the planned transitions were to take place) and have been rectified at no loss to members.<br><br>The Trustee believes their administration systems are robust. In the year ending 30 June 2020, 86% of tasks reported were carried out on a "manual" basis, and although there are no issues with accuracy, the Trustee would like to see more tasks automated to reduce risks. |
| Communication<br>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. There were 112 unique visitors on average each month which is similar to that experienced last year. |

Over the last 12 months the Trustee undertook the following to improve value for members:

- Completed the transition to introduce the multi-credit mandate (the PIMCO fund) in the pre-retirement phase of the primary default arrangement;
- Communicated the results of the value assessment and arranged for the publication of the Chair's Statement in a publicly searchable location on the internet with the location stated clearly in the annual benefit statements;
- Worked with Scottish Widows to ensure that any missing information and limitations were monitored and available for this year;
- Agreed to transfer ex-Equitable Life funds with Utmost to Legal & General, giving members greater choice of funds and improved charges;
- Set investment objectives for the DC investment advisers Hymans Robertson in keeping with the Competition and Markets Authority (CMA) Order; and
- Continued to assess the suitability of the primary default arrangement (for example taking into account developments in Environmental, Social and Corporate Governance considerations where they affect investment risks).

During the next 12 months the Trustee will undertake the following action to improve further the Value for Members:

- Ensure that the proposed transfer to the master trust considers Scheme members' risk and return profiles and that the existing funds are appropriately mapped to the new provider's funds if the transfer proceeds; and
- Update the SIP to reflect the 2019 Regulations on asset manager arrangements and expand on stewardship policies which come into force on 1 October 2020.

# 4 Administration

The Trustee has appointed Scottish Widows to administer the DC section of the Scheme and Buck to administer the AVCs for members of the DB section on their behalf.

The Scheme's administrators have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. This includes:

- 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, and 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 – target is100% within agreed timescales for buying and selling units;
2. Time Critical Processes (claims) - act on instruction within 2 Business Days – target is 100% within agreed timescales for buying and selling units;
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 – target is 95% within SLA;
4. Manual Financial Transactions Accuracy – target is 100% within SLA; and
5. Call handling – target is 97% of calls answered.

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 Workflow 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).

Scottish Widows have also recently adopted their 'PEGA' workflow system for the Scheme, with built in SLA prioritisations and a 'Get Next Work' function that ensures staff get the highest priority case first.

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 92% of processes were within the SLA.
  - Manual Administration (non-time critical processes) reporting shows that 95% were processed within the SLA.
  - Manual Financial Transactions Accuracy reporting shows that 100% processes achieved the SLA requirement.
  - Call handling shows that 95% of calls were answered.
- Considering the reasons for and resolution of any breaches of service standards, as provided by Scottish Widows. Whilst SLAs have not been met over the year, the Trustee has had several additional meetings with Scottish Widows to improve the service provided and are satisfied with the improvements made over the year;
- Monitoring material breaches of service standards - 12 cases are known to be outside of SLA, the longest of which is 30 days. A report setting out details of long cases is included with the quarterly reports for the Trustee's scrutiny.
- Arranging reviews and receiving reports on data accuracy. The most recent report (dated 25 September 2019) concluded that common data (i.e. data that uniquely identifies a member) was present for 99.1% of the membership.
- Considering member feedback including any complaints – a complaint log is kept for scrutiny. There have been 9 recorded complaints during the year, of which 8 were upheld.

The Trustee has not benchmarked the service standards to ensure they remain competitive externally.

### Scottish Widows bulk transfer of assets

During the year there was a large-scale transfer between funds affecting a number of members as a result of the following changes to the Scheme's investment options:

- The Trustee decided to replace the Kames Absolute Return Bond Fund and the Aquila Corporate Bond All Stocks Fund in the primary default arrangement with a new fund – the PIMCO GIS Income Fund.
- The Kames Absolute Return Bond Fund was removed from the Cash Lifestyle option by increasing the allocation to the Liquidity fund; and
- Any member invested in the Kames Absolute Return Bond Fund on a self-select basis were moved to the PIMCO GIS Income Fund.

Subsequent, and independently of this decision, the Kames Absolute Return Bond Fund was closed with effect from 30 October 2019. This was a commercial decision made by the fund manager as they believed the fund was too small to manage efficiently. As the PIMCO fund had not yet been approved to add onto the Scottish Widow's investment platform, members' savings in the Kames fund had to be transferred temporarily to the BlackRock Sterling Liquidity Fund before they could be reinvested in the PIMCO fund. Members were written to informing them of this temporary measure.

The Trustee reviewed the way in which the transfer was to be conducted and received reports on the transaction costs incurred during the transfer. An error was identified via these reports whereby members already invested in the Liquidity fund had their holdings incorrectly re-invested, and several were missed off the re-investment instruction. A rectification exercise for impacted members has been carried out and any member who was worse-off as a result of the error has been compensated. The total detriment amounted to £8,911.24 which impacted 42 members. Those who suffered a detriment over £100 were written to.

The transition to the new funds was carried out at zero cost, bar the disinvestment from the BlackRock Aquila Corporate Bond All Stocks Fund used in the Scheme's previous primary default arrangement. This was a result of the bid-mid spread – the difference between buying and selling. The transition cost amounted to £4,810 (equivalent to a spread of 0.26%).

### Buck

The Trustee has the following 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

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 91% of processes relating to AVCs were within the SLA time.
- Considering the reasons for and resolution of any breaches of service standards, as provided by Buck. Whilst SLAs have not been met over the year, the Trustee has had several additional meetings with Buck to improve the service provided and are satisfied with the improvements made over the year; and
- Considering member feedback including any complaints. There have been 3 recorded complaints during the year, 2 of which relate to AVCs with Scottish Widows.

### Overall

The Trustee has not tested the competitiveness of the service standards, however, have held several meetings with the administrators to voice concern and to improve service provided to the Scheme. As a result both administrators provide a greater level of reporting for the Trustee's scrutiny. The Trustee is satisfied with the improvements over the year.

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 time critical processes, that the core financial transactions have been completed promptly and accurately. The Trustee is comfortable with the steps taken to rectify the promptness of the Scottish Widows time critical processes.

# 5 Trustee knowledge

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee Director must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy adopted by the Trustee relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual to properly exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below:

- There is **an induction process** for newly appointed Trustee Directors, who are asked to complete the Pensions Regulator's "Trustee Toolkit" within 6 months of becoming a Trustee. Each Trustee Director has completed this Pensions Regulator's Trustee Toolkit (the Trustee Toolkit is a free online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law).
- 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 Director's self-evaluation.
- **Advisors provide training** when revisiting or introducing new topics and time is allocated at each of the Trustee's main board meetings for training. The Trustee, with the help of their advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material.
- Training is provided to ensure that the Trustee maintains a **working knowledge** of the Scheme's Trust Deed and Rules, the Scheme's Statement of Investment Principles as well as the investment concepts and principles relevant to the Scheme, contract documents in relation to the administration of the Scheme and the law and legislation relating to pension schemes and trusts. All the Trustee Directors have access to copies of and are familiar with the current governing documentation for the Scheme, including the Trust Deed & Rules (together with any amendments) and Statement of Investment Principles ("SIP"). The Trustee refers to the Trust Deed and Rules as part of deciding to make any changes to the Scheme, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.
- Trustee Directors are encouraged to **undertake further study and qualifications** which support their work as Trustee, for example through attendance at Pensions Management Institute events.
- A dedicated **Away Day** is held annually to solely focus on training.
- The Trustee also receives **quarterly "hot topics"** from their adviser covering technical and legislative/regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.

In addition, the Chair of Trustee is an independent trustee who is employed by BESTrustees Limited. 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 Trustee Board as a whole and being conversant with the scheme's own documents and policies.

A training log is maintained and reviewed quarterly in line with best practice to ensure it is up to date. During the period covered by this Statement, the Trustee Board as a whole received training on the following topics relevant to the DC Section and AVC Arrangement of the Scheme (this is in addition to any individual training or study which a Trustee Director has undertaken):

| **Date** | **Topic** | **Aim/benefit** |
|---|---|---|
| Dec 2019 | GDPR Online Training | To refresh the Trustee's knowledge on legislative requirements. Ensuring member data is protected in line with regulations. |
| 17 January 2020 | Cyber Security (War Game) | Interactive learning to give the Trustee experience of what could happen in a Cyber-attack and how they can mitigate this risk for the Scheme and members pensions. |
| 17 January 2020 | Member Communication | How to communicate more effectively with members to ensure they are empowered to make better and informed decisions about their pensions. |
| 21 May 2020 | Covid-19 and Business Continuity | What action the Trustee should consider taking as a result of the current Pandemic. |
| 2 June 2020 | ESG Benchmarking | To educate the Trustee on how ESG benchmarks are constructed and how the Scheme's passively managed funds have performed in comparison to an equivalent ESG benchmark. To enable the Trustee to make informed decisions regarding investment options. |

The Trustee is in the process of securing an independent company to assist with a Trustee Board evaluation, with the aim of covering both performance and effectiveness of the Trustee Board as a whole.

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 if there are any performance or other Trustee concerns about the adviser/provider. No new advisors were appointed during the year. Over the year covered by this Statement the Trustee set objectives for their investment consultants, Hymans Robertson, in line with the Competition and Markets Authority (CMA) Order. These objectives will be reviewed annually beginning the year following this Statement.

The Trustee is satisfied that, as described above, they have during the last year:

- Taken effective steps to maintain and develop their knowledge and understanding; and
- Ensured they received suitable advice.

The Trustee is satisfied that their combined knowledge and understanding as a result of the actions described above, together with access to suitable advice, gave them requisite expertise to properly exercise their duties during the year.

Huw Evans 27 January 2021

_______________________________________________ Date: __________________

**Signed on behalf of the Trustee by**

**HUW EVANS on behalf of BESTrustees Limited**

**Chair of the Trustee of the QinetiQ Pension Scheme**

**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).

**Appendix 1**
Statement of Investment Principles

# Appendix 2

**Table of funds and charges**

## 2a Default arrangements

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

| Fund | ISIN * | Underlying 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 |
| SW Aquila World ex UK Equity Index CS1 | GB00B4KTZY32 | BlackRock Aquila Connect World (ex UK) Equity S2 | GB00B00C3Y02 | 0.205 | 2.05 | 0.0003 | 0.0025 |
| SW Aquila UK Equity Index CSW | GB00BYMV6T90 | BlackRock Aquila Connect UK Equity S2 | GB00B00C3Z19 | 0.213 | 2.13 | 0.0000 | 0.0004 |
| SW Blackrock ACS World Multifactor Eq Trkr CS1 | GB00BD3FW626 | Blackrock ACS World Multifactor Equity Tracker | GB00BF1KF532 | 0.30 | 3.00 | 0.0397 | 0.3971 |
| SW Legal & General Diversified CS1 | GB00BYQDZT49 | LGIM Diversified | GB00B6V6GS85 | 0.50 | 5.00 | 0.0002 | 0.0019 |
| SW L&G Over 15 Year Gilts Index CS1 | GB00B7439060 | LGIM Over 15 Year Gilts Index | n/a | 0.22 | 2.20 | 0.0470 | 0.4701 |
| SW PIMCO GIS Income CS1^ | GB00BD3FXL41 | PIMCO GIS Income Fund | IE00B7KFL990 | 0.72 | 7.20 | -0.4700 | -4.7000 |
| SW BlackRock Sterling Liquidity CSW^ | GB00BYMV6Q69 | BlackRock Institutional Sterling Liquidity | IE00B3X1KB16 | 0.22 | 2.20 | 0.0114 | 0.1144 |

Source: Scottish Widows

^In addition, these funds are also defined as 'other default arrangements' for certain members as described in section 1 of the Statement.

## 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 * | Underlying 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 |
| SW Aquila World ex UK Equity Index CS1 | GB00B4KTZY32 | BlackRock Aquila Connect World (ex UK) Equity S2 | GB00B00C3Y02 | 0.205 | 2.05 | 0.0003 | 0.0025 |
| SW Aquila UK Equity Index CSW | GB00BYMV6T90 | BlackRock Aquila Connect UK Equity S2 | GB00B00C3Z19 | 0.213 | 2.13 | 0.0000 | 0.0004 |
| SW Legal & General Diversified CS1 | GB00BYQDZT49 | LGIM Diversified | GB00B6V6GS85 | 0.50 | 5.00 | 0.0002 | 0.0019 |
| SW BlackRock Sterling Liquidity CSW | GB00BYMV6Q69 | BlackRock Institutional Sterling Liquidity | IE00B3X1KB16 | 0.22 | 2.20 | 0.0114 | 0.1144 |
| SW Blackrock ACS World Multifactor Eq Trkr CS1 | GB00BD3FW626 | Blackrock ACS World Multifactor Equity Tracker | GB00BF1KF532 | 0.30 | 3.00 | 0.0397 | 0.3971 |

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 (excluding those included in tables 2a and 2b) were:

| | | | | Charges ** | | Transaction costs | |
|---|---|---|---|---|---|---|---|
| Fund | ISIN * | Underlying Fund*** | ISIN * | % p.a. of the amount invested | £ p.a. per £1,000 invested | % p.a. of the amount invested | £ p.a. per £1,000 invested |
| SW Aquila European Equity Index CS1 | GB00B5053M21 | BlackRock Aquila Connect European Equity | GB00B00C3N96 | 0.22 | 2.20 | -0.0002 | -0.0018 |
| SW Aquila Corporate Bond All Stocks Index CS1* | GB00B425BY12 | BlackRock Aquila Connect Corporate Bond All Stocks S2 | GB00B00C3733 | 0.211 | 2.11 | -0.0001 | -0.0010 |
| SW Aquila IL Over 5 Year Gilt Index CSW | GB00BYMV6S83 | BlackRock Aquila Connect Over 5 year Index Linked Gilt | GB00B00C3J50 | 0.214 | 2.14 | 0.0000 | -0.0004 |
| SW Aquila US Equity Index CS1 | GB00B4THC147 | BlackRock Aquila Connect US Equity | GB00B00C3X94 | 0.213 | 2.13 | 0.0000 | -0.0004 |
| SW HSBC Islamic (was Amanah) CS1 | GB00B5ST8540 | HSBC Islamic Global Equity | LU1092475968 | 0.55 | 5.50 | 0.0474 | 0.4740 |
| SW L&G 30/70 Gbl Equity Ind Currency Hdg CS1 | GB00B86QWH89 | LGIM Global Equity FW (30:70) Index | n/a | 0.253 | 2.53 | 0.0441 | 0.4410 |
| SW L&G Ethical Glbl Equity Ind CS1 | GB00B4JVK340 | LGIM Ethical Global Equity Index | n/a | 0.37 | 3.70 | 0.0042 | 0.0415 |
| SW Property CSW^ | GB00BJ477088 | Zurich Property | GB00BDCD0K72 | 0.738 | 7.38 | 0.2299 | 2.2986 |
| SW Schroder Global Emerging Markets CS1 | GB00B5M17C63 | Schroder Global Emerging Markets Fund | GB0007906463 | 1.30 | 13.00 | 0.1620 | 1.6200 |
| SW Threadneedle UK Smaller Companies 1CSW | GB00BYTZZB99 | Threadneedle UK Smaller Companies | GB0001444479 | 0.651 | 6.51 | 0.3251 | 3.2512 |

Source: Scottish Widows

## 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 (excluding the Scottish Widows With Profit fund) 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 | 0.256 | 2.56 | 0.049 | 0.49 |
| LGIM Global Equity Fixed Weights 50:50 Index Fund | n/a | 0.183 | 1.83 | 0.010 | 0.10 |
| LGIM Equity Index Fund | n/a | 0.131 | 1.31 | -0.026 | -0.26 |
| LGIM UK Smaller Companies Index | n/a | 0.601 | 6.01 | 0.003 | 0.03 |
| LGIM Ethical UK Equity Index Fund | n/a | 0.206 | 2.06 | 0.008 | 0.08 |
| LGIM World (ex UK) Equity Index Fund | n/a | 0.224 | 2.24 | 0.007 | 0.07 |
| LGIM Global Emerging Markets Equity Index | n/a | 0.464 | 4.64 | 0.006 | 0.06 |
| LGIM Over 15yr Gilts Index Fund | n/a | 0.100 | 1.00 | 0.054 | 0.54 |
| LGIM AAA-AA-A Bonds All Stocks Index Fund | n/a | 0.151 | 1.51 | -0.045 | -0.45 |
| LGIM Over 5yr Index-Linked Gilts Index Fund | n/a | 0.100 | 1.00 | 0.132 | 1.32 |
| LGIM Managed Property Index Fund^ | n/a | 0.913 | 9.13 | -0.332 | -3.32 |
| LGIM Cash Fund | n/a | 0.125 | 1.25 | -0.003 | -0.03 |

Source: LGIM

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

^ These funds invest 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

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

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

*** 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 of the costs and charges borne by members on **projected values at retirement in today's money** for typical members joining at 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 £725 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 for members of the DC section of the Scheme. A member's total contribution may be more or less than this. These contributions are assumed to increase each year in line with inflation as a proxy for future annual salary growth. Salaries may be expected to increase above inflation, but the projections assume salaries increase in line with inflation to allow for prudence in the projected values.

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

Both scenarios assume:

- The individual is invested either in the primary default arrangement (a lifestyle strategy) - see tables 3a and 3b - or one of four self-select options (one of which is the Liquidity fund which is also classed as a default arrangement for some members) - see tables 3c and 3d.
- The starting DC pot size is £62,000 – 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. A member's pot may be higher or lower than this;
- Retirement is at age 65; and
- The rate of inflation and future annual salary growth 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. In particular, the average projected growth rates of the Default Lifestyle and the four self-select funds illustrated are set out in the tables at the end of this Appendix.

All illustrations have been rounded to the nearest £100.

### 3a For the primary default arrangement – Scenario 1 (which represents an active member) – Projected pension pot in today's money

| 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 | 70,700 | 70,400 | 70,900 | 70,500 | 71,800 | 71,600 | 71,800 | 71,700 |
| 3 | 88,100 | 87,000 | 88,800 | 87,700 | 91,600 | 91,000 | 92,200 | 91,600 |
| 5 | 104,000 | 102,000 | 106,000 | 104,000 | 111,000 | 110,000 | 113,000 | 112,000 |
| 10 | | | 149,000 | 144,000 | 160,000 | 155,000 | 170,000 | 167,000 |
| 15 | | | | | 207,000 | 198,000 | 228,000 | 222,000 |
| 20 | | | | | 250,000 | 236,000 | 282,000 | 270,000 |
| 25 | | | | | | | 332,000 | 312,000 |
| 30 | | | | | | | 375,000 | 347,000 |

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

### 3b For the primary default arrangement – Scenario 2 (which represents a member who has left the Scheme) – Projected pension pot in today's money

| 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 | 62,100 | 61,800 | 62,300 | 61,900 | 63,100 | 63,000 | 63,200 | 63,000 |
| 3 | 62,300 | 61,400 | 62,900 | 61,900 | 65,200 | 64,700 | 65,700 | 65,200 |
| 5 | 62,000 | 60,600 | 63,400 | 61,800 | 67,100 | 66,000 | 68,300 | 67,500 |
| 10 | | | 63,500 | 60,400 | 70,000 | 67,400 | 75,300 | 73,500 |
| 15 | | | | | 71,600 | 67,300 | 81,500 | 78,300 |
| 20 | | | | | 71,700 | 65,800 | 85,100 | 80,000 |
| 25 | | | | | | | 87,100 | 79,800 |
| 30 | | | | | | | 87,200 | 78,000 |

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

### 3c For a selection of the self-select funds – Scenario 1 (which represents an active member) – Projected pension pot in today's money

| Years | SW Aquila World ex UK Equity Index CS1 Lowest charge | | SW BlackRock Sterling Liquidity CSW Default arrangement | | SW L and G Over 15 Year Gilts Index CS1 Lowest return | | SW Schroder Global Emerging Markets CS1 Highest charge | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 71,800 | 71,700 | 69,600 | 69,400 | 69,300 | 69,100 | 71,900 | 71,000 |
| 3 | 92,200 | 91,700 | 84,500 | 84,000 | 83,500 | 83,000 | 92,500 | 89,100 |
| 5 | 113,000 | 112,000 | 99,000 | 98,100 | 97,200 | 96,200 | 114,000 | 107,000 |
| 10 | 169,000 | 167,000 | 133,000 | 131,000 | 129,000 | 126,000 | 171,000 | 154,000 |
| 15 | 232,000 | 227,000 | 165,000 | 162,000 | 158,000 | 154,000 | 236,000 | 203,000 |
| 20 | 301,000 | 292,000 | 195,000 | 190,000 | 184,000 | 179,000 | 307,000 | 253,000 |
| 25 | 376,000 | 364,000 | 223,000 | 215,000 | 208,000 | 201,000 | 386,000 | 305,000 |
| 30 | 460,000 | 442,000 | 248,000 | 239,000 | 230,000 | 221,000 | 474,000 | 358,000 |

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how a member's own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

### 3d For a selection of the self-select funds – Scenario 2 (which represents a member who has left the Scheme) – Projected pension pot in today's money

| Years | SW Aquila World ex UK Equity Index CS1 Lowest charge | | SW BlackRock Sterling Liquidity CSW Default arrangement | | SW L and G Over 15 Year Gilts Index CS1 Lowest return | | SW Schroder Global Emerging Markets CS1 Highest charge | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 63,200 | 63,000 | 61,100 | 60,900 | 60,800 | 60,600 | 63,300 | 62,300 |
| 3 | 65,700 | 65,300 | 59,300 | 58,900 | 58,500 | 58,000 | 66,000 | 63,100 |
| 5 | 68,300 | 67,600 | 57,600 | 56,900 | 56,300 | 55,500 | 68,800 | 63,900 |
| 10 | 75,200 | 73,700 | 53,600 | 52,300 | 51,100 | 49,800 | 76,400 | 66,000 |
| 15 | 82,900 | 80,400 | 49,800 | 48,100 | 46,400 | 44,600 | 84,800 | 68,100 |
| 20 | 91,400 | 87,700 | 46,300 | 44,200 | 42,200 | 40,000 | 94,200 | 70,300 |
| 25 | 100,000 | 95,700 | 43,100 | 40,600 | 38,300 | 35,800 | 104,000 | 72,600 |
| 30 | 111,000 | 104,000 | 40,000* | 37,300 | 34,800* | 32,100 | 116,000 | 74,900 |

Source: Scottish Widows

Please note that these illustrated values are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice, and so are not guaranteed. They may not be a good indication of how your own savings might grow as there are many variables including future changes in the Scheme's investment options and regulatory changes. They are intended only to illustrate the impact of charges and costs of different investment choices

***These illustrations demonstrate the erosive power inflation has on a member's pension savings. The investment return assumed for these funds is less than inflation and therefore inflation reduces the purchasing power of a member's investment over time.**

The average projected growth rates in excess of inflation for the primary default arrangement for each of the years prior to retirement are set out in the table below. The average growth rate has been used as the investment funds which make up the primary default arrangement (a lifestyle strategy) will vary from one year to the next depending on how far each member is from retirement.

| Years to Retirement | Scenario 1 (an active member) Projected Growth Rate (Average) Per annum | Scenario 2 (a member who has left) Projected Growth Rate (Average) Per annum |
|---|---|---|
| 1 | 0.3% below inflation | 0.3% below inflation |
| 3 | 0.2% below inflation | 0.2% below inflation |
| 5 | 0.1% below inflation | 0% above inflation |
| 10 | 0.1% above inflation | 0.2% above inflation |
| 15 | 0.3% above inflation | 0.4% above inflation |
| 20 | 0.5% above inflation | 0.7% above inflation |
| 25 | 0.7% above inflation | 0.9% above inflation |
| 30 | 0.8% above inflation | 1.1% above inflation |

Source: Scottish Widows

The projected growth rates in excess of inflation for each of the self-select funds used in the illustrations are set out in the table below:

| Fund | Projected Growth Rate<br>Per annum |
|---|---|
| SW Aquila World ex UK Equity Index CS1 | 1.9% above inflation |
| SW BlackRock Sterling Liquidity Fund CSW | 1.5% below inflation |
| SW L and G Over 15 Year Gilts Index CS1 | 2.0% below inflation |
| SW Schroder Global Emerging Markets CS1 | 2.1% above inflation |

Source: Scottish Widows