General Dynamics UK Limited

Retirement and Death Benefit Scheme

Statement of Investment Principles – September 2020

Revision History

Issue/Draft	Date	Comments/Reason for Change
Issue 1	April 2012	Initial Issue
Issue 2	June 2014	Changes to control ranges
Issue 3	August 2017	Introduction of Liability driven investments to DB Scheme
Issue 4	November 2017	New format
Issue 5	August 2018	New Glide path Strategy added and Platform investment
Issue 6	August 2019	Environmental, Social and Governance (ESG) requirements, removal of the Myner's Investment Principles and inclusion of the Pensions Regulators (TPR) code of best practice
Issue 7	September 2020	Updated to reflect Buy in/out of DB section of the Scheme, amended investment strategy and name change. Additional regulatory updates relating to arrangements with the Investment Manager (including remuneration, incentives and long-term objectives). A note of portfolio turnover costs has also been included.

Contents

1. Introduction

Under Section 35 of The Pensions Act 1995, Trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This statement sets out the principles governing decisions about the investment of the assets of the General Dynamics UK Retirement and Death Benefit Scheme ("the Scheme"). Before preparing it, the Trustees have obtained and considered written professional advice from Mercer as their investment consultants. Prior to finalising the document, they have also consulted with the employer.

This statement supersedes the one prepared by the Trustees in August 2019

The Scheme's assets are held in trust for the Scheme by the Trustees, whose powers of investment are set out in the Trust Deed and Rules.

The Trustees regularly review this Statement on an ongoing basis, and will also do so in response to any material changes to any aspects of the investment arrangements detailed above. Formal reviews will be undertaken no less frequently than every 3 years. Any such review will again be based on written, expert investment advice and will be in consultation with the sponsoring employer.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others and was adopted by the Trustee on 16th September 2020.

2. Investment Responsibilities

Trustees' Duties and Responsibilities

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the Investment Manager and Investment Adviser
- The assessment and review of the performance of each underlying investment manager
- The setting and review of the investment parameters within which the investment managers can operate
- The assessment of the risks assumed by the Scheme at total scheme level and manager by manager
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

Investment Adviser's Duties and Responsibilities

The Trustees have appointed Mercer as the investment adviser to the Plan. Mercer provides advice as and when the Trustees require it, as well as raising any investment-related issues, which it believes the Trustees should be aware. Matters on which the Mercer expects to provide advice to the Trustees include the following:

- Setting of investment objectives.
- Determining investment strategy and asset allocation.
- Determining an appropriate investment structure.
- Advising on appropriate funds.
- Setting cashflow management policies (see Appendix 2).

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions (see Section 3 – Investment Decisions); however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cash flows (see Appendix 2). Mercer may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

Mercer monitors the performance of the Plan's investment managers against their benchmarks.

Mercer makes a fund based charge. Any additional services provided by Mercer will be remunerated primarily on a time-cost basis, other than performance reporting which is provided for a pre-agreed fee.

In particular, Mercer does not receive commission or any other payments in respect of the Plan that might affect the impartiality of their advice, and as noted below, any discounts negotiated by Mercer with the underlying managers and these discounts are passed on in full to the Plan.

The Trustees are satisfied that this is a reasonable adviser remuneration structure for the Plan.

Mercer is authorised and regulated by the Financial Conduct Authority (“FCA”).

Arrangement with Investment Managers

The Trustees are a long term investor and do not look to change the investment arrangements on a frequent basis. For the invested funds, there is no set duration for the manager appointments. The Trustees will retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

All the funds are open-ended with no set end date for the arrangement. The fund range and default investment strategy are reviewed on at least a triennial basis. A manager’s appointment may be terminated if it is no longer considered to be optimal nor have a place in the default investment strategy or general fund range.

The assets of the Plan are invested directly with the investment managers as detailed in Section 5: Investment Strategy.

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilises Mercer’s forward-looking manager research ratings in decisions around the selection, retention and removal of manager appointments. These ratings are based on Mercer’s assessment of the manager’s idea generation, portfolio construction, implementation and business management.

Mercer’s manager research ratings assist with due diligence and questioning managers during presentations to the Trustees.

If the investment objective for a particular manager’s fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustees’ investment objectives.

The underlying managers and funds invested in by the Scheme are determined by the Trustees using a written instruction to the individual investment managers.

In particular, the investment managers are responsible for all decisions concerning the selection and de-selection of the individual securities within the portfolios they manage. In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

All of the investment managers engaged by the Trustees are authorised and regulated by the FCA.

The investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Plan. The Trustees believe that this is a reasonable basis for remunerating managers.

None of the underlying managers in which the Plan's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustees therefore consider that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Plan is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are therefore satisfied that this the most appropriate basis for remunerating the underlying investment managers and is consistent with the Trustees policies as set out in this SIP.

Investment Decisions

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level:

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions themselves. They do so after receiving written advice from their Investment Adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Scheme benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical investment decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decision

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

Types of Investment to be Held

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked
- UK and overseas corporate bonds
- Convertible bonds

- Property
- Commodities
- Hedge Funds
- Private equity
- High yield bonds
- Emerging market debt
- Diversified growth
- Cash

All the funds in which the Scheme invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds.

The Trustees recognise the benefits of diversification across growth asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Trustees have appointed investment managers to select and manage the allocations across growth asset classes, in particular where it would not be practical (or appropriate) for the Trustees to commit the resources necessary to make these decisions themselves.

3. Investment Objectives

Defined Benefit Section

The Trustees’ primary investment objective for the Scheme is to ensure the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise

In order for the Trustees to ensure that they can meet their obligations to the beneficiaries both in the short and long term without recourse to the Company the Trustees have entered into a Bulk Purchase Annuity (BPA) with Legal and General Assurance Society (LGAS).

This approach secures the benefits of the Defined Benefit (DB) Scheme and ensures that all benefits will be met whilst removing the risk of any short fall in benefits, which could occur if General Dynamics United Kingdom Ltd ever became insolvent or was no longer able to support the DB Scheme. It also protects the Scheme from potential placement into the Pension Protection Fund (removing the risk of capped benefits). Further, other material risks (e.g. longevity risk) will be reduced.

Currently the BPA is a Buy-In, which means that LGAS have taken responsibility for paying the benefits as they become due. The Trustees are undertaking a data cleansing stage, this ensures the Trustees and LGAS are confident that all liabilities have been correctly addressed (inclusive of Guaranteed Minimum Pension (GMP) equalisation). After the data cleansing process has been completed, the policy will be considered as a Buy-Out policy with LGAS. In this arrangement, in agreement with the Trustees, LGAS will provide each DB member with their own individual pension policy; at this stage, all responsibility for paying the DB pensions is fully transferred to LGAS.

Defined Contribution Section (from 20 November 2019 the New Defined Contribution (Sectionalised) Section

The Trustees’ main objective is to provide members with an investment strategy aligned to the needs of their members that will optimise the return on investments in order to build up a savings pot which will be used in retirement. The Trustees are mindful of their responsibility to provide members with an appropriate range of investment funds. The long term objective of the Trustees is to enable members to provide adequately for themselves in retirement.

The Trustees recognise that in a defined contribution arrangement, members assume the investment risks themselves. The Trustees further recognise that members are exposed to different types of risk at different stages of their working lifetimes.

The Trustees have determined their investment policy in such a way as to address the risks set out in Section 8 of this Statement. To help mitigate the most significant of these risks, the Trustees have:

- Made the lifestyle option available, which transitions members' investment from higher risk investments to lower risk investments as members approach retirement, and
- Offered a range of self-select funds across various asset classes.

When deciding on the investment options available to members, the Trustees took into account the expected return on such investments and were mindful to offer a range of funds with varying levels of expected returns for members to choose from.

When it comes to realisation of investments, the Trustees consider the impact of transaction costs before making any changes.

Details of the approach the Trustees have taken to meet these investment objectives are set out in Section 4: Investment Strategy. The Trustees have determined their investment policy in such a way as to address the risks set out in Section 8: Risk of this Statement.

4. Investment Strategy

Investment Strategy of the Defined Benefit Section

With regards to the investment objectives as laid out in Section 4: Investment Objectives, the Trustees have entered into a BPA. The remaining invested assets have adopted an investment strategy that seeks to match BPA pricing (as confirmed by LGAS) with Legal & General Investment Management (LGIM) as follows:

Manager	Pooled Fund	Benchmark Index	Benchmark Allocation (%)
Columbia Threadneedle	Multi Asset Fund	BoE Base Rate + 4.0% p.a.	21.0
LGIM	Buy Out Aware Real Long	N/A	12.0
LGIM	Buy Out Aware Real Short	N/A	17.0
LGIM	Buy Out Aware Fixed Long	N/A	29.0
Sterling Liquidity Fund	Sterling Liquidity Fund	7 Day LIBID	21.0
Total			**100.0**

The Buyout Aware Fund aim to provide a diversified exposure to assets that reflect the investments underlying a typical bulk annuity insurance policy (otherwise known as a buy-in or a buy-out). These Funds reference a liability profile with a combination of long and short durations, and both fixed interest rate and real rate (i.e. inclusive of inflation) sensitivity. This proportion of the portfolio continues to track a small proportion of Scheme liabilities.

The Threadneedle Multi Asset Fund provide a diversified exposure to a variety of asset classes, and targets a return of the Bank of England’s Base Rate + 4.0% per annum. Whilst the Sterling Liquidity Fund invests in cash and money market securities, targeting a 7 day LIBID benchmark, and prioritises capital preservation.

Investment Strategy of the Defined Contribution Section

The default lifestyle strategy operates as a default if a member does not wish to make their own investment selection. The default is designed to be appropriate for a typical member of the Scheme and is comprised of three white-labelled funds. The default lifestyle strategy is described in more detail below.

Members can opt out of the default strategy, and invest in an alternative lifestyle or any investment fund made available in the self-select fund range as described below.

Default Lifestyle Strategy

The Trustees have assumed responsibility for setting an investment strategy that provides a broad level of protection against the key risks identified in Section 8. This is achieved by using a lifestyle strategy.

In determining the investment strategy, the Trustees undertook extensive investigations and have received formal written investment advice from their investment consultants. The Trustees have explicitly considered the trade-off between risk and expected returns. The expected amount of risk is considered appropriate for the typical member and will differ by member depending on their age as well as their expected retirement date. Further information is set out below:

The Trustees have adjusted the default arrangement (“Glide Path Strategy”) in response to the UK Government changes to pension flexibility in April 2015. Traditionally, the default glide path was the glide path now referred to as the ‘Annuity Glide Path’. A new ‘Flexible Glide Path’ strategy designed to allow a portion of members fund to remain in growth assets has been introduced, which has now become the standard default arrangement.

The default strategy is split into two distinct phases, as described below. The Trustees have selected the funds to be used within the default arrangement, and the additional ‘Glide path’ options.

- **The Growth Phase** (more than 10 years from members’ chosen retirement age), invests members’ retirement savings to a greater level of risk in order to achieve higher returns while members are further away from retirement. During this phase, all savings are invested in the LGIM Global Equity fixed Weights 50:50 – GBP Hedge Fund.

- **The ‘Transitional’ Phase** (between 10 and 0 years from members’ chosen retirement age), aims to gradually switch investments into funds with less risk closer to retirement. During this phase, member savings gradually switch from the LGIM Global Equity Fund Fixed Weights 50:50 – GBP Hedge Fund, into the Threadneedle Multi Asset Fund, into the LGIM Over 15 Year Gilts Index Fund and the LGIM Cash Fund.

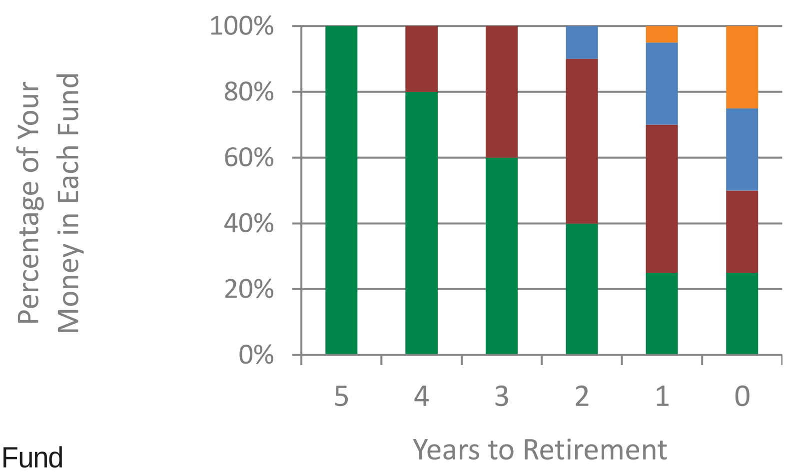
1: Flexible Glide path: 10 Year (Default)

This glide path is for members, who are either unsure of how they will use their pension or who wish to take advantage of flexible drawdown at retirement. The 'Flexible' strategy has phased switching commencing 10 years before target retirement date of 65 (default) - or as per member instructions.

Alternative Arrangement Strategies

1: Flexible Glide path: 5year

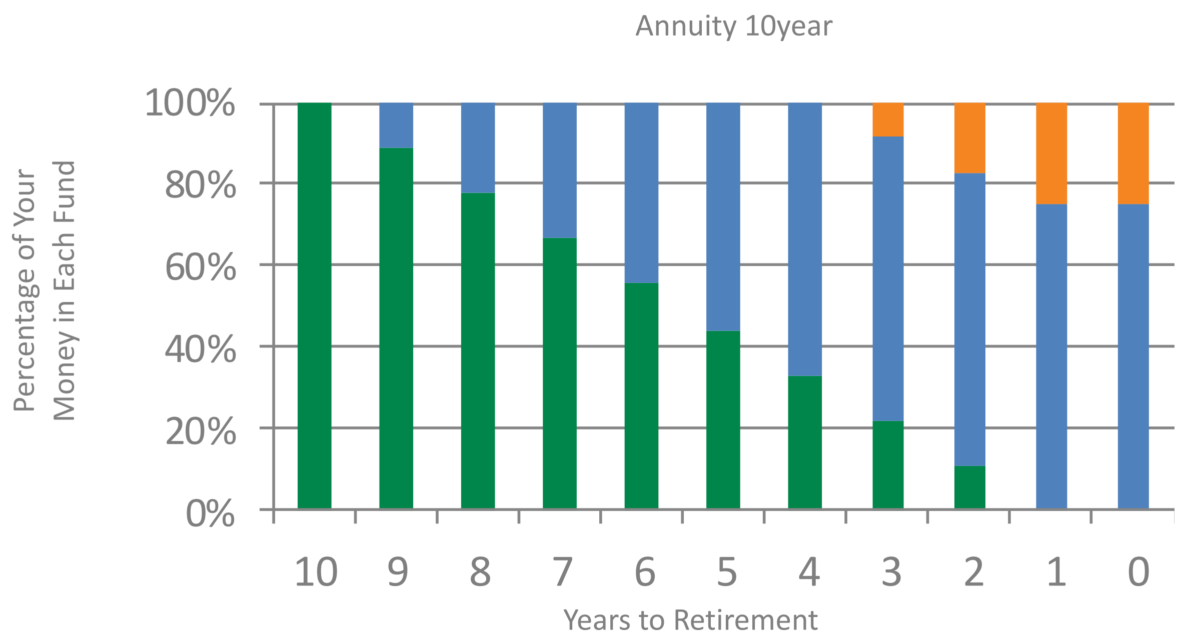
This glide path is for members, who are either unsure of how they will use their pension or who wish to take advantage of flexible drawdown at retirement. The 'Flexible' strategy has phased switching commencing 5 years before target retirement date of 65 (default) - or as per member instructions.

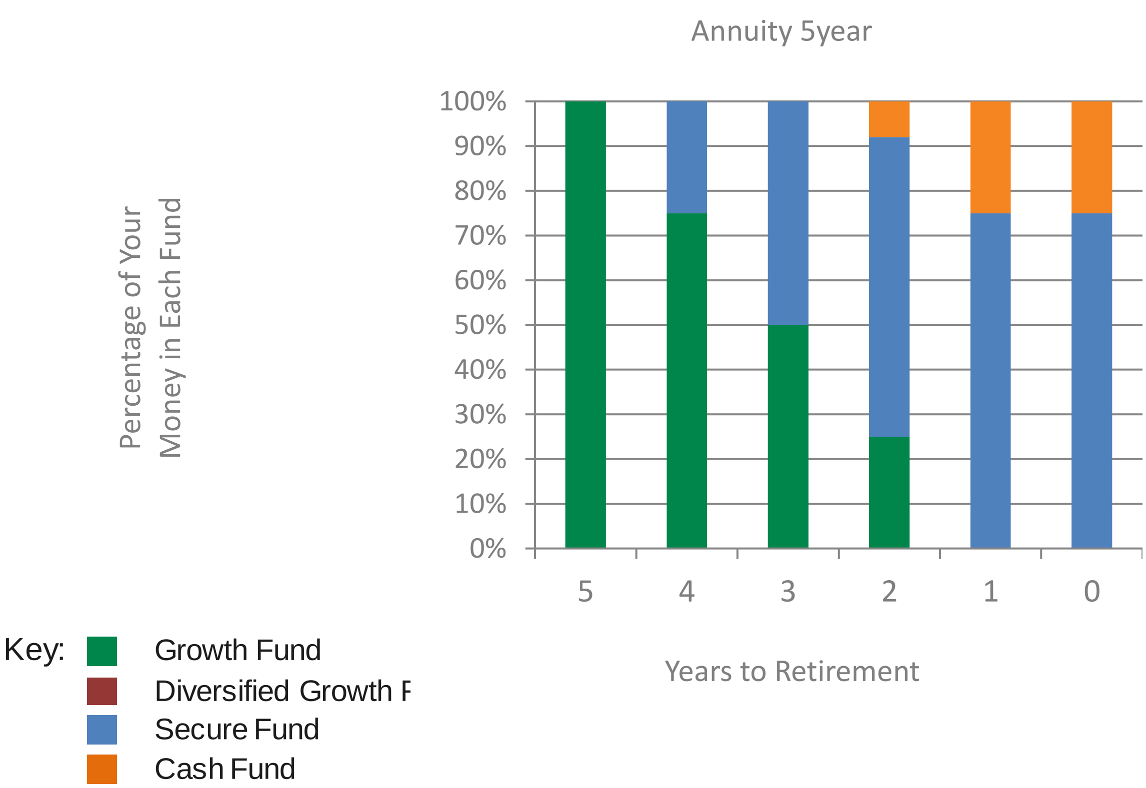


Key:
- Growth Fund
- Diversified Growth Fund
- Secure Fund
- Cash Fund

2: Annuity Glide paths 10year and 5year (formally called Glide path 10/5)

These Glide paths are for members, targeting an Annuity at NRA. The 'Annuity' strategy has phased switching commencing 10 (or 5) years before normal retirement age (NRA) of 65 as set out below.





Core Funds

Growth Fund - Global Equity Fixed Weights (50:50) Index Fund GBP Currency Hedged
This fund will have on average a UK equity exposure of 50% and 50% to developed overseas equities. This type of fund protects against "investment-return" risk. It aims to track the composite equity benchmark index. A global equity fund offers some diversification, with a portfolio invested in European (ex. UK); North American; Japan; and Asia Pacific equities. This diversification of equities helps spread the risk among different markets and is aimed towards investors who have a long-term investment strategy.

Diversified Growth Fund - Columbia Threadneedle Multi Asset Fund
The portfolio will include exposure to equities, fixed income, commodities, property and absolute return funds. It aims to achieve total returns equivalent to cash plus 4% per annum, gross of fees, over the economic cycle (expected to be 5-7 years).

Secure Fund Over 15 Year Gilts Index Fund
This fund invests in UK government bonds which have a maturity date of greater than 15 years. It aims to track the return of the FTSE A Govt (over 15 year) index. This type of fund helps to protect members against annuity-rate risk.

Cash Fund
This fund invests only in short-term deposits, which are not subject to volatility in capital-value terms. It aims to match the median CAPS return and is measured against the 7 Day LIBID rate. This type of fund helps to protect members against "lump sum" risk.

Additional Freestyle Funds

In order to provide members with investment choice from 1 April 2005 a 'freestyle' range of funds are available. The funds passively managed by LGIM are indicated by being labelled as "Index" funds and aim to track the relevant index within reasonable tolerances. Otherwise they are actively managed. The Core Funds above are also available to use as part of Freestyle choices.

UK Equity Index Fund
The fund invests in UK listed companies and aims to track the return of the FTSE All-Share index. This type of fund protects against "investment-return" risk.

World (ex UK) Equity Index Fund
This fund invests in listed companies in developed markets globally, excluding the UK market. It aims to track the return of the FTSE World (ex UK) index. This type of fund protects against "investment-return" risk.

Property Fund
This fund invests in UK freehold and leasehold commercial property. This type of fund protects against "investment-return" risk and gives diversification to other traditional growth assets such as equities and is aimed towards investors who have a long term investment strategy. It aims to exceed the AREF/IPD UK Quarterly All Balanced

Property Fund Index (UK PFI) over three and five year periods. During periods of severe market volatility, the Manager may be unable to accurately value the underlying property investments within the Fund. As a result, a suspension of contributions to/withdrawals from the Fund may be applied (see Section 5 – Technical Default).

Over 5 Year Index-linked Gilts Index Fund
This fund invests in UK government bonds which have a maturity date of greater than 5 years and are linked to RPI inflation. It aims to track the return of the FTSE A Index-linked (over 5 year) index. This type of fund helps to protect members against "annuity-rate" risk, where annuities are linked to inflation.

AAA-AAA Fixed Interest Over 15 year Index Fund
This fund invests in UK corporate bonds which have a maturity date of greater than 15 years, and where their credit rating is no less than A. It aims to track the iBoxx £ Non-Gilts (ex BBB) over 15 year index. This type of fund helps to protect members against "annuity-rate" risk.

Cash Fund
This fund invests only in short-term deposits, which are not subject to volatility in capital-value terms. It aims to match the median CAPS return and is measured against the 7 Day LIBID rate. This type of fund helps to protect members against "lump sum" risk.

Asia Pacific (ex Japan) Equity Index Fund
This type of fund invests in listed companies in developed markets in the Asia Pacific region excluding Japan. The fund aims to track the return of the FTSE AW Developed Asia Pacific (ex Japan) index. This type of fund protects against "investment-return" risk.

Global Emerging Markets Equity Index Fund
This type of fund invests in listed companies in developing economies and markets worldwide. It aims to track the return of the S&P/ IFC Composite Global Emerging Markets index. This type of fund protects against "investment-return" risk.

UK Smaller Companies Index Fund
The fund invests in UK listed small cap companies and aims to track the return of the FTSE Small Cap index. This type of fund protects against "investment-return" risk.

Additional Voluntary Contributions

AVCs are available within the Scheme itself. Members can make AVC contributions either through the salary sacrifice process as part of their annual Dynamic Benefit selection or alternately members can make ad hoc AVC payments throughout the year, as a regular saving or through a lump sum payment. Members can set and amend their employee sacrifice percentage via BENPAL.

Historically the Scheme provided a facility with (Utmost Life and Pensions) Equitable Life for members to pay Additional Voluntary Contributions (“AVCs”). This arrangement is now closed to new members.

5. Technical Default

In accordance with Section 4 – Restrictions on Charges of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 No. 879, the Trustees have identified that the LGIM Cash Fund held by the DC section of the Scheme has become a "technical default" arrangement (as defined by these regulations).

During the outbreak of COVID-19 in March 2020, the LGIM Managed Property Fund announced a temporary suspension of trading due to the severe disruption of the property valuation process. As a result, the Trustees decided to divert any contributions intended for the LGIM Managed Property Fund into the LGIM Cash Fund.

These funds have therefore been identified as "technical defaults" as members' assets have been automatically directed to these funds without members having instructed the Trustees where their assets are to be invested.

Whilst the LGIM Cash Fund does not aim to deliver capital appreciation, unlike the LGIM Managed Property Fund, it is significantly more effective at preserving capital and entails amongst the lowest investment management fees when compared to the other freestyle funds available. As such, it was deemed the most appropriate alternative investment whilst market volatility remained elevated.

6. Responsible Investing

Financially Material Considerations

In setting the DB investment strategy, the Trustees have prioritised assets which provide protection against movements in the Scheme's liability value; more generally, the Trustees seek assets which provide diversification across a wide range of investment markets and considers the financially significant benefits of these factors to be paramount.

However, the Trustees understand that they must aim to consider all factors that have the ability to impact the financial performance of the Scheme's investments over an appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustees believes that investing with a manager who approaches investments in a responsible way and takes account of ESG-related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken.

However, the Trustees note that ESG considerations are not paramount to the first level decision making process within the funds which provide either actively managed diversification or leveraged liability protection. In the actively managed Diversified Growth Funds in which the Scheme invests, whilst managers typically do not put ESG considerations at the heart of the asset allocation decision, they will embed ESG considerations into the management of the underlying asset classes where it is appropriate to do so.

As noted earlier, the Scheme's assets are invested in pooled funds. The Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest. The Trustees will therefore rely on the policies and judgement of their investment manager.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

Non-Financial Considerations

The Trustee's objective is that the financial interests of the Scheme members are its first priority when choosing investments.

It has decided not to consider non-financial considerations, such as ethical views, or to take members' preferences into account when setting the investment strategy.

However, the Trustees believe that they have a good understanding of membership demographics, behaviours and preferences and, where appropriate, strive to provide a fund range that meets both financial and non-financially relevant member needs.

Stewardship: Corporate Governance and Voting Policy

The Scheme is invested solely in pooled investment funds. The Trustees' policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long-term financial interests of investors.

The Trustee notes that the investment managers' corporate governance policies are available on request and on their respective websites.

The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council and encourage the Scheme's underlying managers who are regulated by the Financial Conduct Authority to comply with the UK Stewardship Code. Such managers are expected to report on their adherence to the Code on an annual basis. For managers that choose not to comply with any of the principles in the UK Stewardship Code, or not to follow the guidance at all, the Trustees will request a clear rationale from the managers on their alternative approach to stewardship. The Trustees review the investment managers' policies and engagement activities (where applicable) on an annual basis.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise its right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

The Trustees will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers. If the Trustees have any concerns, they will raise them with the respective managers, verbally or in writing.

Member Views

Whilst the Trustees do not explicitly take account of member views when selecting investments for the Scheme, they are always in open discussion with their members. The Trustees believe that they have a good understanding of membership demographics, behaviours and preferences and strive to provide a fund range that meets both financial and non-financially relevant member needs. Furthermore, the Trustees have and will continue to consult with the Sponsoring Employer to ensure that the Scheme's investments are aligned with the overall values and principles of the Employer.

7. Risk

The Trustees are aware, and seek to take account, of a number of risks in relation to the Scheme's investments, including those set out below. Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. The Trustees recognise that in a defined contribution money purchase arrangement, members assume the investment risks themselves and members are exposed to different types of risk at different stages of their working lifetimes.

Broadly speaking, the main types of investment risk can be identified are as follows:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Risks affecting the DB and DC sections of the Scheme			
Market Risk	**Inflation Risk**	The risk that a member's investments will not grow quickly enough to sufficiently outpace inflation (the cost of living).	**DB:** The majority of the market risk is mitigated by the buy-in policy held with LGAS. For the remaining invested assets, the Trustees will ensure that they are comfortable with the amount of risk that the Scheme's investment manager takes and will ensure assets are invested in a diverse portfolio across various markets. **DC:** The Trustees make available a range of funds across various asset classes, with the majority expected to keep pace with inflation.
	Interest Rate Risk	This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments. Changes to Interest Rates will affect the market price of annuities, which therefore affects the amount of guaranteed	

		pension that members of the DC section will be able to purchase with their savings at retirement.	Members are able to set their own investment allocation, in line with their risk tolerances.
	Currency Risk	This is the risk that occurs when the price of one currency moves relative to another (reference) currency. The Scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.	
	Credit Risk	This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	
	Other Price Risk	This is the risk that principally arises in relation to the return seeking portfolio, which invests in equities, equities in pooled funds, equity futures, hedge funds, private equity and property.	

Environmental, Social and Governance ("ESG") Risks	This is the risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme's assets. These risk factors can have a significant effect on the long-term performance of the assets the Scheme holds.	Where applicable these factors will be considered in the investment process but is considered the responsibility of the investment manager. Please see Section 6 for the Trustees' responsible investment statement.
Manager risk	This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.	It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process through the quarterly performance updates provided by Mercer. In addition, Mercer monitor and replace any managers (following discussion with the Trustees and written authorisation from the Trustees) where concerns exist over their continued ability to deliver the investment mandate.
Liquidity risk	The risk that the Scheme's assets cannot be realised at short notice in line with member or Trustees' demand.	As far as is practicable and necessary, the Trustees invest in liquid assets that can be quickly realised as required. It is managed by investing only in readily realisable pooled funds that can be bought and sold on a daily basis.

Legislative Risk	This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.	The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.
DB-specific risks		
Sponsor Risk	This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.	This risk is typically managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. However, due to the buy-in policy held with LGAS the DB Scheme is not highly dependent on the Sponsoring Employer.
Solvency Risk	The risk that the Scheme will be unable to meet its liabilities in the long-run.	The risk is mitigated the buy-in policy held with LGAS

DC-Specific Risks		
Pension Conversion Risk	This is the risk where assets are invested to target a specific retirement objective which differs from how members are expected to use their pots at retirement.	Members may target different retirement outcomes by selecting different Glide path and self-select fund options. For example, the Over 15 Years Gilts Index Fund can be used to target annuity-purchase in retirement.

Whilst the Trustees identify and manage a large proportion of the risks faced by the Scheme, it is not possible to completely eradicate a number of the above risks.

Realisation of Investments

The funds are both weekly dealt (DB Scheme) and daily-dealt (DC Section) pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice, based on either Trustees' or member demand. The selection, retention and realisation of investments within the pooled arrangements are the responsibility of the relevant investment manager.

8. Monitoring of Investment Adviser and Managers

Investment Adviser

The Trustees continually assess and review the performance of their Investment Adviser in a qualitative way.

Investment Managers

The Trustees receive quarterly monitoring reports on the performance of the underlying investment managers from LGIM, which presents performance information over 3 months, 1 year and 3 years. The reports show the absolute performance and performance against the manager's stated target performance (over the relevant time period) on a net of fees basis. It also provides returns of market indices so that these can also be used to help inform the assessment of the underlying managers' performance.

The Trustees, with assistance from Mercer, as Investment Adviser to the Scheme, have the role of replacing the underlying investment managers where appropriate. A long-term view is adopted when assessing whether to replace the underlying investment managers, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer's Manager Research Team. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

The Trustees also monitor the stewardship track record of the Scheme's underlying investment managers on an annual basis and will take action if this is found inconsistent with appropriate long-term return generation.

Portfolio Turnover Costs

Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

For the Scheme's DB section, the Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that the performance monitoring which it receives is net of all charges, including such costs.

For the DC section, the Trustees consider portfolio turnover costs as part of the annual Chairman's Statement.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustees do not have an overall portfolio turnover target for the Scheme.

The Trustees are working with Mercer to determine the most appropriate way to obtain and monitor the information required in relation to the pooled funds in which the Scheme is invested and will include further information about this when next updating the SIP.

9. Code of Best Practice

Define Benefit

The Trustees note that in September 2019, the Pensions Regulator released 'Investment Guidance for Defined Benefit Pension Schemes'.

The Trustees have received training in relation this guidance and are satisfied that the investment approach adopted by the Scheme is consistent with the guidance so far as it is appropriate to the Scheme's circumstances. The Trustees meet with their investment adviser on a regular basis, monitoring developments both in relation to the Scheme's circumstances and in relation to evolving guidance, and will revise the Scheme's investment approach if considered appropriate.

Defined Contribution

The Pensions Regulator has published a code on standards for DC schemes and this came into effect in November 2013 as part of a wider initiative to get DC right. This was updated further on 28 July 2016 and this revised version is shorter and simpler than its predecessor and has been updated to include the DC flexibilities and governance legislation introduced from April 2015.

The Code of Practice 13 on the governance and administration of occupational DC trust based schemes places bigger than ever emphasis on good quality investment arrangements and stricter requirements for reviewing these on the Trustees. Particular attention has to be paid to the design of default strategies and on-going monitoring of their continuing suitability for scheme membership. The Code can be found here:

https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-13-governance-and-administration-of-occupational-trust-based-schemes-providing-money-purchase

When formulating their investment policy, the Trustees have acted in line with the Code of Practice 13.

Appendix 1: Third Party Arrangements

Advisors

The following advisors assist the Trustees:

Scheme Actuary	Adam Bracken Mercer Tower Place West, London EC3R 5BU
Auditor	Gary Purdy RSM LLP Hanover House, 18 Mount Ephraim Road, Tunbridge Wells, Kent, TN1 1ED
Investment Consultant	Dorian Whitehead Mercer Tower Place West, London EC3R 5BU
Lawyer	Hogan Lovells Atlantic House, Holborn Viaduct, London, EC1A 2 FG
Pensions Consultant	Kelly Buckland Mercer Tower Place West, London EC3R 5BU

Investment Managers

The Trustees have appointed the following investment managers:

Legal and General Investment Management
One Coleman Street
London
EC2R 5AA

Columbia Threadneedle Investments
78 Cannon Street
London
EC4N 6AG