

General Dynamics United Kingdom Retirement and Death Benefit Scheme

Chair's Annual Statement Regarding Governance of the Scheme's Defined Contribution Section (up to 19 November 2019) and the New Defined Contribution Sectionalised Section (from 20 November 2019) (the DC Section) (continued) For the Year Ended 5 April 2020

The Trustees review the performance of the default (as well as the alternative lifestyle and self-select options) on a quarterly basis and are happy that performance met expectations and that the lifestyle strategy provided partial protection against market volatility for members close to retirement. The Trustees have no concerns about them failing to meet their objectives.

The default arrangement is described in further detail in the Scheme's Statement of Investment Principles (SIP) which was last reviewed by the Trustees on 16 September 2020 and a copy of which is submitted alongside this governance statement. As outlined in the SIP, 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 SIP will be reviewed a minimum of every three years (i.e. by August 2023) or as soon as any significant developments in investment policy or member demographics take place. The default strategy will also be reviewed every 3 years (i.e. by April 2023).

During the period covered by this statement, Additional Voluntary Contribution (AVC) assets held by the DB section of the Scheme were transferred to Utmost Life and Pensions following their acquisition of Equitable Life, with whom the DB section AVCs were invested. Making changes without member consent to either the funds within the DC Section, or to the AVCs within the DB Section, results in the relevant funds also being determined to be 'default' arrangements requiring additional disclosures. The Trustees will therefore review the arrangement with Utmost at least every three years and provide the required default disclosures going forwards.

The Trustees have set up processes to publish relevant information on the default arrangement online at the following URL: <https://generaldynamics.uk.com/about/pensionscheme/> and will notify members about this in their annual benefit statements.

Processing Scheme transactions

The Trustees have a specific duty to ensure that core financial transactions relating to the DC section are processed promptly and accurately. These include the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members.

These transactions are undertaken on the Trustees' behalf by the Scheme administrator, Mercer Limited, and its investment manager Legal & General. The Trustees periodically review the processes and controls implemented by those organisations, and consider them to be suitably designed to achieve these objectives. The Trustees have a service level agreement (SLA) in place with the Scheme administrator which covers the accuracy and timeliness of all core transactions and receive regular reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator to help meet the SLA include dynamic checklists, a central financial control team separate to the admin team, daily monitoring of bank accounts, a dedicated contribution processing team, and four eyes checking of investment and banking transactions. During the period covered by this statement, 64% of work was completed within the agreed service levels. The administrator has experienced some delays due to resourcing issues and the impact of COVID-19 which created a backlog of work, hence the drop in service levels. However, no members have been made financially worse off as a result of these delays. The Trustees understand the issues faced by the administrators but do not regard this as an acceptable level of performance and will be monitoring the situation closely.

We will monitor performance against the SLA on a regular basis and receive an annual Assurance Report on Internal Controls (AAF 01/06) from Mercer.

We will also perform periodic assessments of methods and efficiency of the Scheme's administrators and will challenge them in terms of efficiency where necessary.

In light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

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Charges and transaction costs – default arrangement and additional funds

The law requires the Trustees to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds, but should also include trading costs incurred within such funds. We have taken account of statutory guidance when preparing this section of the report.

In this context, “charges” means (subject to some specific exemptions, such as charges relating to pension sharing orders) all administration charges other than transaction costs. “Transaction costs” are costs incurred as a result of the buying, selling, lending or borrowing of investments.

Transaction costs have been provided by the Scheme’s investment manager and they are calculated using the slippage methodology. That is, the transaction costs represent the difference between the expected trading price of a security within a fund and the price at which the trade is actually executed at (as typically a trade is executed a few working days after an order is placed). Therefore, in a buy order, for example, if the execution price is less than the expected price, a transaction cost may be negative.

Details of the Total Expense Ratios (TERs) payable for each fund as well as the transaction costs within the default arrangement are as follows:

Fund	TER (%)	Transaction Cost (%)
LGIM Global Equity Fixed Weights (50:50) Index GBP Hedged Fund	0.10	0.02
Columbia Threadneedle Multi-Asset Fund	0.55	0.00
LGIM Over 15 Year Gilt Index Fund	0.06	0.05
LGIM Cash Fund	0.10	0.00

Source: LGIM

This is lower than the maximum TER allowed of 0.75% for default arrangements.

The Trustees also make available a range of funds which may be chosen by members as an alternative to the default arrangement. These funds allow members to take a more tailored approach to managing their own pension investments and attract annual charges and transaction costs as follows:

Fund	TER (%)	Transaction Cost (%)
LGIM Global Equity Fixed Weights (50:50) Index GBP Hedged Fund	0.10	0.02
Columbia Threadneedle Multi-Asset Fund	0.55	0.00
LGIM Over 15 Year Gilt Index Fund	0.06	0.05
LGIM Cash Fund	0.10	0.00
LGIM UK Equity Index	0.06	-0.02
LGIM UK Smaller Companies Index	0.20	0.03
LGIM Asia Pacific ex Japan Equity Index	0.11	0.00
LGIM Global Emerging Markets Equity Index	0.30	0.05
LGIM World (ex UK) Equity Index	0.11	-0.01
LGIM AAA-AA-A Bonds Over 15 Year Index	0.10	0.00
LGIM Over 5 Year Index-Linked Gilts	0.06	0.12
LGIM Managed Property	0.72	-0.43

Source: LGIM

Please note, the 0.75% fee cap only applies to the default arrangement.

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We are comfortable that the costs for the default arrangement and self-select funds are reasonable both in terms of the outcomes the funds are targeting and the fees in the wider market applicable to similar investment strategies.

Cumulative effect of charges

Using the charges and transaction cost data provided by the relevant parties and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance has been considered when providing these examples and the DB AVC investment options have also been considered, although TER and transaction cost data for the Utmost Managed Fund was unavailable at the time of writing and this fund was therefore not considered.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in a selection of significant funds within the Scheme. The funds we are required to illustrate to represent the fund range (with the specific fund within the Scheme in brackets) are:

- The fund or strategy with the most members invested (Default Strategy)
- The most expensive fund (LGIM Managed Property Fund)
- The least expensive fund (LGIM UK Equity Fund)
- The fund with the highest expected return (LGIM Global Emerging Markets Equity Index)
- The fund with the lowest expected return (LGIM Cash Fund)

To illustrate the impact of charges on a typical active member's pension pot, we have provided examples below. The illustrations account for all estimated member costs, including the TER, transaction costs and inflation.

Illustrations for an "Average" member										
	Default Strategy		LGIM Global Emerging Markets Equity Index <i>(highest expected return fund)</i>		LGIM Cash Fund <i>(Lowest expected return fund)</i>		LGIM UK Equity Fund <i>(cheapest fund)</i>		LGIM Managed Property Fund <i>(most expensive fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£19,246	£19,223	£19,377	£19,311	£18,428	£18,409	£19,243	£19,231	£19,035	£18,898
3	£30,818	£30,724	£31,368	£31,100	£27,543	£27,474	£30,803	£30,756	£29,946	£29,408
5	£43,340	£43,138	£44,547	£43,969	£36,459	£36,322	£43,306	£43,207	£41,454	£40,335
10	£79,326	£78,661	£83,503	£81,547	£57,907	£57,532	£79,213	£78,886	£73,054	£69,582
15	£122,282	£120,414	£132,847	£128,343	£78,202	£77,500	£122,898	£122,164	£109,158	£101,810
20	£166,009	£160,995	£195,352	£186,620	£97,407	£96,300	£176,048	£174,660	£150,406	£137,324
22 (retirement)	£180,283	£174,196	£224,796	£213,754	£104,797	£103,508	£200,404	£198,667	£168,506	£152,524

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Illustrations for a "Young" member										
Years from now	Default Strategy		LGIM Global Emerging Markets Equity Index <i>(highest expected return fund)</i>		LGIM Cash Fund <i>(Lowest expected return fund)</i>		LGIM UK Equity Fund <i>(cheapest fund)</i>		LGIM Managed Property Fund <i>(most expensive fund)</i>	
	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£4,573	£4,568	£4,600	£4,584	£4,406	£4,402	£4,572	£4,570	£4,530	£4,498
3	£9,449	£9,422	£9,591	£9,516	£8,596	£8,577	£9,445	£9,432	£9,223	£9,072
5	£14,724	£14,662	£15,076	£14,900	£12,695	£12,652	£14,714	£14,684	£14,172	£13,828
10	£29,886	£29,657	£31,290	£30,621	£22,554	£22,421	£29,848	£29,735	£27,763	£26,557
15	£48,353	£47,810	£51,829	£50,199	£31,884	£31,618	£48,260	£47,992	£43,290	£40,584
20	£70,845	£69,785	£77,845	£74,579	£40,712	£40,277	£70,660	£70,138	£61,030	£56,041
25	£98,241	£96,387	£110,799	£104,941	£49,066	£48,429	£97,915	£97,001	£81,298	£73,074
30	£131,608	£128,592	£152,543	£142,751	£56,972	£56,104	£131,073	£129,587	£104,454	£91,844
35	£170,983	£165,803	£205,419	£189,837	£64,452	£63,330	£171,416	£169,113	£130,909	£112,527
40	£207,900	£198,272	£272,398	£248,474	£71,531	£70,133	£220,499	£217,058	£161,134	£135,318
42 (retirement)	£217,969	£206,955	£303,949	£275,776	£74,255	£72,742	£242,991	£238,984	£174,397	£145,073

We thought it would be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Average" and "Younger" members' pots at retirement would be £89,177 and £56,856 respectively in today's money.

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Assumptions	
<p>The above illustrations have been produced for an “average” member and a “young” member of the Scheme based on the Scheme’s membership data. The “Default Strategy” illustration assumes the member’s asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member’s assets are invested in that fund up to the Scheme retirement age. The results are presented in real terms, i.e. in today’s money, to help members have a better understanding of what their pension pot could buy in today’s terms, should they invest in the funds above as shown.</p>	
Age	
•“Average” member	43 (<i>the average age of the Scheme’s membership</i>)
•“Young” member	23 (<i>the average age of the youngest 10% of members</i>)
Scheme Retirement Age	65
Starting Pot Size	
•“Average” member	£13,794 (<i>the median pot size of the Scheme’s membership</i>)
•“Young” member	£2,276 (<i>the median pot size for the youngest 10% of members</i>)
Starting Salary	
•“Average” member	£40,079 (<i>the median salary of the Scheme’s membership</i>)
•“Young” member	£27,075 (<i>the median salary for the youngest 10% of members</i>)
Inflation	2.5% p.a.
Rate of Salary Growth	2.5% p.a.
Employer annual contributions	
•“Average” member	7.0% p.a.
•“Young” member	5.0% p.a.
Employee annual contributions	
•“Average” member	5.0% p.a.
•“Young” member	3.0% p.a.
Expected future nominal returns on investment:	
•Default Strategy	
○LGIM Global Equity Fixed Weights (50:50) Index GBP Hedged	4.0% above inflation
○Columbia Threadneedle Multi-Asset Fund	2.6% above inflation
○LGIM Over 15 Year Gilt Index Fund	1.0% below inflation
○LGIM Cash	1.1% below inflation
•LGIM Global Equity Fixed Weights (50:50) Index GBP Hedged	4.0% above inflation
•LGIM Global Emerging Markets Index Fund	4.8% above inflation
•LGIM Over 15 Year Gilt Index Fund	1.0% below inflation
•LGIM Managed Property Fund	2.7% above inflation

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Value for members

The Trustees monitor value for members on an ongoing basis and have a good understanding of the membership demographics of the Scheme and what good member outcomes should look like for the Scheme's members in aggregate.

Whether something represents "good value" is not capable of being precisely defined, but for these purposes, the Trustees consider that charges and transaction costs may be viewed as representing "good value" for members where the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market.

We understand that value for money does not necessarily mean selecting the cheapest offer and in our ongoing reviews of value for money we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds.

All of the funds used by the Scheme are approved by our investment advisors as having good prospects of achieving their objectives, and the performance of funds is reviewed and discussed at least quarterly. The Trustees also take into account forward looking considerations such as market outlook and the advisor's expectations of manager performance. The same applies with the efficiency of administration services, which are also discussed quarterly. With this in mind, the Trustees have assessed the fees disclosed above and are satisfied that they have negotiated a good deal for members and that the stated explicit charges for the Scheme's funds represent good value for money in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile.

The Trustees carried out a formal value for members assessment for the 12-month period covered by this statement. The assessment considered three key areas: Price, Performance and Productivity, covering factors such as investment fees, investment performance and non-investment items such as administration, governance and communications with members. The assessment concluded that Price and Performance were good but Productivity was poor as the Trustees continue to have concerns over administration and communication with members. Overall the Scheme was offering good value to members, taking into account that the Company meets the costs of administration, governance and communication for all members and pre April 2019 joiners have their investment charges covered by the Company.

Member outcomes were at the heart of the investment strategy review carried out over the year and the Trustees will formally assess value for members again next year.

The Trustees have set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds online and will notify members about this in their annual benefit statements

Additional Voluntary Contributions (AVCs)

The Trustees also hold assets invested separately from the main DC section in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay AVCs. The facility was provided via Equitable Life, who have since been bought by Utmost, and below are the available funds together with associated fees for the 1 year period to 31 March 2020:

Fund	TER (% p.a.)	Transaction Cost (% p.a.)
Utmost Managed Fund	-	-
Utmost UK Secure Cash Pension Fund	0.50	0.001

Source: Utmost. Data as at 31 March 2020

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At the time of writing, Utmost were unable to confirm the TERs and transaction costs for the Managed Fund, but the Trustees will continue to chase for this information. Note that this arrangement is closed to new members and so if members wish, they could pay AVCs into funds available via the main DC section itself.

Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13 which the Trustees adhere to and is described below.

The Trustees receive professional advice from Mercer and other professional agencies, to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. The combined knowledge and experience ensures that the Trustees remain conversant with and hold a working knowledge of the Trust Deed and Rules. If there are any ambiguities over the interpretation of the Rules legal advice is sought from Hogan Lovells.

The Trustees have put in place arrangements for ensuring that each Trustee takes personal responsibility for keeping up-to-date with relevant developments, including the monitoring of CPD points, and the Trustee board carries out a self-assessment of training needs on an ongoing basis.

Over the last year, the Trustees have received training on GDPR breaches (including how they are rated and whether they require reporting) and buy-in and buy-out policies (including the powers in the trust deed & rules, processes around securing such policies and the benefits of doing so), as well as non-DC-specific training such as GMP equalisation (including the different methods and possible tax implications). The Trustees also include legislative updates and Trustee Knowledge and Understanding on the agenda for each of our meetings.

The Trustees are encouraged to complete the Pension Regulator's Trustee Toolkit, and four of them have done so. All the Trustees are also required to familiarise themselves with the Scheme's Trust Deed and Rules and Statement of Investment Principles, as well as other policy documents relating to the administration of the Scheme generally.

The SIP, which was updated by the Trustees in September 2019 (and further updated in September 2020), has been referred to on a number of occasions, with consideration being given to having a different default lifestyle table for those members who are subject to paying the investment fees. Much discussion has been had around "financially material considerations", including in relation to Environmental, Social and Governance matters, such as the introduction of an "ethical" fund as a freestyle option. The Trustees are currently looking into this further. The Trustees have also had a number of discussions following the market impacts of Covid-19, including determining whether any fund changes should be made and drafting suitable announcements to members.

Throughout the year, the Trustees have demonstrated a working knowledge of the trust deed and rules on a number of occasions, particularly relating to the sectionalisation of the DB and DC sections and the purchase of a buy-in policy. The Trustee board also includes one professional independent trustee who has familiarised themselves with these relevant documents to ensure they have adequate knowledge of the Scheme. The Trustees have also demonstrated a working knowledge of other documents setting out their current policies; the Trustee have a Business Plan and Risk Register which are kept up to date and discussed at meetings when required.

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Taking account of actions taken individually and as a Trustee body, and the professional advice available to us, the Trustees consider that they are enabled properly to exercise their functions as Trustees of the Scheme. In particular, a number of the Trustees have been involved with the Scheme for a relatively long time, and therefore have a good working knowledge of the Scheme and also recall useful historic items. The Trustees are also largely from an engineering background, which is technical and mathematical, and therefore fits well with the technical and financial nature of pension schemes.

In addition, we believe that knowledge and understanding should also be extended to awareness of member demographics and member behaviour, otherwise trustees cannot be certain that a scheme remains fit for purpose. The Trustees have been looking at member demographics in order to work with the Employer to prepare better targeted member communications. The annual Benefit Statements have also been updated to contain wording which is variable for different age groups, in order to make it more specific to each member's stage in their path to retirement.

Given the extent of the training above, the Trustees believe that they have demonstrated sufficient knowledge of the law relating to pension schemes and trusts, the principles relating to the funding and investment of pension schemes, a working knowledge of the Scheme's trust deed and rules, Statement of Investment Principles and all other documents setting out the Trustees' current policies.

The Chairman's statement regarding DC governance was approved by the Trustees and signed on their behalf by :

Stella Girvin

Chair of the Trustees

Date: 4th November 2020